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Minutes for November 3, 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 M

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 Thursday, November 3, 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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Benner, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Young, Assistant Counsel
Mr. Solomon, Chief, Capital Markets Section, Division of Research and Statistics

Bill authorizing Federal mutual savings banks. There had been distributed a draft of reply to a request from the Chairman of the Senate Banking and Currency Committee for a report on S. 3796, "to authorize mutual savings banks." The proposed reply was accompanied by a memorandum from Mr. Walter Young dated October 28, 1960, summarizing the bill and setting out arguments for and against its enactment. A memorandum from Mr. Hackley submitting for consideration a possible revision of the last paragraph of the proposed letter also had been distributed, along with an alternative draft of reply submitted by Mr. Noyes. The alternative draft of reply pointed out that existing savings institutions had experienced record increases in their time or savings deposits, savings capital, or total assets. Thus, it was not clear whether the creation of additional savings institutions such as the proposed Federal mutual savings banks would actually increase the flow of savings within the economy as a whole, one of the declared purposes of the bill. The draft noted that the proposed bill would affect the present pattern of relationships among the existing complex of savings institutions, and indicated that the Board felt that careful study should be given to the question whether such a rearrangement would serve the public interest. The draft letter then outlined the possible scope of such a study, questioned certain specific provisions of the bill, and called attention to certain omissions. The letter concluded with a statement that the Board questioned the necessity of establishing a new independent supervisory agency, as provided by the bill, and suggested that consideration be given to vesting supervisory authority in an existing Federal agency that charters financial institutions.

During a discussion of the matter, various suggestions were made for changes in wording and emphasis of the alternative draft.

Question then was raised by Governor Mills whether a reply to the request was necessary, especially since it was understood that the bill had been introduced principally to place the proposal on record, with the expectation that a revised bill would be introduced in the coming session of Congress. It appeared that Mr. Shay, the Board's Legislative Counsel, had been of the opinion that a letter offering technical suggestions would suffice, but it was noted that such a letter might convey the impression that the Board was agreeable to legislation of this kind if technical changes were made in the bill. It was reported that the Comptroller of the Currency and the Federal Deposit Insurance Corporation had decided not to make a report on the bill for the time being.

Governor Balderston suggested that any reply be so drafted as to avoid giving the impression that the Board was inviting more supervisory responsibility, and also expressed the opinion that a new supervisory agency should not be created.

Governor Shepardson indicated that he agreed with the views stated by Governor Balderston, following which Governor King expressed the view that the reply to the request of the Committee should clearly indicate the Board's position on the proposed legislation. He said that he would rather not send any reply than to send a letter in which the comments were confined to those of a technical nature, thus leaving the Board's position in doubt.

Governor Robertson raised the question whether the Board was in a position at this time to express approval or disapproval of the proposal. In the circumstances, he suggested, perhaps the best advice the Board could give was that the entire structure of financial institutions be studied in order to arrive at a judgment as to whether the proposed mutual savings banks would be a desirable additional type of institution and, if so, where supervision of them should be placed.

Governor King responded in terms that he doubted whether additional study by any group would necessarily provide the right answer or place the Board in a better position to express an opinion. The Senate Banking and Currency Committee had asked the Board for its views, and in his judgment, at least, the proposed legislation would not be desirable. A noncommittal reply might indicate that if certain technical changes were made the Board would be satisfied. If more time was needed for the Board to make a decision, he thought more time should be taken rather than merely to indicate doubt.

Governor Szymczak suggested the possibility that the letter to Senator Robertson might be redrafted to express a definite opinion on the things the Board felt sure of, but to indicate that there were other aspects of the proposal which the Board felt should be studied further by representatives of the bank supervisory agencies, after which the Board would communicate further with the Committee.

After further discussion, Chairman Martin suggested, in view of the evident differences of opinion among the members of the Board as to the type of letter that would be most appropriate and in view of the understanding that the Comptroller of the Currency and the Federal Deposit Insurance Corporation did not intend to submit reports, that no reply be sent to the Banking and Currency Committee.

Governor Robertson inquired whether it was clear that the other supervisory agencies did not intend to reply, and Mr. Hackley was asked to verify that understanding.

Accordingly, it was understood that in the absence of further developments, no reply would be sent to the Senate Banking and Currency Committee.

Messrs. Koch, Benner, Walter Young, and Robert Solomon left the meeting at this point.

