

Minutes for February 14, 1961

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.

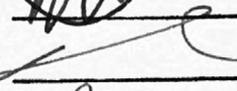
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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



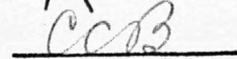
Gov. Szymczak



Gov. Mills



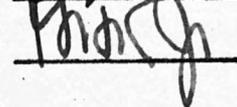
Gov. Robertson



Gov. Balderston



Gov. Shepardson



Gov. King

Minutes of the Board of Governors of the Federal Reserve System

on Tuesday, February 14, 1961. 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. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thomas, Adviser to the Board
 Mr. Young, Adviser to the Board
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Noyes, Director, Division of Research and
 Statistics
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Connell, Controller
 Mr. Hexter, Assistant General Counsel
 Mr. Robinson, Adviser, Division of Research and
 Statistics
 Mr. Landry, Assistant to the Secretary
 Mr. Leavitt, Supervisory Review Examiner, Division
 of Examinations
 Mr. Kakalec, Assistant to the Controller

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:

	<u>Item No.</u>
Letter to Security State Bank, Fredericksburg, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	1
Letter to the Federal Deposit Insurance Corporation regarding the application of The Citizens State Bank, Knox City, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	2
Letter to the Department of Justice advising that the Board of Governors would be agreeable to acceptance of the offer in compromise of its claim against Wegematic Corporation, with such minor modifications as the United States Attorney might consider necessary or desirable.	3

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Report on S. 750 (Item No. 4). There had been distributed under date of February 10, 1961, a draft of letter to Chairman Robertson of the Senate Committee on Banking and Currency reporting on S. 750, a bill "to assist areas to develop and maintain stable and diversified economies . . ." that had been introduced by Senator Dirksen. The letter would state that the Board had no comments to add to those contained in its letter of January 16, 1961, regarding certain other bills relating to the same subject.

Following a brief discussion, the letter was approved unanimously in the form attached as Item No. 4, with the understanding that it would be accompanied by a copy of the January 16 letter.

At this point Mr. Molony, Assistant to the Board, entered the room and Messrs. Hexter and Leavitt withdrew.

Report on H. R. 960 and H. R. 1968 (Item No. 5). Consideration had been given at the meeting on February 10, 1961, to a draft of letter to Chairman Dawson of the House Committee on Government Operations reporting on H. R. 960 and H. R. 1968, bills relating to the use of a capital budget in Federal Government accounting. The draft reply noted that the two bills, which were identical in wording, were the same as H. R. 5197 and H. R. 5135, introduced in the 86th Congress. Those bills were reviewed in the Board's letter of June 8, 1960. As a result of the discussion on February 10, it had been decided to defer action until the staff had consulted with the Bureau of the Budget on this matter.

Mr. Noyes reported that the Budget Bureau, the Treasury, and the General Accounting Office, like the Board, had reported unfavorably on

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the earlier bills. It was the understanding of the Budget Bureau, Mr. Noyes said, that there was no active Administration support at this time for the capital budget proposal.

Following discussion, the letter to Chairman Dawson was approved unanimously, with the understanding that a copy of the Board's letter of June 8, 1960, would be enclosed. A copy of the approved letter is attached to these minutes as Item No. 5.

Reports on S. 144, H. R. 2064, and H. J. Res. 83 (Items 6 and 7).

There had been distributed under date of February 13, 1961, drafts of two letters, one to Chairman Robertson of the Senate Committee on Banking and Currency reporting on S. 144, a bill "to amend the Employment Act of 1946 to make the maintenance of a reasonably stable price level an explicit aim of Federal economic policy," and the other to Chairman Dawson of the House Committee on Government Operations on H. R. 2064 and H. J. Res. 83, companion legislation introduced in the House. Attached to the drafts of letters was a chronology dated February 6, 1961, covering statements by or on behalf of the Board since 1957 with respect to possible amendment of the Employment Act to make price stability an explicit aim of Federal economic policy.

In discussion, Governor Robertson suggested a revision in the wording of the proposed letters with a view to indicating a more positive position toward legislation of this kind. Other members of the Board, except Governor Mills, expressed agreement with the proposed revision.

Governor Mills stated that although he realized the proposed letters reflected the position heretofore expressed by the Board that

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price stability is a desirable goal of national economic policy, his personal view, which he had stated on previous occasions, was adverse to inclusion in the Employment Act of price stability as an explicit goal. In his opinion, if this objective were set out explicitly in the Act, the Federal Reserve would be required in its monetary and credit policy to work directly toward that goal. He was fearful that pursuit of such an objective might stunt the growth of the money supply, causing monetary and credit policy to be the handmaiden of stagnation at the expense of economic growth and a high level of economic activity.

