Minutes for August 10, 1959.

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act. 1/

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

Chm. Martin  
Gov. Szymczak  
Gov. Mills  
Gov. Robertson  
Gov. Balderston  
Gov. Shepardson  
Gov. King

1/ Termination of Regulation S, Industrial Loans by Federal Reserve Banks, (see page 3), was subsequently included in the policy record for 1959.
Minutes of the Board of Governors of the Federal Reserve System

on Monday, August 10, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. King

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Molony, Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Young, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, and Dallas on August 6, 1959, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to the Southern Arizona Bank and Trust Company, Tucson, Arizona, approving the establishment of a branch at East 22nd Street and Wilmot Road.

Item No. 1
Letter to the Lawrence Savings and Trust Company, New Castle, Pennsylvania, granting an extension of time within which to establish a branch in Shenango Township.

Application of California Bank (Item No. 3). On October 11, 1957, the Board approved an application by California Bank, Los Angeles, California, to establish a branch at the intersection of La Brea Avenue and Rodeo Road in Los Angeles, provided the branch was established within one year. Subsequently, the member bank was granted until August 11, 1959, to establish the branch and an additional extension until February 11, 1960, had now been requested, apparently because the applicant wished to defer action until it had been determined whether a proposed merger with First Western Bank and Trust Company was to be consummated. The file on the matter, which had been circulated to the Board, noted that First Western recently established a branch approximately one mile southeast of the location of the applicant's proposed branch. The Division of Examinations recommended that the requested extension be approved, but with an indication that further extensions might not be granted in the absence of definite steps on the part of the applicant which would result in the establishment of the branch within a reasonable period of time.

When the file was in circulation to the Board, Governor Robertson attached a note stating that he would favor denial of the request. Governors Balderston and Shepardson indicated that they agreed with Governor Robertson.
In explanation of his position, Governor Robertson expressed the view that a six-month extension of time would serve only to leave the matter open, for it appeared likely that the antitrust proceeding brought by the Department of Justice to prevent the merger of California Bank and First Western Bank and Trust Company might extend over a long period. If the merger actually took place, the merged institution apparently would not desire to operate a branch at the location in question, and in any event the two banks were already under common ownership.

In view of the existing uncertainty with respect to establishment of the proposed branch, Governor Robertson felt that the Board would be justified in declining to grant the requested extension of time. If, at a later date, the California Bank desired to establish a branch at this location, the Board could consider a new application in the light of the conditions then existing.

After further discussion of the matter in the light of Governor Robertson's comments, during which Mr. Nelson stated that the Division of Examinations had no strong feeling, it was agreed to deny the request of California Bank. A copy of the letter sent to the Federal Reserve Bank of San Francisco pursuant to this action is attached as Item No. 3.

Termination of Regulation S (Item No. 4). The Small Business Investment Act of 1958, approved August 21, 1958, repealed section 13b of the Federal Reserve Act effective one year from that date. In that
connection, there had been distributed to the members of the Board copies of a proposed telegram to the Presidents of all Federal Reserve Banks which would (1) point out that after August 21, 1959, the Reserve Banks would not be authorized to make loans and commitments for industrial or commercial purposes, and (2) advise that Regulation S, Industrial Loans by Federal Reserve Banks, therefore was being terminated effective at the close of business August 21, 1959.

Following a brief discussion, the proposed telegram was approved unanimously. A copy is attached as Item No. 4.

Letter to Congressman Patman (Item No. 5). Pursuant to the understanding at the meeting on August 5, 1959, there had been distributed to the members of the Board a revised draft of reply to Congressman Patman's letter of July 25 raising certain further questions with respect to bank reserves.

Following a discussion of the revised draft, during which certain minor changes were suggested, unanimous approval was given to a letter to Congressman Patman in the form attached as Item No. 5.

Mr. Nelson then withdrew and Mr. Connell, Controller, entered the room.

Report by Mr. Shay. At its meeting on August 6, 1959, the Board gave preliminary consideration to a letter addressed to Chairman Martin under date of August 3 by Congressman Porter Hardy, Jr., Chairman of the Subcommittee on Foreign Operations and Monetary Affairs of the
House Government Operations Committee. Since Mr. Shay had an appointment on August 7 with Mr. John T. M. Reddan, Chief Counsel of the Subcommittee, which it was thought might afford additional information, a reply to Congressman Hardy was deferred.