Single issue of Federal Reserve notes. A memorandum dated August 24, 1960, had been distributed submitting a revised draft of reply to the question in the letter from the Chairman of the Foreign Operations and Monetary Affairs Subcommittee of the House Committee on Government Operations dated June 10, 1960, in regard to the feasibility of a single issue of Federal Reserve notes. The revised draft had been prepared in the light of comments received from the Federal Reserve Banks in response to the Board's letter of July 28, 1960, requesting their views on an earlier draft.

Governor Mills expressed the view that the Board should give a flat and unequivocal reply one way or the other. In his opinion, the reply should be to the effect that although technically it would be possible to consolidate the twelve issues of Federal Reserve notes, presumably with some minor saving of cost, as a practical matter that move would not be recommended. The reply would point out that there were advantages in keeping the present system, arising out of the over-all importance of preserving the identity of the individual Reserve Banks as parts of a decentralized Federal Reserve System, and any move that would throw a cloud on that identity would not meet with the Board's approval.

Governor Robertson commented that the proposed reply was designed to take a firm position, but in the opposite direction. Thus, one sentence of the reply would indicate that the Board had concluded that, despite the long tradition behind the twelve separate note issues, it would be in the public interest to change to a single series. This preceded a sentence that would state that in order to obviate any misunderstanding the change should be made as part of a general program for simplifying the currency structure of the United States, or at least deferred until a study was made of the need and role of all existing types of currency.

Governor Robertson then referred to the differences of opinion among the Reserve Bank Presidents on the question. It was his own view, he said, that very few people were aware of the significance of the Reserve Bank symbols on Federal Reserve notes, and that those who did know also knew that it did not make any difference which Reserve Bank had issued the notes they were holding. He did not feel that a change to a single note issue would detract from the decentralized nature of the Federal Reserve System.

Governor Shepardson suggested that the passage in the proposed reply referred to by Governor Robertson be changed to indicate that the net effect of the proposed change would be so slight that it would not appear desirable to make the change except as part of a general program for simplification of the currency system of the United States.

Governors King and Szymczak concurred in Governor Shepardson's suggestion, the former indicating that he had some misgivings as to whether the public would not read undue significance into an announcement of a change to a single note issue, believing that in some way the change was in the direction of further centralization of Government.

Governor Balderston stated that the arguments seemed to him to favor a single Federal Reserve note issue. He went on to say that he was almost willing to concur in Governor Shepardson's suggestion, but that he disliked to go on record as saying that the annual saving of $300,000, which it had been estimated would be accomplished by adopting a single note issue, was insignificant.

Chairman Martin then suggested that the next step in consideration of the subject be to obtain the views of the Federal Advisory Council at the forthcoming meeting of the Board and the Council on November 15, and there was agreement with this suggestion.

With further reference to the discussion of matters with the Federal Advisory Council, Governor Robertson referred to the status of work being done on the problem of absorption of exchange charges pursuant to the understanding at the interagency meeting on November 1, 1960, and it was agreed that any discussion of that subject with the Council should be in terms of such actions as might have been taken by the Board prior to the date of its meeting with the Council.

As to the question of maximum deferment under the Reserve Bank check collection schedules, Chairman Martin made the comment that no further discussion with the Federal Advisory Council appeared necessary at this time, and no view to the contrary was expressed.

The meeting then adjourned.

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

Salary increases, effective November 13, 1960

Helen L. Hulen, Chief, Publications Services, Division of Administrative Services, from $6,545 to $6,710 per annum.

Mary S. Keagan, Purchasing Assistant, Division of Administrative Services, from $5,490 to $5,655 per annum.

Kathleen J. O'Connor, Disbursing Clerk, Office of the Controller, from $5,170 to $5,335 per annum.

Dorothy G. Szpilowski, Research Assistant, Division of Research and Statistics, from $5,355 to $5,520 per annum.

Eleanor W. Yates, Cafeteria Helper, Division of Administrative Services, from $3,500 to $3,605 per annum.

Outside business activities

L. Marie Phipps, Statistical Typist, Division of Bank Operations, to work part time as a cashier at the Jefferson Theater, Falls Church, Virginia.

Shepfield Whitley, Cafeteria Laborer, Division of Administrative Services, to work part time as a maintenance worker at the Corcoran Gallery of Art, Washington, D. C.

Maternity leave

Mary Jane Heiss, Administrative Assistant, Office of the Secretary, to work an additional period, through November 25, 1960, before beginning maternity leave.

Secretary