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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System on
Friday, September 18, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szmyczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Johnson, Director, Division of Personnel Administration
Mr. Solomon, Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Masters, Associate Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Chicago, and Minneapolis on September 17, 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 Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:
Letter to Manufacturers Trust Company, New York, New York, approving the establishment of a branch at 3825 East Tremont Avenue, Bronx, New York.

Letter to Security Trust Company of Rochester, Rochester, New York, approving the establishment of a branch at Arkport incident to its proposed merger with Arkport State Bank, Arkport, New York.

Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving an extension of time within which to establish a branch in High Point.

Letter to The Central State Bank, Connersville, Indiana, approving an establishment of a branch on 30th Street between unextended Virginia and Ohio Avenues.

Letter to Silsbee State Bank, Silsbee, Texas, approving the establishment of a branch 160 feet from the main office.

Letter to Mr. Herbert M. Bratter, financial writer for "Banking Magazine", regarding his request for data on employee benefit trusts administered by or in the custody of State member banks of the Federal Reserve System.

Letter to the Federal Reserve Bank of Chicago approving the payment of salary to an Assistant Vice President.

Letter to the Federal Reserve Bank of Kansas City regarding the retention in active service of Vice President Woolley past normal retirement age.

Ann Arbor Bank, Ann Arbor, Michigan (Item No. 9). There had been circulated a draft letter, prepared by the Division of Examinations, that would deny the Ann Arbor Bank, Ann Arbor, Michigan, an extension of time within which to establish an in-town branch.
Governor Robertson expressed the view that, since the Michigan State banking authorities had already denied an extension of time to the Ann Arbor Bank there was nothing for the Board to consider in this case. The other members of the Board concurred in this view and, after discussion, approved a letter to the Federal Reserve Bank of Chicago in the form attached to these minutes as Item No. 9.

Letter to Congressman Vanik (Item No. 10). The Board then considered a revised draft of a letter to Congressman Charles A. Vanik of Maine replying to his telegram of September 10, 1959, commenting on the recent discount rate actions of Federal Reserve Banks.

After some discussion, during which several changes in wording were agreed upon, a letter to Congressman Vanik in the form of attached Item No. 10 was approved unanimously.

Messrs. Young, Director, Noyes, Adviser, and Koch, Associate Adviser, Division of Research and Statistics, entered the room prior to the discussion of this item and withdrew at the conclusion. Messrs. Thomas, Molony, and Nelson also withdrew from the meeting at this point.

Plans of Minneapolis Reserve Bank to remodel second floor of head office building. A memorandum from the Division of Bank Operations dated September 17, 1959, reviewed the Minneapolis Reserve Bank's plans to remodel the second floor of the head office building. On September 1, 1959, President Deming of the Bank had met with the Board to explain the remodeling plans, at which time it was decided that Mr. Witherell, the
Board's consulting architect, should visit Minneapolis to review the project and offer comments. Such a visit had been made by Mr. Witherell on September 12, and he had reported, both verbally and by letter to the Division of Bank Operations, that the plan appeared to be a good one but that he had no way of checking the cost estimates. His suggestions for changes in the proposed design were architectural in nature and stressed that as much of the original architectural treatment as is consistent with the new plan should remain as a tie with the original Cass Gilbert exterior.

Mr. Daniels pointed out that no formal proposal to make the expenditure for the project, approximately $357,000, was before the Board. However, since some of the cost would be chargeable to current expenses, the Bank would find it helpful in completing its 1960 budget to have an indication as to whether the Board would be disposed to consider the project favorably.

It was then unanimously agreed that the Minneapolis Bank should be informed that it would be appropriate to include in its budget the necessary allowance for this project, it being understood that the Board would consider a request for authorization to proceed with the construction when submitted by Minneapolis.

Messrs. Sprecher, Daniels, and Landry withdrew from the meeting at this point and Mr. Smith, Assistant Director of the Division of Examinations, entered the room.
Examination of the Federal Reserve Bank of Richmond. Chairman Martin stated that the examination report of the Federal Reserve Bank of Richmond as of May 25, 1959, which had now completed circulation, raised a question as to procedure in connection with Reserve Bank examination reports in the light of the discussion at a meeting of the Board on August 3, 1959. At that meeting, at which three Board members were present, it was the consensus that it would be desirable to continue to have a representative of the Division of Examinations orally summarize the reports following their circulation to the members of the Board. In addition, it was felt that it would be desirable for the Board to meet with the President of the Federal Reserve Bank concerned to review the examination report with him and that it would also be desirable for the Board to meet with the Chairman of the Reserve Bank concerned whenever special circumstances might warrant.