Governor Mills recalled that in the early history of the Federal Reserve System, the Board had been adamantly opposed to price stability as an explicit goal of Federal Reserve policy. It was not that the Board objected to price stability in the broad sense, but rather that it thought a provision in the law specifying price stability as the goal would be interpreted in such manner that monetary and credit policy would be accused of not following the goal if there were price fluctuations. The Board believed that some fluctuations in prices were inevitable in the economy.

In further discussion of the earlier position of the Board, members of the staff suggested that if at the time the law had contained an explicit statement of the aims of Federal economic policy, the Board's position might have been somewhat different. Mr. Thomas called attention to the fact that in recent years increasing emphasis had been placed by some persons on employment stability as the principal aim of economic policy. Personally, he said, he agreed with the philosophy that more

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economic growth could be achieved through general stability in the level of prices than if there were wide price swings. Accordingly, he had come to the view that it would be advantageous to have price stability set forth as an explicit goal of Governmental economic policy.

Governor Shepardson concurred in the view that the picture had changed with the enactment of the Employment Act of 1946, and Governor Robertson said it seemed to him that national policy should include more than the goals now stated in that Act. In his view, one objective should be price stability. This did not mean that price stability would take preference over other stated objectives, but he felt it would be desirable if attention could be directed to the fact that this was one of the goals of economic policy.

The letters to Chairman Robertson and Chairman Dawson were then approved in a form reflecting the suggestion made previously by Governor Robertson, Governor Mills dissenting for the reason he had stated. Copies of the letters, in the form in which they were sent pursuant to the Board's action, are attached as Items 6 and 7.

Mr. Solomon, Director, Division of Examinations, joined the meeting during discussion of the foregoing item, and Mr. Robinson withdrew at its conclusion.

1960 Budget Performance Report. There had been distributed under date of February 3, 1961, copies of a review of budgetary performance during 1960. The review indicated that budgeted expenses of the Board for 1960 totaled \$7,035,618 and that actual expenses amounted to \$6,584,674, resulting in an underexpenditure of \$450,944. Of the underexpenditure,

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over half was in personal services, due principally to unfilled positions and the expenditure of only \$8,000 of a \$98,000 provision for a special contribution to the Retirement System because it had developed that funding would continue on a cost basis from year to year rather than on a permanent basis. The remaining \$214,200 of the underexpenditure was in nonpersonal services and was mainly attributable to lesser expenditures than budgeted for printing and binding, professional contractual services, and travel, and for two special projects.

Schedule B of the report listed all budget overexpenditures, including those approved by the Board and those approved by the Controller during the year. It also included overexpenditures not previously submitted for approval. With respect to these latter, it was recommended that acceptance of the report be considered approval thereof.

After Mr. Connell had summarized the report and responded to certain questions, the report was accepted without objection. This action constituted approval of the budget overexpenditures not previously submitted for approval.

All of the members of the staff except Mr. Sherman then withdrew from the meeting.

National Association of Supervisors of State Banks. Governor Balderston reported a visit to his office by Mr. Hollis Burt, Executive Director of the National Association of Supervisors of State Banks, who discussed the possibility of arranging a visit to the Board's offices by officers of the Association at the time they were meeting in Washington on March 14, 15, and 16, 1961.

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After consideration of the information reported by Governor Balderston and other aspects of the matter, it was understood that Mr. Burt would be advised that the Board would be glad to have the group visit the Federal Reserve Building on March 14 or 15 for a program that would include luncheon and discussion with the available members of the Board.

The meeting then adjourned.

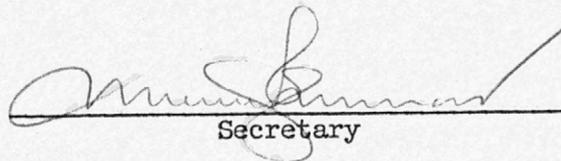
Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following items relating to the Board's staff:

Salary increase

Reed J. Irvine, Chief, Far Eastern Section, Division of International Finance, from \$12,210 to \$13,730 per annum, effective February 19, 1961.

Acceptance of resignation

Patricia J. Snell, Statistical Clerk, Division of Research and Statistics, effective at the close of business February 24, 1961.


Secretary

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

Item No. 1
2/14/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1961

Board of Directors,
Security State Bank,
Fredericksburg, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letter dated January 12, 1961, and resolution dated January 10, 1961, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas 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 institution may accomplish termination of its membership at any time within eight months from the date the 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 Dallas.

Attention is invited to the fact that if your bank is desirous of continuing deposit insurance after withdrawal from membership in the Federal Reserve System, it will be necessary that application be made to the Federal Deposit Insurance Corporation.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
2/14/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1961

The Honorable Erle Cocke, Chairman,
Federal Deposit Insurance Corporation,
Washington 25 D. C.

Dear Mr. Cocke:

Reference is made to your letter of January 31, 1961, concerning the application of The Citizens State Bank, Knox City, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 3
2/14/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1961



Mr. Geo. S. Leonard,
Acting Assistant Attorney General,
Civil Division,
United States Department of Justice,
Washington 25, D. C.

