The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on March 29, 1960, which you have previously initialed, have been amended at the request of Governor Robertson to revise his remarks on pages 6 and 8.

If you approve these minutes, as amended, please initial below.

Chairman Martin ________

Governor Szymczak ________

Governor Mills ________

FR 609
Rev. 10/59

Minutes for March 29, 1960

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 WM

Gov. Szymczak MS

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, March 29, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King 1/

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Hexter, Assistant General Counsel
Mr. Brill, Associate Adviser, Division of Research and Statistics
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Landry, Assistant to the Secretary

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on March 28, 1960, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Item circulated to the Board. The following item, which had been circulated to the members of the Board and a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

> Letter to David B. McCalmont, Lancaster, Pennsylvania, regarding his doctoral dissertation on the redistribution of gold reserves among Federal Reserve Banks.

1/ Withdrew from the meeting at the point indicated in the minutes.

Messrs. Harris, Coordinator, Office of Defense Planning, and Koch, Adviser, Division of Research and Statistics, entered the room at this point.

Executive Order regarding emergency banking powers. There had been distributed a memorandum from the Legal Division dated February 29, 1960, regarding a request from the Budget Bureau on December 7, 1959, for views regarding a draft of proposed Executive Order, submitted by the Treasury Department, under which all powers possessed by the President with respect to banking and financial transactions would be delegated to the Secretary of the Treasury. On January 11, 1960, the Board tentatively approved a draft of reply opposing approval of the Executive Order in the form submitted, on the ground that its failure to state that it would become effective only in the event of an emergency would give rise to serious questions as to its legality and in any case would result in confusion and misunderstanding.

Chairman Martin recalled the understanding at the January 11 meeting that before sending the letter to the Budget Bureau he would discuss it with Under Secretary of the Treasury Scribner. As a result, Mr. Scribner had sent a letter dated February 18, 1960, indicating that the Treasury still believed that the proposed Executive Order should not refer to a war emergency because (1) it might suggest that the international situation is graver than it is and (2) it would cast doubt on the Treasury's current authority. His letter suggested that if a compromise could not be agreed upon to avoid these effects, the proposed Order be placed in the President's "black bag" as a standby Order to be issued in the event of an emergency. The Chairman said that he had talked with Mr. Scribner a number of times regarding this question and that he was now disposed to send the letter to the Budget Bureau opposing approval of the Executive Order in the form submitted by the Treasury since there appeared to be no advantage in further discussion with the Treasury on this score.

Mr. Harris commented that the proposed reply to the Budget Bureau was substantially the same as the letter tentatively approved by the Board on January 11. The question had been thoroughly discussed with Treasury officials and they were completely conversant with the Board's views. The Treasury had expressed its views to the Budget Bureau, Mr. Harris said, and he could see no reason why the Board's views should not now be sent to the Budget Bureau, which had requested them.

Unanimous approval was then given to the letter to the Budget Bureau opposing approval of the Executive Order in the form submitted.

> Secretary's Note: Subsequent to the meeting, suggestions for revision of the wording of the letter were made and its transmission was deferred pending further consideration by the Board.

Mr. Harris withdrew from the meeting and Mr. Molony, Assistant to the Board, entered the room at this point.

Stock market developments. Before this meeting there had been distributed a memorandum dated March 16, 1960, from Mr. Noyes attaching a study dated March 15, 1960, from Mrs. Ulrey, Economist, Division of Research and Statistics, regarding recent stock market developments. This memorandum indicated that since the end of 1959 stock prices had declined about 10 per cent, with the decline during January being persistent, carrying the Standard and Poor's 500 stock price index to a level 11 per cent below the market peak of early August 1959. The sharp fall in prices had operated to raise the average yield on common stock to 3-1/2 per cent for the first time since October 1958. So far as stock market credit was concerned, by the end of February customer credit had declined about 10 per cent from the record high of $4.8 billion in April 1959, with the absolute decline divided equally between debit balances at brokers and bank loans to customers other than brokers and dealers. However, the rate of decline had been more rapid for bank loans, bringing this series back to the level of early 1958.

There followed a general discussion of the material presented in the memorandum and its relation to margin requirements.

Maximum interest rates under Regulation Q. Chairman Martin said he was not convinced that any change was called for in the maximum interest rates payable on time and savings deposits under Regulation Q, Payment of Interest on Deposits. On the other hand, he noted that any decision along this line depended on what the Board thought the economy was going to do in the next several months and the judgment it had regarding the relationship of these rates to saving and whether a change would encourage saving.

There followed a general discussion of the subject during which various views were expressed by Board members as to the need for action one way or the other regarding existing maximum rates and what, if any, change might be appropriate. At the conclusion of the discussion it was understood that the subject would be taken up again at a subsequent meeting of the Board, perhaps sometime in April.

Mr. Fauver, Assistant to the Board, entered the room during the foregoing discussion and at the conclusion withdrew, along with Mr. Conkling.

