Minutes for August 12, 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.

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.

	A	B
Chm. Martin		×(nu)
Gov. Szymczak	x W	
Gov. Mills		
Gov. Robertson	×	
Gov. Balderston	x cors	24.0
Gov. Shepardson	NA VOA	(all)
Gov. King	* ADDI P	-
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Minutes of the Board of Governors of the Federal Reserve System
On Wednesday, August 12, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman

Mr. Szymczak Mr. Robertson

Mr. King

Mr. Kenyon, Assistant Secretary Mr. Fauver, Assistant Secretary

Mr. Farrell, Director, Division of Bank Operations

Mr. Solomon, Director, Division of Examinations

Mr. Noyes, Adviser, Division of Research and Statistics

Mr. Hexter, Assistant General Counsel

Mr. Nelson, Assistant Director, Division of Examinations

Mr. Conkling, Assistant Director, Division of Bank Operations

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

	Item No.
Letter to the Hempstead Bank, Hempstead, New York, approving the establishment of a branch in the Town of North Hempstead.	1
Letter to the First Trust Company of Albany, Albany, New York, approving the retirement of its preferred stock,	2
Letter to The German American Bank, Jasper, Indiana, regarding its intention to withdraw from membership in the Federal Reserve System.	3
Letter to the Federal Reserve Bank of Minneapolis ratifying the waiver of two penalties incurred by the Houghton National Bank, Houghton, Michigan, for deficiencies in required reserves.	4

	Item No.
Letter to the Victoria Bank and Trust Company, Victoria, Texas, approving an investment in bank premises.	5
Letter to the American Trust Company, San Francisco, California, approving the establishment of a branch in Stockton.	6
Letter to the American Trust Company, San Francisco, California, approving the establishment of a branch in Fremont.	7
Letter to the Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Walnut Creek.	8
Telegram to the Federal Reserve Bank of San Francisco expressing concurrence in the view that the second level vault at the Salt Lake City Branch, rather than the third level vault, would be appropriate for the storage of emergency currency.	9

Mr. Nelson then withdrew from the meeting.

Questions by Joint Economic Committee. In connection with his testimony before the Joint Economic Committee on Thursday, July 30, Chairman Martin had been asked a number of questions by Committee members to which it was indicated that replies would be submitted in written form for the hearing record. These questions related in general to the use of the instruments of monetary and credit policy under various types of economic conditions. There had now been distributed to the Board copies of a memorandum from Mr. Noyes dated August 11, 1959, submitting draft replies to the respective questions. At several points, alternatives were provided for the Board's consideration.

Following comments by Mr. Noyes concerning the background against which the various questions were raised, the draft replies were reviewed by the Board in order. In several instances, the suggestions envisaged no more than minor alterations of the draft and the proposed reply was cleared as satisfactory. In three cases, however, more fundamental changes were indicated.

With respect to a request by Senator Douglas for an explanation as to how a restrictive credit policy confined almost exclusively to the short-term Government securities market would appreciably restrict price increases in the field of construction and in producer durable goods, Mr. Noyes reported that further staff consideration of the answer had suggested the inclusion of certain additional material that would tend to strengthen the reply. Accordingly, he requested permission to submit for the Board's consideration a revised answer that would incorporate the additional material.

With respect to a question raised by Congressman Reuss regarding the need for consumer credit regulation, alternative draft replies had been submitted by the staff, with substitute ending paragraphs for the first of the alternative replies. After consideration of the question, the consensus favored a reply concluding with a statement to the effect that permanent authority to regulate consumer credit, if decided upon by the Congress after weighing the many conflicting arguments, could be a useful supplement to general credit controls in periods when over-all

credit demands were expanding rapidly and placing heavy pressure on a limited supply of loanable funds, but that the Board did not consider the present situation sufficiently acute to justify it in taking the initiative in a recommendation that Congress give urgent consideration to this matter. Such a reply would point out that the effectiveness and workability of this kind of selective regulation depended heavily on broadly based acceptance and support and that the question whether such support existed could best be determined by the Congress itself. While there was general agreement on a statement to such effect, there were a number of differing views with respect to the specific language in which the statement might most appropriately be couched.