Governor Mills questioned whether it was necessary to bring the President of the Reserve Bank before the Board for a review of the examination report in ordinary circumstances.

Governor Robertson said that as he recalled the August 3 meeting, the thought was that a discussion with the President would afford a good opportunity for the Board and the President to exchange views on the whole process of examination and Reserve Bank operation. Such a meeting was not intended to imply criticism, but it should be looked upon as a means for bringing the Board and the Presidents closer together and getting
better understanding. It seemed to him a good idea for the Board to go through this procedure with each President once a year. Governor Robertson added the comment that it might be possible to work in such a meeting in conjunction with the Board's review of the Reserve Bank budgets, but, however it was done, he believed it appropriate that the report of examination be the medium through which a discussion was focused on the whole operation of the Reserve Bank.

Chairman Martin said that he felt anything that made it possible for a Reserve Bank President to explore his thinking with the Board would be desirable. The problem was partly one of time, and he recalled that while the Board had discussed such a procedure in the past, it had not found it practicable to carry it through.

Governor Robertson suggested that the development in recent years of a schedule of meetings of the Federal Open Market Committee at three-week intervals provided a better opportunity for carrying out such a program now than was the case several years ago.

Chairman Martin then called upon Mr. Smith for a review of the report relating to the Federal Reserve Bank of Richmond.

Mr. Smith referred to a suggestion that the Richmond Bank provide for resident branch auditors at the Baltimore and Charlotte Branches, adding that the Richmond Bank had indicated this matter was under consideration but that it preferred to advise the Board of action taken after Chairman Decker had returned from overseas. Mr. Smith said that in his
view the feasibility and desirability of having auditors assigned to the branches had been adequately demonstrated over the years. At present, the Richmond Bank, the Minneapolis Bank, and the Federal Reserve Bank of San Francisco were the only ones that did not provide for resident branch auditors except that the San Francisco Bank had such an auditor at its Los Angeles Branch.

Mr. Smith then inquired whether any further action was desired by the Board at this time in connection with a resident branch auditor at Baltimore and Charlotte, and it was the consensus that, since the Bank had the matter under consideration and had indicated that after Chairman Decker's return it would advise the Board of any action taken, no purpose would be served in raising the matter with the Bank at this time.

Mr. Smith next referred to the assignment of representatives of Price Waterhouse & Co. to the Richmond Bank examination for the purpose of observing examination procedures and techniques. He noted that a report from Price Waterhouse & Co. had not yet been received, and he inquired whether the Board wished to have any action taken on this matter.

There was agreement with a suggestion by Chairman Martin that Governor Shepardson look into the question as to when it would be appropriate to inquire of Price Waterhouse & Co. as to submission of its report.
In response to a question from Governor Shepardson as to possible action regarding branch auditors at three offices of the San Francisco Bank and at the Helena Branch, Mr. Smith indicated that the Helena Branch was so small that in his opinion there was no justification for asking the appointment of a resident branch auditor.

Governor Robertson stated that as far as San Francisco was concerned, he had discussed this matter with Mr. Mangels on a number of occasions. The matter had been considered not only by the staff of the San Francisco Bank but by the board of directors, and the last time this was brought up several years ago the directors concluded that no useful purpose would be served in establishing branch auditors at the Portland, Seattle, and Salt Lake City Branches. However, Governor Robertson said Mr. Mangels more recently informed him that he had undertaken a new survey of the question and that a report might, therefore, be expected from President Mangels in due course.

Chairman Martin then inquired as to the wishes of the Board with respect to using the examination reports for the purpose of establishing better liaison between the Board and the Presidents and the Chairmen of the Federal Reserve Banks.

Governor Mills said that when President Leach met with the budget committee a few weeks ago, the personnel situation and the general operation at the Richmond Bank had been covered exhaustively. If the Board was going to continue the procedure of having such discussions
at the time of the preliminary and tentative presentation of the Reserve Bank budgets, it might wish to decide that these meetings should be conducted by the full Board rather than by a committee of three members.

