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Minutes for November 1, 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 WM

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, November 1, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
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. Furth, Adviser, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Spencer, General Assistant, Office of the Secretary

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 Federal Reserve Bank of New York waiving the assessment of a penalty incurred by Eastern National Bank of Long Island, Smithtown, New York, because of a deficiency in its required reserves.	1
Letter to the Federal Reserve Bank of New York waiving the assessment of a penalty incurred by Sullivan County National Bank of Liberty, Liberty, New York, because of a deficiency in its required reserves.	2

Item No.

Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving an extension of time in which to establish a branch in Raleigh. 3

Letter to Minden Bank & Trust Company, Minden, Louisiana, approving an extension of time to establish a branch in Sarepta. 4

With respect to Items 1 and 2, it was understood, in light of a question raised by Governor King, that the staff would prepare for the Board's information data relating to the extent to which penalties incurred on account of reserve deficiencies had been waived by the Federal Reserve Banks.

Report on competitive factors (Burlington-Pemberton, New Jersey). A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of The Peoples National Bank and Trust Company of Pemberton, Pemberton, New Jersey, and Mechanics National Bank of Burlington, Burlington, New Jersey, had been distributed with a memorandum from the Division of Examinations dated October 27, 1961.

Following a brief discussion, the report was approved unanimously for transmittal to the Comptroller in a form in which the conclusion read as follows:

> While these two banks are not strong competitors, there does exist a degree of competition which would be eliminated by the proposed consolidation. The continuing bank's service area would be enlarged and probably competition in the Mount Holly area would be stimulated. Following the proposed consolidation the other commercial bank in Burlington would be competing with a bank approximately three times its size rather than one about twice as large. It does not appear that the proposal would have serious consequences on the smaller banks in the county.

Mr. Young, Adviser to the Board and Director, Division of International Finance, and Miss Dingle, Chief, Consumer Credit and Finances Section, Division of Research and Statistics, joined the meeting at this point.

Consumer finances. There had been distributed a memorandum from the Division of Research and Statistics dated October 25, 1961, regarding proposed projects in the consumer financial survey area for 1962. The memorandum noted that since 1959, when the Board discontinued support of the Survey of Consumer Finances, the staff had devoted its time to methodological research designed to develop means of overcoming certain shortcomings of the Survey as a vehicle for collecting financial information. On the basis of the studies carried out, it was believed that a survey could be designed that would collect a substantial amount of financial information not previously available, or available only with high sampling variability. The memorandum stated reasons why it would appear desirable, however, that such a survey be postponed until the spring of 1963. As to further planning, to be done in 1962, it was estimated that costs of drawing a special sample to meet the needs of the survey would be approximately $50,000. Other costs involved in working out the questionnaires to be used, pretesting them, and working out processing plans might run as high as $40,000, thus bringing sampling and planning costs for the year 1962 to $90,000. In addition, it was estimated that costs involved in investigating the feasibility of expanding the high-income part of the sample might run to $25,000.

Further expenditures proposed for 1962 were as follows:

Investigation of the feasibility of drawing a survey sample on the basis of tax returns, without the use of data from the Census of Population, and relating this sample to the household population.	Up to $10,000
Purchase of data collected by the Survey Research Center, University of Michigan, in the annual surveys of consumer finances and the periodic surveys of consumer attitudes and intentions.	Up to 10,000
Support of the Quarterly Survey of Consumer Buying Intentions for two quarters in 1962, pending Congressional action on the appropriation of funds to the Bureau of the Census for conducting the survey in fiscal 1963. (Approved by the Board on October 20, 1961)	65,000
Subscription to the service of Sindlinger & Company. (Approved by the Board on October 20, 1961)	5,000

Thus, maximum expenditures in the consumer survey area in 1962 would amount to $205,000. Expenditures in the same area thus far in 1961 had amounted to $181,000.