At the request of the Chairman, Mr. Shay summarized his meeting with Mr. Reddan. He explained that prior to this year the Subcommittee worked in the field of foreign operations, but that its assignment had now been broadened. It appeared that the Subcommittee's interest in the Board, as in the case of the other agencies within its purview, would be a continuing one under the Committee's jurisdiction stemming from the Legislative Reorganization Act of 1946. It also appeared that the Subcommittee would probably want to make an audit of the Board's accounts and records, using its own personnel, and that any such investigation might go into some questions of agency policy. The impression gained by Mr. Shay was that the Subcommittee desired to make definite plans before the adjournment of Congress. The Subcommittee might want to meet with Chairman Martin before adjournment, and meetings of its staff, or perhaps some of the Subcommittee members, with the Board's designated representative for discussion of procedures, programs, and activities also would be contemplated. There would be no objection, if the Board should so desire, to the designation of two representatives to work with the Subcommittee. It was Mr. Shay's understanding that any audit or study would be confined to Board operations and would not extend to the Federal Reserve Banks.
Following discussion on the basis of Mr. Shay's comments, it was understood that the Board would consider further the designation of a staff member to confer with the Subcommittee's Chief Counsel.

The members of the staff then withdrew and Mr. Van Buskirk, Chairman of the Federal Reserve Bank of Cleveland, met with the Board for discussion of certain matters pertaining to the affairs of the Cleveland Bank. At the conclusion of the discussion with Mr. Van Buskirk, the meeting adjourned.

Secretary's Notes: Governor Robertson, in the absence of Governor Shepardson, approved on behalf of the Board on August 7, 1959, the following items:

Memorandum dated August 4, 1959, from Mr. Marget, Director, Division of International Finance, recommending the appointment of Peggy Hastings Reaves as Clerk in that Division, with basic annual salary at the rate of $3,755, effective the date of entrance upon duty.

Memorandum dated July 28, 1959, from Mr. Kelleher, Director, Division of Administrative Services, recommending that permission be granted to Barbara Reighter, an employee in that Division, to work part-time as a saleslady in the Hecht Company Parkington Store, Arlington, Virginia.

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 6) approving the designation of Ernest C. Isanhour, Jr., as special assistant examiner.

Assistant Secretary
Board of Directors,
Southern Arizona Bank and Trust Company,
Tucson, Arizona.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors of the Federal Reserve System approves the establishment of a branch on the southeast corner of East 22nd Street and Wilmot Road in Tucson, Arizona, provided the branch is established within 12 months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Lawrence Savings and Trust Company,
New Castle, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System extends until January 27, 1960, the time within which Lawrence Savings and Trust Company may establish a branch in the Shenango Plaza Shopping Center, Shenango Township, Lawrence County, Pennsylvania, under the authorization contained in the Board's letter dated January 27, 1958.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
August 12, 1959

Mr. E. R. Millard, Vice President,  
Federal Reserve Bank of San Francisco,  
San Francisco 20, California.

Dear Mr. Millard:

Reference is made to your letter of July 20, 1959,  
transmitting the request of California Bank, Los Angeles,  
California, for an additional extension of time in which it  
may establish a branch in the vicinity of La Brea Avenue  
and Rodeo Road in Los Angeles.

It is noted that original approval of the appli-  
cation for the branch was granted by the Board of Governors  
on October 11, 1957, and the time was subsequently extended  
to August 11, 1959. Apparently definite steps have not been  
taken to place this branch in operation and California Bank  
wishes to defer establishing the branch pending the possible  
merger with First Western Bank and Trust Company.

It is the Board's general policy to refrain from  
approving the establishment of branches that cannot be placed  
in operation within a reasonable time, and any extension of  
the time specified in the authorization must be fully justi-  
fied. In view of the uncertainty existing with respect to  
establishment of this branch, the Board has declined to grant  
a further extension of time in which to place it in operation.  
If, at a later time, the bank would like to establish a branch  
at this location, the Board will consider a new application  
in the light of the conditions then existing.

Please advise the bank accordingly.

Very truly yours,

Kenneth A. Kenyon,  
Assistant Secretary.
To the Presidents of all Federal Reserve Banks

Section 601 of the Act of Congress approved August 21, 1958, which was published in the 1958 Federal Reserve Bulletin at page 1059, repealed section 13b of the Federal Reserve Act, effective one year after the date of enactment of that Act. Therefore, after August 21, 1959, the Federal Reserve Banks are not authorized to make loans and commitments for industrial or commercial purposes, and Regulation S is, accordingly, terminated effective at the close of business August 21, 1959.