Chairman Martin commented that the budget meetings had been completed for this year and that perhaps the question should be permitted to go over for the present. At the turn of the year, however, it might be desirable to seek an appropriate means for encouraging the Presidents to sit down with the Board and discuss their problems at length. For example, it might be advisable to have meetings with the individual Presidents, scheduled at intervals after the first of the year when the Presidents were in Washington for meetings of the Open Market Committee.

Governor Robertson commented further on the possible advantages of such discussions, noting, however, that if they were scheduled to coincide with the submission of the examination reports that would stretch them out through the year.

Governor Mills then noted that the examination reports were formally presented to the Board of Directors or to the Chairman of the Reserve Bank, and he inquired whether discussion of the reports and of any guide lines for the Banks might more properly be held with the Chairmen of the Reserve Banks than with the Presidents. He suggested that the Chairmen would not be expected to be familiar in detail with some of the matters discussed, but he questioned whether as a procedural matter the Chairman of a Reserve Bank should be left out of the discussions.
Governor Robertson said he would like to amend his earlier suggestion so as to include both the Chairman and the President in the program. His thought was that the best over-all procedure would be to have the Chief Federal Reserve Examiner discuss the results of the examination with the Chairman of the Reserve Bank at the time the examination was completed, to have the report of examination reviewed by the Board of Governors, and after that to have a discussion of the report by the Board with representatives of the Reserve Bank. Whether this should be with the President or with the Chairman, he was not sure, but he doubted that it would be feasible to get both of them in for a discussion at the same time.

Chairman Martin remarked that there were arguments for having discussions with both the Chairman and the President of the Reserve Bank. If this were done, he was not sure whether it would be better to meet with them together or separately.

Governor King commented that he had found the budget discussions this year most enlightening and that he thought the entire Board would be warranted in participating in them.

Chairman Martin said he was sure there was general agreement that the discussions were enlightening; the problem was partly one of finding time. Both July and August were bad months for meetings of this sort, and the selection of the budget committee this past year was made
expressly with a view to vacation plans so that three members of the Board could be available for the budget discussions. He added that any member of the Board should always feel free to attend these meetings.

Several other comments on possible methods of procedure were made and, after some further discussion, it was suggested that consideration be given to the advisability of discussing the procedure for reviewing examination reports at the time of the Chairmen's Conference to be held in Washington in December and, depending on the outcome of any such discussion, the question might be taken up at a later meeting with the Presidents. In the meantime, the staff would be expected to continue to present an oral review of each examination report before the Board following circulation.

Investigation by House Subcommittee. Chairman Martin then referred to the letter dated August 3, 1959, from the Honorable Porter Hardy, Jr., Chairman of the Foreign Operations and Monetary Affairs Subcommittee of the House Committee on Government Operations, stating that members of the staff of the Subcommittee planned to visit the Board's offices starting next week. While both the Subcommittee's Chief Counsel, Mr. Reddan, and Mr. Farrell, Director, Division of Bank Operations, would be away, Mr. Conkling, Assistant Director, would receive the visitors and assist in making information freely
available to them, in accordance with the understanding at the meeting
of the Board on August 20, 1959.

Use of library facilities by State Department representative.

Governor Shepardson said that he had received a memorandum from Mr. Sammons, Associate Adviser, Division of International Finance, informing him that Mr. Isaiah Frank, a member of the staff of the Department of State, was making a study of the European Common Market, and that he would like to use material available in the Board's library during a period from about November 1959 until June of next year. The library was prepared to make this material available and the Division of International Finance was prepared to make space available for Mr. Frank in using the material. Governor Shepardson went on to say that unless there was objection, he proposed to approve this arrangement. The other members of the Board indicated no objection to the procedure.

Continental Bank and Trust Company proceeding. Governor Shepardson then stated that Mr. Solomon wished to present a request in connection with the Board's proceeding against Continental Bank and Trust Company, Salt Lake City, relating to a capital deficiency.

Mr. Solomon stated that for some weeks available members of the staff of the Division of Examinations had been devoting time to the study of the record in this case but that he (Mr. Solomon) felt the need of additional help, preferably in the form of a lawyer who could look into all aspects of the case and assist in preparing material for the Board's consideration. He noted that certain members of the
Board's staff were precluded from review of the matter since they had taken part in the prosecution phase of the case.