Requirement of margins on loans backed by Government securities. Chairman Martin said that he would like to have Governor Robertson report on developments in connection with the proposal for requiring margins on loans against Government securities or issuance of a supervisory statement with respect to speculation in Government securities. He personally had blown hot and cold on any proposal in this field. The Secretary of the Treasury had indicated an active interest in the matter, however, and he felt it would be desirable for the Board to review what had taken place.

Governor Robertson said that there had been further attempts to work out arrangements among the three Federal bank supervisory agencies with regard to implementing the proposal made in the joint Federal Reserve-Treasury study of the Government securities market of last July to prevent speculation in that market by requiring margins on loans secured by marketable Government securities. Under date of March 8, 1960, he asked Comptroller of the Currency Gidney and Chairman Wolcott of the Federal Deposit Insurance Corporation for comments on a draft of letter from the supervisory agencies to their District Chief Examiners on this subject. Comments had been received from Mr. Gidney, who agreed with the principle that in general at least a 5 per cent margin should be required but that the margin could be lower against short-term obligations, should be "adequate" in the event of Treasury refundings, and should be maintained at an "adequate" level regardless of the form of the loan. The Comptroller's Office suggested that the exemption of Government securities dealers from the margin requirement should be based on the additional reason that they were reporting their borrowings and positions to the New York Reserve Bank.

Governor Robertson went on to say that the Federal Deposit Insurance Corporation agreed with his position that this approach to the problem --through bank supervision--was wrong, since it involved the use of the bank supervisory agencies for regulation outside the proper scope of supervisory activities and called for analysis of bank assets on a basis other than soundness. The Corporation's Mr. Greensides had indicated, however, that if it was the firm position of the Treasury that this approach should be followed, the Corporation would cooperate. Governor Robertson added that even though the Comptroller's Office was willing to go along with the described proposal, Mr. Gidney would do so reluctantly and only because the Treasury desired that the action be taken.

Chairman Martin questioned whether the distinction between bank supervision and economic policies could be sharply drawn. As he saw it, the crux of the matter was the possibility that more harm than good was being done by not establishing margins on loans against marketable Treasury securities, and he referred to the speculative excesses in the Government securities market during the summer of 1958. He recognized that the Board did not possess statutory authority to impose margins on loans backed by Governments, but on the other hand he questioned whether it was desirable to proceed on the present basis of requiring no margins and asserting that the banking system was not endangered thereby.

Mr. Young noted that it was possible to make a case for requiring margins on loans against marketable Treasury issues since the possibility of undue speculation in the Government securities market would continue to arise whenever the posture of monetary policy shifted. He suggested the following possible remedies: (1) legislation giving the Board the power to impose margin requirements on loans collateraled by Treasury issues; (2) a joint statement issued by the three bank supervisory authorities to be published and circularized; and (3) introduction by the Treasury of margin requirements on subscriptions in connection with both its cash and refunding operations. With respect to the first possibility, Mr. Young said he foresaw difficulties in the area of public relations should higher margins be imposed at any time when the economy was weakening. With respect to the second suggestion, he believed that it was proper for supervisory authorities to emphasize the importance to banks of scrutinizing loans carefully, including those backed by Government securities, since bank supervision to him implied prevention of unstabilizing influences in the economy and undue speculation in Treasury issues could adversely affect banking. So far as the third possibility was concerned, a cash margin of possibly 20 per cent to accompany all subscriptions to new Treasury offerings, either on a cash or refunding basis, would, in combination with a joint statement by the bank supervisory authorities, stand a good chance of being substantially effective. However, this would not prevent speculation on a cash basis, as occurred in the summer of 1958.

Governor Robertson said that an instruction to national bank examiners to scrutinize loans backed by Government securities would be desirable. This position, however, differed from a proposal to impose margins on loans backed by such securities. He saw merit in exercising moral suasion through efforts of the Treasury and the Federal Reserve as a means of contributing to the smooth functioning of the market for Government securities, but he did not believe the imposition of margin requirements by supervisory authorities was the proper approach.

New refunding method proposed by the Treasury. Governor Balderston remarked that although the Treasury hoped that the next edition of the examiners' compendium of the Comptroller of the Currency would include a reference to standards to be observed regarding checking loans against Governments, the Treasury's principal proposal along this line at present followed a different path. He had spoken on the telephone this morning with the Under Secretary. From him he learned that, in order to inhibit speculation in maturing securities given the exchange privilege ("rights") during Treasury refundings, the value of "rights" would be eliminated by permitting the general public to subscribe to refunding issues on either a cash or exchange basis, with no preferential allotments to be made. However, the Federal Reserve would be permitted to "roll over" its holdings of maturing securities by receiving a 100 per cent allotment to be paid for in cash or by maturing securities, along with Government trust accounts, individual subscriptions up to some small amount, and perhaps pension funds of State and local governments.

