FR 609
Rev. 10/59

Minutes for May 15, 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 Monday, May 15, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Shay, Legislative Counsel
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. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hooff, Assistant General Counsel
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Sammons, Adviser, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations

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

	Item No.
Letter to the Comptroller of the Currency recommending that action on an application to organize a national bank in the Lake Shore area, Duval County, Florida, be deferred pending a final decision as to the establishment of Lake Shore Atlantic Bank.	1

	Item No.
Letter to Farmers and Merchants Bank, Huron, South Dakota, approving an extension of time to establish a branch at Hitchcock.	2
Letter to the Federal Reserve Bank of St. Louis approving a revision of the salary structure at each of the Bank's offices.	3

Report on competitive factors (Winchester, Kentucky). There had been distributed copies of a report to the Federal Deposit Insurance Corporation on the competitive factors involved in a proposed merger of the Commercial Bank and the Peoples State Bank and Trust Company, both of Winchester, Kentucky.

The report, which contained the following conclusion, was approved unanimously:

> The proposed merger of Commercial Bank, Winchester, Kentucky, with Peoples State Bank and Trust Company, Winchester, Kentucky, could stimulate competition in Winchester. It would eliminate little competition, as little exists between these two commonly owned institutions.

Mr. Hooff then withdrew and Mr. Thomas, Adviser to the Board, entered the room.

Request of Marine Midland for oral presentation. On March 27, 1961, the Board disapproved the proposed merger of First National Bank and Trust Company of Ithaca, Ithaca, New York, into the Marine Midland Trust Company of Southern New York, Elmira, New York. By letter dated April 17, 1961, the participating banks submitted additional information, requested reconsideration of the proposal, and requested an opportunity to make an oral presentation before the Board. The matter was discussed at the Board meeting on May 4, 1961, but action was deferred in order to check on whether Chairman Martin had mentioned to the Board at some point a conversation with representatives of the participating banks or other parties that would be pertinent to the decision. However, a subsequent review by the Secretary of the Board failed to disclose any reference in the minutes or related records to a report on such a conversation.

Chairman Martin stated that he did not recall having had any conversation that would be relevant to the Board's consideration of the request, nor did a review of his records disclose any notation of such a conversation.

At the Chairman's suggestion, it was then agreed to defer further consideration of the request for oral presentation.

H.R. 6900. At the Board meeting on May 11, 1961, there was preliminary discussion of H.R. 6900, a bill introduced by Congressman Multer that would eliminate the gold reserve requirements against Federal Reserve Bank note and deposit liabilities and also would remove the ceiling on rates of interest payable by American banks on time deposits of foreign governments and central banks. In view of a request that Chairman Martin testify on this bill before a Subcommittee of the House Banking and Currency Committee on Thursday, May 18, a draft of possible statement for use in that connection had been distributed to the members of the Board. The position taken in the proposed statement was favorable to enactment of the bill.

Governor Mills commented that if the approach taken in the proposed statement should be adopted by the Board, he hoped the statement would be amended so as not to indicate that the Board favored, without any dissent, the enactment of this legislation. In explanation of his own position, Governor Mills then read the following statement:

> In my opinion, the provisions of H.R. 6900 relating to the elimination of the gold reserve requirements behind the outstanding Federal Reserve notes and deposits of the Federal Reserve Banks are unsound and should be opposed both within and without the Federal Reserve System. In setting out the objections to the proposed legislation, attention must be paid to the purposes for which the existing legislation stands and a careful distinction made between those purposes and the fallacy of ignoring their contribution to the principles of sound money with the aim of creating a panacea to the unrelated United States balance of payments problem.
>
> The existing statutory gold reserve requirements were intended to and do act as a disciplinary control over the conduct of monetary and credit policies by setting up a legislative barrier against the overexpansion of credit, which can only be breached in an emergency by temporary suspensions of the law. Public notice of such suspensions would, in turn, focus attention on the need for corrective policies and rally public opinion in their support. The heavy and increasing burden of public and private debt that is superimposed on our national gold reserves is eloquent testimony of the necessity for retaining statutory safeguards against the overexpansion of credit and not relying solely upon the vagaries of human judgments susceptible to theoretical considerations and exposed to the pressures of political exigencies to preserve the qualities of a sound dollar that will inspire confidence, both at home and abroad. For these reasons alone the proposed amendment to the Federal Reserve Act should be rejected by the Congress.
>
> To urge passage of the bill on the grounds that international confidence in the United States dollar would be strengthened by knowledge that this country's entire gold reserves stood freely behind our determination against its devaluation, is unsound. The

fact that the outflow of gold from the United States has been stemmed, and that the time is therefore propitious to eliminate the statutory gold reserve requirements because foreign observers would regard such action as being in the interest of international financial solidarity, and not as a sign of weakness, are not valid arguments for the measure. On the contrary, it is the more likely that foreigners would look at elimination of the gold reserve requirements as a surrender of monetary prudence to the unfettered hands of those responsible for the administration of monetary and credit policy in the United States. Statutory adoption of a purely managed money in the United States through enactment of the proposed bill would, in all probability, shake confidence in the United States dollar as the key currency in the international exchanges and prompt the renewal of a further outflow of gold from this country. The balance of payments problems of the United States should be resolved in the rightful sphere of appropriate restraints over our foreign aid programs, guidance to the flow of capital into investments abroad, and international cooperation in distributing the burden of aid to underdeveloped countries.