(Signed) Kenneth A. Kenyon

KENYON
The Honorable Wright Patman,
House of Representatives,
Washington 25, D. C.

Dear Mr. Patman:

This is in reply to your letter of July 25 regarding certain questions about the memorandum on bank reserves sent to you with my letter of July 24.

Since a number of matters of judgment rather than fact were involved in the questions you asked, the information previously submitted was designed to enable you to formulate your own judgments on the basis of the various factors to be considered. The question with respect to the amount of cash paid into the Federal Reserve by member banks when the System was formed requires the resolution of a number of problems as to both definition and data availability. For example, in view of the 36-month transition period on reserve requirements in the original Federal Reserve Act and the further modification of those requirements in the Act of June 21, 1917, there is no single date that, for the purpose of this question, can be selected as unquestionably representing the time the System was "formed."

If it were agreed that this transition was completed sometime during 1917 and that December 31 of that year is an appropriate benchmark date, then a reasonable approximation of the amount of cash paid in by member banks "when the System was formed" could be made on that basis. As of December 31, 1917, total gold and gold certificate reserves of the Federal Reserve Banks amounted to $1.6 billion, and member bank reserve balances totaled about $1.5 billion. Most of the gold had been paid in by member banks in establishing their initial required reserve balances and in meeting their subscriptions to capital stock in the Federal Reserve Banks. This gold, much of which previously had been held by or for the banks that became members of the System or which flowed in from domestic production or imports, constituted the bulk of the monetary gold stock of the country at that time.

Since December 31, 1917, member bank reserve balances have shown a net increase of $17 billion. They have been augmented by
deposit of the proceeds of a $17 billion increase in the country's gold stock and of a $3 billion increase in Treasury currency (mainly monetized silver). They also have been increased by a $26 billion expansion in Federal Reserve Bank credit (mostly holdings of U.S. Government securities). Over the same period, member banks have experienced withdrawals from their reserve balances, principally $28 billion of currency to meet the public's needs for hand-to-hand cash.

There is no way, either in logic or history, by which specific assets of the Federal Reserve System, such as gold or holdings of U.S. Government securities, can be identified with or linked to specific liabilities, such as member bank reserve balances or Federal Reserve notes. On the one hand, one might conclude that the total of member bank reserve balances is represented by the gold stock. On the other hand, if present currency in circulation is considered an offset to the gold and silver, then one might conclude that member bank reserve balances are represented entirely by credit extended by the Federal Reserve System.

Perhaps this point can be placed in better perspective by attempting to answer the following question: What would the consolidated condition statement of the country's monetary system look like today if the Federal Reserve System had never been created, if commercial banks were authorized to hold reserves and to issue currency as they did prior to 1914, and if there had been the same increases in gold, Treasury currency, currency in circulation, and bank credit? In other words, let it be assumed that the arrangements prevailing under the National Bank Act were extended with only such modifications as would be needed to fit them in to the legislative situation as it would be if the Federal Reserve Act had not been passed.

Under these assumptions, the country would possess the same $20 billion gold stock and the same $5 billion total of Treasury currency that now exists. The volume of total bank deposits and currency outstanding would be the same as at present, but the currency would consist of national bank notes. In these circumstances, it would not be open to question that the $20 billion of gold certificates would represent reserves owned by the commercial banking system, and certainly no one would regard these reserves as "fictitious." Whether these reserves were adequate, inadequate, or excessive would depend upon the reserve requirements established against notes and deposits.

While the questions you raised may at first glance appear to call for simple answers, the subject is complex and highly technical, and it is understandable that you encountered some difficulty with the memorandum sent you earlier. It should be kept in mind that, regardless
of how one prefers, for his own convenience, to relate Federal Reserve asset and liability items, the individual member banks acquire reserves in the Federal Reserve largely through customer deposits of currency or checks drawn on other banks and through sales of securities, and also to some extent through stockholder contributions. Thus, these reserves are paid for by member banks, either by exchange of assets or by assumption of liabilities.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

In accordance with the request contained in your letter of August 3, 1959, the Board approves the designation of Ernest C. Isanhour, Jr. as a special assistant examiner for the Federal Reserve Bank of Atlanta for the purpose of participating in examinations of State member banks only.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.