Following comments on the proposed program by Mr. Noyes and Miss Dingle, explanatory remarks were made by them in response to a number of questions raised by members of the Board. In the course of his remarks, Mr. Noyes pointed out particularly that although the Board was not being asked at this time to commit itself to the making of the proposed consumer financial survey in 1963, recommended expenditures of up to $90,000 in 1962 were directly related to planning of that survey. Other points covered in reply to questions included the characteristics of the proposed 1963 survey; the distinctions between the types of information to be obtained from that survey and from other data sources described in the memorandum, such as the surveys of consumer buying intentions; the defects found in the Consumer Finances Surveys that were discontinued by the Board after 1959; and the types of methodological research that had been conducted in contemplation of the 1963 survey.

The proposed program for 1962, as described in the memorandum of October 25 from the Division of Research and Statistics, was then approved unanimously.

Miss Dingle withdrew from the meeting at this point.

Proposed silver legislation (Item No. 5). In a letter dated October 10, 1961, the Bureau of the Budget requested not later than November 1, 1961, the views of the Board with respect to proposed silver legislation, including (1) repeal of the Silver Purchase Act of 1954 and the Act of July 31, 1946; (2) authorization for the Federal Reserve System to issue Federal Reserve notes in denominations of less than $5, thus providing a means, when and if appropriate, for replacing or supplementing the supply of silver certificates; and (3) repeal of the special 50 per cent tax on profits on transfers of interests in silver, so as to permit the development of a futures market in silver.

A memorandum from the Division of International Finance dated October 17, 1961, which had been circulated to the Board, noted that in the past the Board had taken the position that it had no special interest, from the point of view of monetary policy, in either the repeal or the continuance of existing silver legislation. The Board had also taken the position that replacement of silver certificates by Federal Reserve notes would be a desirable step toward currency simplification, provided the transition could take place so gradually as to minimize the effect of the resulting increase in required gold certificate reserves and the corresponding reduction in the amount of gold freely available for the settlement of international transactions. There seemed to be no reason for the Board to object to the repeal of the special tax on profits on silver transactions. Submitted with the memorandum was a draft of letter to the Budget Bureau embodying recommendations in accordance with these positions.

Subsequently, at the suggestion of Governor Balderston, there were distributed two revised drafts of reply. The second revised draft, distributed under date of October 31, was phrased in terms that from the standpoint of monetary policy the Board believed there was no longer any need for silver to play a role in the U. S. monetary system other than that of a material for coinage and that consequently there was no longer any need for legislation compelling the Treasury to make purchases in excess of the requirements for coinage. Accordingly, the Board would not object to the repeal of existing silver purchase legislation.

A memorandum from Governor Mills, dated October 25, 1961, also had been distributed. In this memorandum, Governor Mills suggested that the Board delay a response to the Budget Bureau until the Treasury Department had completed a report and analysis understood to be in preparation with respect to the entire silver problem, the thought being that a study of the contents of the report could be essential to reaching a mature opinion on the silver question. Governor Mills also stated several reasons why, as matters now stood, he would be averse to a reply to the Bureau along the lines that had been suggested. The reasons were stated as follows:

1. Any response at this time is apt to collide either with the conflicting views of silver producers or silver users whose opinions must be weighed and taken into account in any Board position.

2. For the Board to countenance the replacement of all silver certificates by Federal Reserve notes would in effect tend to backtrack from the position taken by the Board earlier this year that the present statutory requirement providing for a gold reserve against Federal Reserve Bank deposits and notes should be maintained. The draft letter would weaken the Board's position in that regard, which position I strongly believe is a correct one.

3. Although there is merit in the idea of currency simplification, in my opinion legislation that would do away with silver as the metallic base for some familiar kinds of United States currency and at the same time would dilute the gold reserve held against Federal Reserve notes, could be harmful under present circumstances of widespread discussion of the soundness of different international currencies, including the United States dollar.