Mr. Solomon's suggestion was that a man such as Mr. John J. Clarke, Assistant General Counsel, Federal Reserve Bank of New York, Mr. Aubrey Heflin, Vice President and General Counsel of the Richmond Bank, or Mr. M. H. Strothman, Jr., Vice President and Counsel of the Minneapolis Bank would be able to assist materially in preparing this case for Board consideration, and that if one could be made available to the Division of Examinations for a period of approximately two to three months, the work of getting the necessary material before the Board would be greatly facilitated.

There was unanimous agreement with the suggestion that an effort be made to secure assistance from one of the Federal Reserve Banks along the lines proposed by Mr. Solomon, it being agreed that such arrangements should be completed on a basis approved by Governor Shepardson.

Draft interpretation of Regulation U. The Secretary reported that a telegram had been received late yesterday from President Allen of the Chicago Bank requesting permission to make available to a large Chicago member bank a copy of the draft interpretation of "carrying" under Regulation U, sent to the Reserve Banks for comment on August 5. Mr. Allen's office had been informed at once by
telephone of the reasons why the Board preferred not to have further distribution given to the August 5 draft, but in a further telephone call this morning he urged reconsideration of this position. Mr. Allen said he had explained to the Chicago member bank that the draft interpretation was in process of revision, but Counsel for that bank had been quite insistent that he be given an opportunity to study the draft, especially since he knew that copies had been made available to members of the New York Clearing House Association. President Allen's view was that, even though the draft was being revised, there could be no harm in letting the Chicago member see a copy with the explanation that this draft was already out of date. This would ease his bank relations problem since the view had been expressed that the Chicago member banks were being treated like "second class citizens"; they felt they had just as great an interest in the matter as the New York banks, to which copies had been made available.

Governor Mills said that, particularly in view of the comments at the meeting of the Federal Advisory Council on September 15, he thought there was now more reason for not giving any further distribution to the draft interpretation than when this was considered on September 11. It seemed evident that the proposed interpretation would be changed materially, and he gathered that it would then be published in the Federal Register so that all interested persons would have an opportunity to comment before its adoption. His view was that President Allen should inform the member bank that the earlier draft was not available and why.
Governor Robertson concurred in this view, adding that he could see no reason for stirring up further comments from the banks when the Board was already working on a substantial revision of the interpretation.

Chairman Martin commented that while he did not think it a very important matter one way or the other, it would be understood that the Secretary would inform Mr. Allen that no further distribution should be given to the August 5 draft of interpretation.

At this point all members of the staff excepting Mr. Sherman and Mr. Johnson withdrew from the meeting, and Chairman Bierwirth of the Federal Reserve Bank of New York, entered the room.

Meeting with Chairman Bierwirth of the Federal Reserve Bank of New York. The purpose of Mr. Bierwirth's visit was to discuss the matters presented in his letters to Chairman Martin dated July 23, 1959, relating to salary levels for officers of the Federal Reserve Bank of New York and a possible revision in the retirement allowance available to President Hayes of that Bank.

At Chairman Martin's request, Mr. Bierwirth commented in some detail on his views concerning salary levels that would be appropriate for officers of Federal Reserve Banks, the substance of his reasoning being that although he would not propose salaries comparable to those paid commercial bankers, he felt he could justify higher salary levels for both the President and the First Vice President of the New York Bank.
than those presently paid. Mr. Bierwirth recognized that this would depart further from Government salary levels, but he stressed the view that if the Federal Reserve Banks were to be on a salary basis that applied generally in Government, the entire official staff would have to be rebuilt on a completely different basis from that now obtaining. Mr. Bierwirth stated that he was satisfied there was justification for a salary for the President of the Federal Reserve Bank of New York substantially higher than now prevailed and that he would be prepared to defend a higher range of salaries for senior officers of the Bank than now existed under the salary scale that had been approved by the Board.