The reasons for which the statutory gold reserve requirements were enacted stand for good legislation, and tinkering with what amounts to the soundness of the dollar should be resolutely opposed by the Federal Reserve System.

In the discussion that ensued, Chairman Martin commented that he had not yet had an opportunity to become thoroughly conversant on all aspects of the matter. He indicated, however, that in his judgment the timing of the legislative proposal to eliminate the gold cover was inappropriate. At the same time, he found it difficult to take issue with the provisions of the bill on purely technical grounds. With respect to the draft statement that had been distributed, Chairman Martin referred to several places at which he would suggest that the tone of the document be modified. He agreed with the comment by Governor Mills that the statement should include some reference to the existence of a difference of opinion.

Chairman Martin then commented further on the reasons for his view that the timing of the proposed legislation was inappropriate, and on the results that might flow from extended debate concerning the proposal. Among other things, he pointed out that if such debate occurred and the proposal were defeated, the net effect might be simply to emphasize the limitations of the current statutory requirements. After making certain general observations in the light of impressions gained during his trip to Europe, from which he returned late last week, the Chairman stated that he would like to give further study to the bill, recognizing that according to the current schedule it would be necessary to be ready to testify before the Subcommittee on Thursday. In the circumstances, he suggested that work go forward on a revised draft of statement in the light of such suggestions as might be transmitted to the staff, including the suggestions that he had just made.

The Chairman also noted that a meeting of the Board with the Federal Advisory Council was to be held tomorrow, and there was agreement with his suggestion that the views of the Council be requested.

Chairman Martin then turned to Governor Balderston, who commented with regard to developments subsequent to the introduction of the bill on May 9. Governor Balderston went on to say that although this might not be a proposal that the Federal Reserve would have chosen to initiate at this time, nevertheless hearings on the bill had been scheduled and the Board would have to take a position. If hearings were held, it seemed desirable to him that the debate be as brief as possible in view of the unfortunate results that might emanate from prolonged discussion.

Governor Robertson stated that, like the Chairman, he was concerned about the timing of the proposal. On the other hand, he doubted whether there would ever be a time that would be entirely satisfactory. His own position was generally in accord with that expressed in the draft statement, although he would not object to revisions of the kind that the Chairman had suggested. Basically, as he saw it, the view that the present gold reserve requirements were needed as a support for monetary policy was fallacious; a managed currency actually had been in existence for some time and the gold reserve requirements were not necessary. It might have been preferable to take the proposed step at some time in the future when there would be less danger of an adverse psychological impact. However, in the present circumstances he considered it advisable to stress the position that prudence could be exercised in respect to monetary affairs without the existence of the current statutory provisions. He also made the comment that if these requirements continued in effect and circumstances should develop in which it became necessary to suspend them or to change the law, that combination of events would in his view be undesirable.

As to the provisions of the bill relating to interest on time deposits of foreign governments and central banks, Governor Robertson noted that he had heretofore expressed himself adversely with respect to such legislation.

Governor Shepardson commented that from a technical standpoint he felt the draft statement could be justified. However, he would concur in modifications along the lines suggested by Chairman Martin. The essential factor, he pointed out, was whether or not the country wanted to face up to the fundamental problem of protecting the dollar. This involved considerations entirely separate from the maintenance of the gold reserve requirements, which were merely a symbol.

There followed a general discussion which touched upon the value that might be ascribed to symbols such as the gold cover, along with the manner in which the Board's position might most appropriately be expressed in testimony on the proposed legislation.

During this discussion Governor King noted that he had expressed himself on the matter at the May 11 meeting. He went on to say that although he placed little reliance in symbols, he realized that many people were inclined to do so. As he saw it, the existence of such symbols had a tendency to build up a false sense of values; they encouraged the public to believe that all was well even if it was not. Thus, their preservation, if it led to a false sense of security, might not serve the best interests of the country.

Governor Balderston also made certain comments additional to those he had expressed previously. These comments were to the general effect that inasmuch as the Multer bill had been introduced, perhaps the most constructive posture that the Federal Reserve could adopt would be to emphasize that the ultimate safeguard to the currency was prudence in the handling of monetary and fiscal affairs. He felt there was a question whether this was the most advantageous occasion for the Federal Reserve to take a strong stand. Like Governor Robertson, he was uncertain whether this would prove to be a reasonably good time for enactment of the proposed legislation or whether the timing would prove decidedly disadvantageous.