A question by Congressman Coffin called, in effect, for a spelling out of the several instruments of monetary policy and for comments on their use in periods of recession and in periods of boom. Here again alternative drafts were presented by the staff. The first answer, relatively lengthy, would constitute what might be regarded as a modest text book in the art of central banking, while the second alternative draft was in the form of a relatively brief summary statement.

In discussion, Governor Robertson indicated that he was inclined not to favor use of the longer draft reply. He felt that portions of it were not easily understandable and doubted whether the furnishing of such detailed information was necessary. Also, the reply seemed to tie the

Board to a philosophy of placing principal reliance on open market operations and adjustments in the discount rate in a boom period, while writing off the possibility of increases in reserve requirements.

The suggestion then was made that the opening paragraphs of the first alternative reply, containing factual data on Federal Reserve Policy instruments, be retained, but that the remaining portions of the first alternative reply be abandoned and the answer be concluded With a summary statement along the lines of the second alternative draft. Agreement was expressed with this suggestion.

At the conclusion of the discussion, it was <u>understood</u> that revised draft answers to the three aforementioned questions would be presented for the Board's consideration at its meeting tomorrow.

All of the members of the staff except Mr. Kenyon then withdrew $f_{\text{rom the meeting.}}$

Central banking seminar. Governor Robertson referred to recent correspondence from the Governor of the Central Bank of India relating to the central banking seminar to be held in early 1960 in Bombay, India, under the sponsorship of the central banks of Southeast Asia, New Zealand, and Australia. The original request for a Federal Reserve lecturer specified Vice President Roosa of the Federal Reserve Bank of New York, but it had been determined that Mr. Roosa would not be available at the time indicated.

Governor Robertson, who had discussed the matter with the staff in the absence of Governor Shepardson, presented the point of view that it would be desirable to select from the Board's staff or from one of the Reserve Banks a person qualified to make a contribution to the seminar who had not recently had an opportunity for foreign travel and therefore would benefit particularly from such an assignment, which might include visits to appropriate foreign central banks.

Robertson. The names of several possible candidates for the assignment were mentioned, and Robert Solomon, Economist, Division of Research and Statistics, was regarded as a member of the Board's staff who would fall within the pattern of specifications that had been mentioned. Accordingly, it was understood that the matter would be explored further in the light of this discussion and that a letter to the Governor of the Reserve Bank of India would be drafted for the Chairman's signature.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Robertson, in the absence of Governor Shepardson, today approved on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, effective August 23, 1959:

Salary increases, effective August 23, 1959

)r.		Basic	Basic annual salary	
Name and title	Division	From	To	
	Office of the Secretary			
Juanita S. Carpenter, Secretary Martha Jane Charuhas, Records Clerk Betty P. Long, Records Clerk		\$ 4,790 3,850 4,040	3,945	
	Research and Statistics			
M. Elva Morse, Statistical Assistant Margery K. Phillips, Statistical Clerk Eva J. Mason, Statistical Clerk		4,644 3,75 3,59	3,850	
	Bank Operations			
Mary Patricia Barlow,	Statistical Clerk	4,04	4,135	
	Administrative Services			
Marjorie B. Beattie, Manager, Cafeteria		7,25	7,405	

Governor Robertson also approved today on behalf of the Board acceptance of the resignations of Shirley M. Almon, Research Assistant, Division of Research and Statistics, effective August 21, 1959, and Charles H. Sims, Messenger, Division of Administrative Services, effective August 15, 1959.