After a discussion between Mr. Bierwirth and members of the Board, the meeting adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions affecting the Board's staff:

Salary increases, effective September 20, 1959

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>James C. Byrnes, Economist</td>
<td>Research and Statistics</td>
<td>$7,990</td>
</tr>
<tr>
<td>Edward A. Manookian, Economist</td>
<td></td>
<td>$7,510</td>
</tr>
<tr>
<td>J. Cortland G. Peret, Economist</td>
<td></td>
<td>$7,990</td>
</tr>
<tr>
<td>Margery K. Phillips, Statistical Clerk</td>
<td></td>
<td>$3,850</td>
</tr>
<tr>
<td>Rodney H. Mills, Jr., Economist</td>
<td>International Finance</td>
<td>$6,435</td>
</tr>
</tbody>
</table>

From  | To
$7,990  | $8,330
7,510   | 8,330
7,990   | 8,330
3,850   | 4,040
6,435   | 7,030
Salary increases, effective September 20, 1959 (continued)

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sven E. Johnson, Inspector-Foreman</td>
<td>Administrative Services</td>
<td>$5,880 - $5,949</td>
</tr>
</tbody>
</table>

Change of headquarters


Permission for participation in textbook project

Susan S. Burr, Associate Adviser, Division of Research and Statistics, to be granted permission to participate in the American Economic Association economics textbook project as a Reviewer, with compensation to include an honorarium of $750 and expenses for travel and accommodations to attend "seminar" meetings in connection with the project, and with the understanding that the time spent by Miss Burr on this project during any Board business day, including travel and attendance at meetings, would be on an annual leave basis.

Secretary
Board of Directors,
Manufacturers Trust Company,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch at 3825 East Tremont Avenue, Bronx, New York, by Manufacturers Trust Company, New York, New York. This approval is given provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Board of Directors,
Security Trust Company
of Rochester,
Rochester, 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 hereby approves the establishment of a branch at Arkport, New York, by Security Trust Company of Rochester, Rochester, New York. This approval is given provided:

(a) The merger with Arkport State Bank, Arkport, New York, is effected substantially in accordance with the Agreement of Merger dated June 9, 1959;

(b) The branch is established within six months from the date of this letter;

(c) Shares of stock acquired from dissenting stockholders are disposed of within six months from the date of acquisition; and

(d) Formal approval of State authorities is in effect as of the date of the consummation of the merger and establishment of the branch.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors extends to October 31, 1959, the time within which Wachovia Bank and Trust Company may, under the authority granted in the Board's letter of January 30, 1959, establish a branch on the northeast corner of North Main and East State Streets, High Point, North Carolina.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Board of Directors,
The Central State Bank,
Connersville, Indiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment by The Central State Bank of a branch on 30th Street between unextended Virginia and Ohio Avenues in the city of Connersville, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Board of Directors,
Silsbee State Bank,
Silsbee, Texas.

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 by Silsbee State Bank, Silsbee, Texas, of a branch 160 feet from the main office in Silsbee, across a 20-foot alley on property located directly behind such office, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. Herbert M. Bratter,
3000 39th Street, N. W.,
Washington 16, D. C.

Dear Mr. Bratter:

This refers to your letter of August 12, and our interim acknowledgment of August 17, relative to your request for data reflecting the aggregate volume of employee benefit trusts in the care of State bank members of the Federal Reserve System. It is our understanding that you desire such information for use in connection with a series of articles on the subject of pension funds which is in preparation for publication in BANKING magazine.

Responsive to your request, there is enclosed a table which shows, by Federal Reserve Districts, employee benefit trusts administered by or in the custody of member State banks based on the results of their examination during the calendar year 1958. The information so contained differentiates agency (custodial) holdings from holdings under appointments as trustee and classifies the latter by nature of the investment responsibility assumed by the trustee institution.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure
CONFIDENTIAL (FR)

Mr. Carl E. Allen, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Allen:

The Board of Governors approves the payment of salary to Mr. Charles G. Wright, Assistant Vice President, for the period October 1, 1959 through December 31, 1959, at the rate of $11,500 per annum, which is the rate fixed by your Board of Directors as reported in your letter of September 3, 1959.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
Confidential (FR)

Mr. H. G. Leedy, President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Leedy:

The Board of Governors has carefully considered your request for approval of an extension of the active service of Vice President D. W. Woolley, now completing his first year of duty past normal retirement age. The Board feels that the general principle that retirements of officers and employees should become effective upon attainment of age 65 should be adhered to strictly and impartially. Any exception to the rule should be under exceptional circumstances and for a limited period.

The Board appreciates the long and valuable service which Mr. Woolley has rendered to the Bank and to the System, but it does not believe the circumstances supporting the Bank's current request are of a sufficiently exceptional nature to warrant a further extension of Mr. Woolley's services past December 31, 1959.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Diercks:

Reference is made to your letter of September 2, 1959, with regard to the request of Ann Arbor Bank, Ann Arbor, Michigan, for a further extension of time to establish an in-town branch at the intersection of Broadway and Plymouth Road cutoff.