Attention: Mr. George F. Foley
GSL:RM 77-51-2529

Dear Mr. Leonard:

This is in response to your letter of February 1, 1961, with enclosures, relative to an Offer in Compromise of the claim against Wegematic Corporation. It is understood that the Defendant has offered, in full settlement of this action, the sum of \$55,000, \$7,000 to be paid upon the acceptance of the offer and the remainder in quarter-annual payments of \$6,000 commencing three months following the date of acceptance of the offer and continuing over a period of two years. Also, the Defendant would execute a form of consent judgment against it in the amount of \$55,000, the document to be held in escrow by the Office of the United States Attorney, in return for a stipulation that the judgment will not be submitted for signature and filing unless and until the Defendant without good cause shown, "of which the Government will be the judge", defaults in the fulfillment of the offer, without curing such default within 30 days. In the event of default the judgment would then be enforceable for any unpaid balance of the \$55,000.

You are advised that the Board of Governors would be agreeable to an acceptance of the Offer in Compromise with such minor modifications as the United States Attorney may consider necessary or desirable.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
2/14/61

OFFICE OF THE CHAIRMAN

February 14, 1961.

The Honorable A. Willis Robertson,
Chairman, Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request of February 6, 1961 for the Board's comments on S. 750--a bill "To assist areas to develop and maintain stable and diversified economies . . ."

As stated by Senator Dirksen when he introduced the bill, it is similar to S. 9. In the Board's earlier report on that bill, and S. 1 and S. 6, we indicated that we were sympathetic to the purpose of the proposed legislation and would hope that an appropriate bill might be enacted promptly.

We have nothing to add to the comments contained in our letter of January 16 on this subject, a copy of which is enclosed for convenient reference.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
2/14/61

OFFICE OF THE CHAIRMAN

February 14, 1961.

The Honorable William L. Dawson,
Chairman,
Committee on Government Operations,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of January 10, 1961, requesting a review of H.R. 960 and your letter of January 17, requesting a review of H.R. 1968. These bills are identical in wording and are the same as H.R. 5135 and H.R. 5197 which were introduced into the 2nd Session of the 86th Congress and which, at your request, were reviewed in my letter of June 8, 1960. A copy of this letter is enclosed.

While a capital budget has some attractive features, the uncertainties attaching to these proposals outlined in my letter of last year continue to be applicable. Budgetary problems will not be solved by modifying the system of governmental accounting. It is even conceivable that focus on the technical accounting aspects of budgets might diminish attention to the fundamental economic problems.

For this reason and for other reasons spelled out more fully in my letter of last year the Board does not believe that adoption of the proposed budgetary system would serve a constructive purpose at this time.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
2/14/61

OFFICE OF THE CHAIRMAN

February 14, 1961.

The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your request of January 23 for a report on S. 144, a bill "To amend the Employment Act of 1946 to make the maintenance of a reasonably stable price level an explicit aim of Federal economic policy."

The Board has several times expressed its opinion that such an amendment to the Employment Act of 1946 would serve a useful purpose in focusing attention here and abroad on the importance of price stability as a goal of national economic policy. The present act implicitly includes price stability as a goal of national economic policy, but the adoption of such an amendment would be helpful at the present time in making this one of the explicit goals of national policy.

Sincerely yours,

A handwritten signature in cursive script, reading "Wm. McC. Martin, Jr.".

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
2/14/61

OFFICE OF THE CHAIRMAN

February 14, 1961.

The Honorable William L. Dawson, Chairman,
Committee on Government Operations,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your request for comments on H.R. 2064, a bill "To amend the Employment Act of 1946 to emphasize the policy of promoting employment under stable prices." It also is in reply to your request for a report on H. J. Res. 83, "To amend the Employment Act of 1946 to provide that a continuing policy and responsibility of the Federal Government is to promote reasonable stability of the level of consumer prices."

The Board has several times expressed its opinion that such an amendment to the Employment Act of 1946 would serve a useful purpose in focusing attention here and abroad on the importance of price stability as a goal of national economic policy. The present act implicitly includes price stability as a goal of national economic policy, but the adoption of such an amendment would be helpful at the present time in making this one of the explicit goals of national policy.

With regard to H. J. Res. 83, the Board would suggest a technical change in the amendment. The amendment would be more workable if it stated the goal broadly in terms of reasonable stability of prices or of the general price level instead of in terms of consumer prices. Consumer prices, especially as measured by the available indexes, often lag behind changes in wholesale prices and, hence, may continue to register inflationary tendencies for a considerable period after these tendencies have begun to disappear. Similarly, they may fail to register strong inflationary pressures as soon as such pressures appear in the market and thus handicap efforts to deal with them. For other technical reasons, also, consumer price indexes may be undesirable as a single standard for policy action, although they are clearly one of the measures to be considered in determining policies to be used to counter inflationary or deflationary forces.

Sincerely yours,

Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.