There followed further discussion bearing upon the form and tenor of the statement to be presented, and it was indicated that a number of suggestions had been or would be transmitted direct to the members of the staff engaged in the preparation of a revised draft. Accordingly, it was understood that a revised draft would be made available for the Board's consideration on Wednesday, May 17.

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

Request for services of Mr. Bangs. Governor Shepardson reported that a request had been received from the International Cooperation Administration for the services of Robert B. Bangs, Senior Economist in the Division of Research and Statistics, for a period of not to exceed 90 days. Under the terms of this request, Mr. Bangs would serve as an adviser to the United States Operations Mission in Costa Rica, effective on the beginning date of the detail. The Board would be reimbursed by the International Cooperation Administration for Mr. Bangs' salary at the present annual rate of $14,380, and likewise for contributions made by the Board on Mr. Bangs' behalf to the Civil Service Retirement System, the Federal employees' group life insurance program, and the Federal employees' health benefits insurance program during the period of Mr. Bangs' assignment.

After discussion, it was understood that Governor Shepardson would approve the request on behalf of the Board.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Administrative Services, Governor Shepardson today approved on behalf of the Board an increase in the basic annual salary of Edward Cross, Photographer (Offset) in that Division, from $5,741 to $5,970, effective May 15, 1961.

Kenneth A. Kenyon
Assistant Secretary

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

Item No. 1
5/15/61

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

May 15, 1961

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention: Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated January 19, 1961, enclosing copies of an application to organize a national bank in the Lake Shore area, Duval County, Florida, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that earnings prospects are favorable, management acceptable, and that a fair degree of need exists for a bank in the area. The proposed capital structure appears somewhat low in relation to the volume of business possible, and it would seem that capital of not less than $500,000 should be provided.

The Florida State Banking Department on March 10, 1961, granted Lake Shore Atlantic Bank a charter. This application had been on file with the State Department since June 27, 1955, and the proposed bank is to be located about 1-1/2 miles south of the proposed Florida National Bank of Lake Shore. The State charter was granted provided the bank obtained Federal deposit insurance and the Board of Governors granted permission for Atlantic Trust Company, a registered bank holding company, to purchase stock in the bank.

In view of the circumstances involving Lake Shore Atlantic Bank and since it appears possible there is need for only one bank in the area, the Board of Governors recommends that action on the application for a charter for a national bank in the Lake Shore area, Duval County, Florida, should be deferred until such time as final decisions have been made regarding the Lake Shore Atlantic Bank.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

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
5/15/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1961

Board of Directors,
Farmers and Merchants Bank,
Huron, South Dakota.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Minneapolis, the Board of Governors of the Federal Reserve System extends until December 7, 1961, the time within which Farmers and Merchants Bank, Huron, South Dakota, may establish a branch at Hitchcock, South Dakota, under the authorization contained in the Board's letter of December 7, 1960.

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
5/15/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1961

CONFIDENTIAL (FR)

Mr. Delos C. Johns, President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Johns:

Reference is made to Mr. Francis' letter of April 13, 1961 in which your Bank requested approval of upward adjustments in salary structures at each of your offices.

The Board approves the following minimum and maximum salaries for the respective grades at the various offices in your District, effective July 1, 1961.

Grade	St. Louis		Little Rock		Louisville		Memphis	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
1	$ 2,280	$ 3,060	$2,100	$ 2,820	$2,160	$ 2,880	$2,100	$ 2,820
2	2,640	3,540	2,220	2,940	2,460	3,300	2,220	2,940
3	2,760	3,720	2,340	3,180	2,640	3,540	2,340	3,180
4	3,000	4,080	2,580	3,480	2,880	3,840	2,640	3,600
5	3,300	4,440	2,880	3,900	3,180	4,260	3,000	4,080
6	3,600	4,860	3,180	4,300	3,480	4,700	3,300	4,500
7	3,960	5,340	3,540	4,800	3,840	5,200	3,720	5,040
8	4,380	5,880	3,960	5,300	4,260	5,720	4,140	5,580
9	4,800	6,500	4,380	5,880	4,680	6,300	4,560	6,180
10	5,400	7,260	4,800	6,500	5,100	6,900	5,040	6,800
11	6,000	8,100	5,340	7,200	5,640	7,600	5,580	7,500
12	6,660	9,000	5,940	8,000	6,200	8,400	6,180	8,340
13	7,400	10,000	6,600	8,940	6,960	9,400	6,900	9,300
14	8,260	11,100	7,440	10,080	7,800	10,500	7,700	10,400
15	9,200	12,400	8,400	11,340	8,760	11,820	8,600	11,640
16	10,240	13,800	9,400	12,700	9,800	13,200	9,600	13,000

The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their respective grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than October 1, 1961.

It is noted that while no explicit provision was made in the budget to cover increased expenses arising in these salary structures, you anticipate total salaries paid for the year 1961 will approximate budget provisions.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.