4. If consideration were given for legislation authorizing a free market in silver, it could be logically deduced that a free market for gold should also be established. To the best of my knowledge, the manifold objections to a free market in gold have been thoroughly explored and in my opinion the Federal Reserve Board should not recommend even a rather remote step that would revive this issue.

In commenting on the matter, Mr. Furth noted that the reply to the Budget Bureau had been drafted in its original form with the intention of conforming to positions that the Board had taken on silver legislation at times in the past. It was true, however, that there had been certain changes in the situation that might cause the Board to want to consider a modification of its position, perhaps along the lines stated in the revised draft that had most recently been distributed. First, the supply of free silver in the Treasury seemed to be running out; there was some possibility that unless the Treasury's pledged silver was to some extent made available to the economy, there might be price repercussions. Second, the Treasury reportedly had decided to recommend the elimination of silver from the monetary system except for minor coins.

Turning to the points raised by Governor Mills in the latter's memorandum, Mr. Furth said, with respect to the first point, that this was why the proposed reply to the Budget Bureau would indicate that it was only from the point of view of monetary policy, and not from the point of view of the interests of silver producers or users, that the Board was expressing no objection to the repeal of existing silver legislation. As to the second point, Mr. Furth commented that no major country except the United States has any silver reserve requirement. This country's limited silver reserve requirement was generally considered abroad as an anachronism, and its elimination therefore would not have the psychological repercussions that might attach to an elimination of the gold cover. On the third point, Mr. Furth noted that it was the staff recommendation that the replacement of silver certificates by

Federal Reserve notes should take place only so gradually as to minimize the effect on the statutory minimum gold certificate reserve. As to the fourth point, Mr. Furth suggested that perhaps it did not take sufficiently into account the difference between the positions of silver and gold; there was at present no prohibition against trading in silver, whereas no private person could hold or trade monetary gold.

In reply to a question regarding the Treasury study mentioned in Governor Mills' memorandum, Mr. Furth said he understood a Treasury representative had informed Governor Balderston that the Treasury, having conducted such a study, was going to come out clearly in favor of the repeal of existing silver purchase legislation.

After a general discussion of the terms and effect of the existing legislation, Governor Mills said the basis of his concern was that a very sensitive subject was involved. If the Board could arrange to defer a reply to the Budget Bureau, perhaps the whole picture would in the meantime become better developed. Further, if silver legislation reflecting the Treasury study should be introduced and if hearings should be held, no doubt the Board's opinions would be requested. At such time, the Board could conceivably have reached a different position, but it might find itself confronted with the position previously expressed to the Budget Bureau. As to the demonetization of silver, Governor Mills felt that this could raise questions, both domestically and abroad, as to the intentions of the American Government, at a time when there was already much talk about the Federal budget and the position of the dollar on the international exchanges. Referring to the conflicting views of the producers and users of silver, Governor Mills raised the question whether there was anyone at the meeting who felt that he could go before the Congress and present an informed judgment on all of the facets of the problem.

Chairman Martin then made certain comments in which he said it seemed clear to him, and had seemed clear when he was with the Treasury Department a number of years ago, that the silver purchase legislation should be repealed at the first opportunity. For political reasons, repeal had not been pushed, but the logic of the matter was along the lines indicated in the proposed letter to the Budget Bureau.

There followed comments by Mr. Shay regarding silver legislation introduced in the Congress in recent years and regarding the position the Board had expressed when called upon in the past for an expression of its views. The Secretary stated, in reply to a question about the urgency of a reply to the Budget Bureau, that a telephone call had been received yesterday from a Bureau representative, who advised that the Bureau would be glad to have a reply to its letter.

Consideration then was given to the specific language of the most recently distributed draft of reply to the Budget Bureau, and a number of suggestions were made for changes in various respects. After these suggestions had been discussed, approval was given to a letter in the form attached as Item No. 5, Governor Mills dissenting for the reasons he had stated.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the recommendation contained in a memorandum from the Office of the Secretary dated October 26, 1961, that a luncheon and a conference in the Board Room be arranged for the annual visit of the Executive Committees of the National and State Bank Divisions of the American Bankers Association on Monday, December 4.