Jannul G. Janyan Assistant Secretary



BOARD OF GOVERNORS OF THE

Item No. 1 8/12/59

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1959

Board of Directors, Hempstead Bank, Hempstead, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch on the west side of Herricks Road, 100 feet north of the intersection of Herricks Road and Hillside Avenue (unincorporated area of Herricks), Town of North Hempstead, Nassau County, New York, by Hempstead Bank, Hempstead, New York. This approval is given provided the branch is established within six months from the date of this letter and approval of the State authorities is in effect at the time the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon



Item No. 2 8/12/59

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE

August 12, 1959

Board of Directors, First Trust Company of Albany, Albany, New York.

Gentlemen:

The Board of Governors, under the provisions of Section 9 of the Federal Reserve Act, hereby approves the retirement of \$500,000 preferred stock by First Trust Company of Albany, Albany, New York. This approval is given provided the plan for raising new capital funds is effected substantially in accordance with the provisions enumerated in the July 14, 1959, letter to the stockholders. It is assumed that approval of the capital program has been obtained by the bank from the proper State authorities, if required.

Very truly yours,

(Signed) Kenneth A. Kenyon



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3 8/12/59

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

August 12, 1959

Board of Directors, The German American Bank, Jasper, Indiana.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors your letter of July 21, 1959, and the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System.

Upon surrender to the Federal Reserve Bank of St.
Louis of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H, your bank may terminate membership in the Federal Reserve System at any time not less than six months nor more than eight months after notice of intention to withdraw from membership was given. It is requested that the certificate of membership be returned to the Federal Reserve Bank of St. Louis.

Very truly yours,

(Signed) Kenneth A. Kenyon



OF THE

Item No. 4 8/12/59

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE

August 12, 1959

Mr. Frederick L. Deming, President, Federal Reserve Bank of Minneapolis, Minneapolis 2, Minnesota.

Dear Mr. Deming:

This refers to your letter of August 3, regarding the penalties totaling \$71.55 incurred by the Houghton National Bank, Houghton, Michigan, on deficiencies in its required reserves during the two semimonthly periods ended March 31, and June 15, 1959.

It is noted that the deficiencies arose from errors in the bank's reporting of net demand deposits since approximately March 1, which resulted from a change in personnel; that your Bank has already waived a penalty assessment for the period ended March 15, 1959; and that you are satisfied the mistakes were inadvertent.

In the circumstances and in view of your recommendation, the Board authorizes your Bank to waive the assessment of the two penalties totaling \$71.55.

Very truly yours,

(Signed) Kenneth A. Kenyon



Item No. 5 8/12/59

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE

August 12, 1959

Board of Directors, Victoria Bank and Trust Company, Victoria, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors approves, under the provisions of Section 24A of the Federal Reserve Act an additional investment in bank premises not exceeding \$1,260,000, for the purpose of constructing a new adjacent building and renovating present banking quarters.

Very truly yours,

(Signed) Kenneth A. Kenyon



Item No. 6 8/12/59

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1959

Board of Directors, American Trust Company, San Francisco, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in the vicinity of the intersection of Wilson Way and Main Street, Stockton, California, by American Trust Company, San Francisco, California. This approval is given provided the branch is established within one year from the date of this letter and formal approval of State authorities is effective at the time the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon



Item No. 7 8/12/59

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1959

Board of Directors, American Trust Company, San Francisco, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in the vicinity of the intersection of Mowry and Santos Avenues, in the Centerville area of Fremont, California, by American Trust Company, San Francisco, California. This approval is given provided the branch is established within one year from the date of this letter and formal approval of State authorities is effective at the time the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 8 8/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1959

Board of Directors, Wells Fargo Bank, San Francisco, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in the Vicinity of North Main, Duncan and North Broadway Streets, Walnut Creek, California, by Wells Fargo Bank, San Francisco, California. This approval is given provided the branch is established within one year from the date of this letter and formal approval of State authorities is effective at the time the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

TELEGRAM

Item No. 9 8/12/59

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON

August 12, 1959

Mangels - San Francisco

Reurlet August 7, Board concurs in your decision that second level vault is preferable to third level for storage of emergency currency.

(Signed) Kenneth A. Kenyon KENYON.