It is noted that the State Banking Department declined to extend its authorization to establish this branch and, consequently, there appears to be no need for the Board to take further action in the matter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
The Honorable Charles A. Vanik,
House of Representatives,
Washington 25, D. C.

Dear Mr. Vanik:

Thank you for your telegram of September 10, commenting on the recent discount rate actions of Federal Reserve Banks. We are always glad to have the views of members of Congress and others about Federal Reserve actions.

Let me assure you that the discount rate actions were taken as a means of contributing to the economic and financial balance necessary to sustain and to further the improvement that has been achieved in business and employment thus far in 1959. Let me further assure you that these actions were taken only after careful study of all of the pertinent, current developments in business and finance.

In markets for goods and services, the basic situation continues to be one of general strength. Total output, except for areas experiencing temporary setback as a result of work stoppages from strikes, remains in an expanding phase. The pattern of setback in the strike-affected areas appears about parallel with that incurred in the preceding periods of steel strike occurrence in 1949, 1952, and 1956. In each of these preceding periods, strike settlement was followed by rapid reestablishment of prestrike levels of industrial output and then by additional expansion in total output. We are concerned, of course, about loss of output and employment associated with the steel strike. Naturally, we are anxious that settlement be prompt and noninflationary.

Your telegram mentions specifically a reduction in the number of housing starts. August housing starts show continuance of a high level very close to that of other recent months. For the first eight months of 1959, housing starts have averaged slightly above the level for the same period of 1955 and only slightly below the record set in 1950. The dollar volume of residential construction put in place so far in 1959 has exceeded substantially that for
the comparable period in any other year in our history, including the earlier boom years of 1950 and 1955.

In finance, demands for funds on the part of all of the various sectors of the economy—from consumers to pay for new homes, household durables and automobiles, from businesses to finance inventories and build new factories, from municipalities to build new schools and roads, and from the Federal Government to finance seasonal deficits and to refinance its outstanding debt—have been high and rising. In our freely competitive money markets, financing demands have to be equated to the supply of savings through the free movement of interest rates.

The Federal Reserve actions to regulate growth in the money supply affect only marginally the cost and availability of financing. Monetary growth must be kept consistent with the cash holding needs of the people and a stable value of the dollar.

Concerning recent discount rate actions, both the Boards of Directors of Reserve Banks, in recommending higher rates, and the System's Board of Governors here in Washington, in reviewing and approving them, were necessarily obliged to give special consideration to the situation in money and credit markets. Short-term interest rates in money markets had risen well above existing discount rates—the rates charged member banks when they borrow from the Federal Reserve Banks.

Under our fractional reserve banking system, the member banks as a group can expand their credit several fold, on the basis of the reserves acquired through discounting, thus swelling the supply of bank deposits or money. If market rates of interest long exceed the discount rates, in a period of active credit demand, member banks have a strong profit incentive to borrow from Reserve Banks and relend these funds in the market. Discount lending at the Reserve Banks thus becomes very difficult to administer and even threatens to frustrate the System's current monetary policy.

A final word as to your fears that the recent discount rate actions may be setting the stage for a money panic. A money panic implies an absolute constriction, indeed, stoppage of the flow of funds in financial markets. As indicated above, precisely the opposite has been occurring. Bank lending in recent months has risen to an all-time high; new mortgages have been floated in near-record volume; consumer installment credit extension has steadily accelerated; and the capital markets have absorbed large volumes of new corporate and municipal security issues. The nation's money supply over the
past year increased 3 per cent, and the turnover or velocity of its main component, checking accounts at banks, rose 8 per cent in financial centers outside New York City. Thus, rather than contraction in the flow of funds available for lending, there has in fact been considerable expansion.

Interest rates, I feel sure you will agree, cannot properly be considered alone, in isolation from the multifold economic and financial developments, such as those mentioned in this letter, with which they are inter-related. In respect to interest rates, *per se*, I assure you that it is not, and never has been, the policy of the Federal Reserve System to promote or encourage higher rates of interest than are essential to balance the demand for financing with the flow of real savings and the monetary expansion consistent with sustainable economic growth at a stable value for the dollar.

Sincerely yours,

Wm. McC. Martin, Jr.