Governor Balderston also indicated his understanding that the Treasury does not plan to ask Congress for legislation that would impose margin requirements on loans secured by Government securities. Rather, it believes the equivalent of a cash margin requirement can be imposed administratively by writing to the larger commercial banks requesting that they not make loans on Treasury securities except on adequate margins (inapplicable to Government securities dealers). The Secretary of the Treasury also contemplated writing to the treasurers of large corporations requesting that they not extend repurchase assistance on Government securities.

Governor Balderston went on to say that his understanding was that the Treasury was prepared to consider this program seriously in a unilateral way, although it would prefer to have the approval of the Federal Reserve. He also said that the Treasury's announcement this coming Thursday evening of the terms of its April cash borrowing might refer both to margin requirements and to its plan to eliminate "rights" values. The refunding procedure that the Treasury was considering was similar to a proposal made in a letter from the Treasury dated October 1, 1958, when it suggested doing its refinancing on a cash basis with less than full allotments to be made to subscribers who could tender either cash or maturing securities in payment. However, the Federal Reserve would be given a special exchange offer at the same time with the privilege of full allotment. Because of the strong conviction of the Open Market Committee, expressed in a letter to the Treasury dated October 21, 1958, that it would be inadvisable to distinguish in any way between the treatment given to securities held by the Federal Reserve Banks and those held by other investors, the Treasury made an alternative proposal on October 24, 1958, whereby preferential allotments in full would be made to all subscribers, including the Federal Reserve, who tendered maturing securities in payment of their subscriptions. In conclusion, Governor Balderston said the Treasury would like to have the Board's reaction to the proposal as to bank examination standards relating to loans on Governments and the full allotment procedure for the Federal Reserve during Treasury financing.

Governor King stated that it was necessary for him to leave the meeting to keep another appointment. However, he agreed with Governor Robertson's view that imposing margin requirements by regulation to be administered by the supervisory agencies was not the proper method of meeting the problem of overextension of credit on Government securities. He did not believe that a Government agency should use authority given to it for one purpose to do something that it was not clearly authorized to do.

Governor King then withdrew from the meeting as did Mr. Brill.

Governor Szymczak inquired whether the $5 billion maximum limit on direct borrowing by the Treasury from the Federal Reserve would appear to serve as a restriction to operations pursuant to the current Treasury proposal, and Mr. Hexter replied that in 1958 the Legal Division had expressed the view that this limitation would not be a restriction, on the basis that such Treasury financing would represent an exchange offering to the Federal Reserve and thus would not involve a direct "purchase" of securities from the Treasury.

Governor Mills expressed concern that there might be public misunderstanding of any Treasury announcement of such a change in its financing procedures. On the other hand, he was resigned to following through on the proposal for a joint statement by the three supervisory agencies.

Following an indication by the Chairman that the way was still open for the Board to decline to participate in any such joint statement, it was understood that Messrs. Young and Hexter would attempt to get from the Treasury a written statement regarding the proposal described by Governor Balderston and report back to the Board.

Government securities market historical price and credit information. Mr. Young recalled that last summer the Joint Economic Committee requested historical price and credit information to be supplied by Government securities dealers on a confidential basis and that an arrangement was worked out to provide these data in the form of index numbers, with 1951-57 as the base, thereby concealing the actual data. The Commission on Money and Credit established by the Committee for Economic Development had now requested a copy of this report. Should the Board accede to this request, the staff of the Commission would be under the same restrictions regarding use of the data as the staff of the Joint Committee, namely, restriction against direct quotation or direct use of the figures in any documentation.

Unanimous approval was given to a suggestion by Governor Szymczak that this request be granted provided President Hayes of the New York Reserve Bank and Presidents Bopp, Fulton, Bryan, and Leedy, the other Reserve Bank Presidents currently serving on the Open Market Committee, were informed of this development and interposed no objection.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Robertson, acting in the absence of Governor Shepardson, today approved on behalf of the Board the acceptance of the resignations of the following persons on the Board's staff:

Virginia G. Krenzke, Editorial Clerk, Division of Research and Statistics, effective March 25, 1960.

Margaret S. Sonner, Stenographer, Legal Division, effective April 1, 1960.

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
3/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 29, 1960

Mr. David B. McCalmont,
546 W. James Street,
Lancaster, Pennsylvania.

Dear Mr. McCalmont:

In accordance with the request in your letter of August 12, 1957, the Board of Governors authorized access to unpublished information for use in your dissertation "Redistribution of Gold Reserves Among Federal Reserve Banks."

The Board's staff has gone to unusual lengths to seek out and make available to you technical material on this subject because it was interested in obtaining a compilation, review, and analysis of all the data in its possession that are relevant to the technical nature of your dissertation. It is pleased with the meticulous way in which these aspects have been covered.

The Board granted your request for access to unpublished information with the understanding that the action was not to be considered a precedent and that each such request would be examined on its merits.

You will understand that neither the Board nor any of its staff can take any responsibility for the general conclusions of your study.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.