Secretary

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

Item No. 1
11/1/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 1, 1961

Mr. D. C. Niles, Manager,
Accounting Department,
Federal Reserve Bank of New York,
New York 45, N. Y.

Dear Mr. Niles:

This refers to your letter of October 18, regarding a penalty of $53.89 incurred by the Eastern National Bank of Long Island, Smithtown, New York, on a deficiency of 5.2 per cent in its required reserves for the computation period ended October 4, 1961.

It is noted that the deficiency resulted from the failure of the member bank to make an intended request on its correspondent to transfer $100,000 to the Federal Reserve Bank although it had taken this amount into consideration in calculating its reserves held at the Reserve Bank, and that the bank has had only two minor deficiencies since it opened for business on January 12, 1956.

In the circumstances, and in view of your recommendation, the Board authorizes your Bank to waive the assessment of the penalty of $53.89 for the period ended October 4, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
11/1/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 1, 1961

Mr. D. C. Niles, Manager,
Accounting Department,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Niles:

This refers to your letter of October 13, regarding a penalty of $78.63 incurred by the Sullivan County National Bank of Liberty, Liberty, New York, on a deficiency of 2.8 per cent in its required reserves for the computation period ended September 20, 1961.

It is noted that the deficiency resulted from a delay of five days by the subject bank's correspondent, the newly merged Manufacturers Hanover Trust Company, in effecting a transfer of $400,000 to your Bank; the bank takes great pride in maintaining an adequate reserve position; and the bank has had an excellent reserve record, with only one deficient reserve penalty in the last ten years.

In the circumstances, and in view of your recommendation, the Board authorizes your Bank to waive the assessment of the penalty of $78.63 for the period ended September 20, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
11/1/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 1, 1961

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to May 9, 1962, the time within which Wachovia Bank and Trust Company may, under the authority granted in the Board's letter of November 8, 1960, establish a branch in the North Hills Shopping Center, Raleigh, North Carolina.

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. 4
11/1/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 1, 1961

Board of Directors,
Minden Bank & Trust Company,
Minden, Louisiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors of the Federal Reserve System extends to January 15, 1962, the time within which Minden Bank & Trust Company, Minden, Louisiana, may, under the authority granted in the Board's letter of January 17, 1961, establish a branch in Sarepta, Louisiana.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 5
11/1/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 1, 1961

Mr. Wilfred H. Rommel,
Acting Assistant Director
for Legislative Reference,
Executive Office of the President,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Rommel:

This is in answer to your letter of October 10, 1961, in which you request the recommendation of the Board of Governors with respect to proposed silver legislation.

1. From the standpoint of monetary policy, the Board believes that there is no need for silver to play a role in the U. S. monetary system other than that of a material for coinage and that there is consequently no need for legislation compelling the Treasury to make silver purchases in excess of requirements for coinage. Accordingly, the Board would not object to the repeal of existing silver purchase legislation.

2. Authorization for the issuance of Federal Reserve notes in denominations of less than \$5 so as to make it possible, when and if appropriate, to replace or supplement the supply of silver certificates, would in itself be a desirable step toward currency simplification. Replacement of all silver certificates by Federal Reserve notes would, however, involve a net increase of about \$500 million in the statutory minimum gold certificate reserve to be maintained against these notes, and this would correspondingly reduce the amount of gold freely available for settlement of international transactions. For these reasons, the Board would favor the proposed authorization, provided the replacement of silver certificates by Federal Reserve notes would take place so gradually as to minimize its effect on the statutory minimum gold certificate reserve.

3. The Board would not object to the repeal of the special tax on profits on silver transactions.

Very truly yours,

Merritt Sherman,
Secretary.