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Minutes for November 27, 1962

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. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

M

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, November 27, 1962. 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. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
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. Leavitt, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on November 26, 1962, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Report on competitive factors (LaPorte-Union Mills, Indiana). Copies had been distributed of a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in a proposed merger of LaPorte Bank and Trust Company, LaPorte, Indiana, with Union State Bank, Union Mills, Indiana.

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Without objection, the report was approved for transmission to the Federal Deposit Insurance Corporation in a form containing the following conclusion:

Little competition exists between these two closely related banks. The resulting bank would rank sixth among the seven banks now serving the area. The over-all effect of the proposed merger would not be adverse.

Proposed letter to President of National Retail Merchants Association re department store reports (Item No. 1). There had been distributed under date of November 26, 1962, a draft of letter to President H. H. Bennett of the National Retail Merchants Association setting forth conclusions regarding the Federal Reserve's department store reporting system, with particular reference to the recommendations of the Committee of Five as set forth in its report dated February 27, 1962. There had also been distributed a proposed letter to Chairman Fulton of the Conference of Presidents that would transmit a copy of the draft of letter to Mr. Bennett, with indication that copies were being sent to all Reserve Bank Presidents for consideration at the meeting of the Presidents' Conference on December 3, 1962. The Committee of Five report had recommended:

1. Initiation of a new national departmental report of department store sales, by a more limited number of lines than the present report, to be compiled by the Federal Reserve.
2. Initiation by the Bureau of the Budget and the Bureau of the Census of plans for a new merchandise line series for all retail trade.

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According to the proposed letter to Mr. Bennett, the conclusions of the Federal Reserve System regarding its department store reporting program would be stated as follows:

(1) Present weekly and monthly total store sales reports, prepared by city, Federal Reserve district, and for the nation, could be useful to a variety of groups if they were on a reliable statistical basis. However, serious deficiencies existed in the data for many localities and, unless substantial maintenance and improvement work was done soon, many of these series would have to be discontinued. Necessary maintenance work could be undertaken by the Federal Reserve only if there was some assurance that the department store trade outlets concerned generally would support such a program.

(2) The present departmental sales and stocks reports prepared by several of the Reserve Banks had such major statistical deficiencies that their continuation was not justified. The reports now prepared were of virtually no value to the Federal Reserve System for purposes of economic analysis, and the System did not feel warranted in continuing reports in this detail for the use of reporting stores, particularly in view of the statistical defects. Therefore, it was felt that the System must discontinue these reports, and as a tentative date it would have in mind doing so after completing compilations for the fiscal year ending January 31, 1963.

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(3) The Federal Reserve was willing to undertake the establishment of a national departmental report of sales only, covering 25 departments, to be collected from a fully representative sample of department store type outlets, as described in more detail in an attachment to the February 27 report of the Committee of Five, provided there was an indication that a representative sample of the trade would furnish the data in the form needed.

The letter to Mr. Bennett would also comment, with respect to the recommendation of the Committee of Five that the Bureau of the Budget and the Bureau of the Census initiate plans for a new merchandise line series for all retail trade, that from the standpoint of economic analysis data of this type seemed to offer the best prospect for obtaining needed information on consumer takings by merchandise lines. Such reports would appear to provide individual stores with a valuable basis for comparing their sales position, either in the aggregate or by commodity classification, and the System would favor their development in accordance with a program that might be worked out by the Bureau of the Budget and the Bureau of the Census.

In commenting on the letter proposed to be sent to Mr. Bennett, Mr. Sherman noted that the present draft represented a revision in certain rather important respects from the drafts of

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March 15 and April 23, 1962, the latter of which had been considered at the Board meeting on April 25, 1962. The lapse of time in itself explained and justified certain of the changes made, the most significant of which was to include a rather definite statement that the System would discontinue, tentatively after completing compilations for the fiscal year ending January 31, 1963, the present departmental sales and stocks reports. Aside from this statement of intent, which could be supported logically and represented the judgment and wishes of people in the System but which might create some unhappiness on the part of the department stores, he could see no real problem in the proposed letter. The sending of the draft letter to the Reserve Bank Presidents prior to their December 3 meeting would provide them an opportunity for discussion and comment before the letter went to Mr. Bennett. In Mr. Sherman's opinion, in its present form the letter would not be likely to create any feeling on the part of the two trade representatives on the Committee of Five that the System had broken faith with them.

In answer to an inquiry from Governor Robertson, Mr. Sherman said there was no question in the minds of people within the System or of Mr. Bowman of the Budget Bureau (a member of the Committee of Five) but that the present departmental sales and stocks reports were statistically unsatisfactory, or even

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indefensible. However, Messrs. Flanel and Eisenpreis, the two trade representatives on the Committee of Five, were not certain that these reports were without value to the department stores. Mr. Eisenpreis had expressed the thought recently that if the Federal Reserve would substitute a departmental sales report with about 50 breakdowns, that would meet a large part of the trade demands. In the judgment of Mr. Eisenpreis, there would be considerable unhappiness in the trade if the present departmental sales and stocks reports should be discontinued within the framework of the presently proposed program.

Governor Robertson inquired as to the course that would be contemplated in the event severe pressure was brought by the trade, and this inquiry led to a discussion during which Chairman Martin expressed the view that the proposed letter should not be sent if there was any thought of receding from the position expressed therein in the event of pressure.

Governor Balderston inquired how much consideration had been given to the possibility of a national sales report containing 50, rather than 25, departmental breakdowns, and Mr. Noyes indicated that this increase would not make too much difference as far as the Federal Reserve was concerned. There would not be a great deal more compilation work involved. However, this was really not the issue; the issue was the chain stores. There was

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no assurance that the chain stores would be willing to supply figures for a report based on 25 departments, much less 50.

Chairman Martin then inquired whether it was agreed, without question, that the present statistics were deficient, to which Mr. Sherman replied that the so-called long departmental report on sales and stocks was conceded to be deficient from the standpoint of statistical reliability. The Chairman asked whether it could be said that the report was of no statistical value, in fact might actually be misleading. To this question, Mr. Noyes responded that the report could be regarded as of virtually no value. If a person had lived with the statistics for a long time and was aware of the nature of the deficiencies, the statistics might be of some little value to him. It was something in the nature of compiling banking statistics on the basis of a half dozen or so large banks throughout the country. Discount houses were not included; the series included by and large the traditional department stores only.

Chairman Martin then commented that it was his feeling that the question of these statistics had been discussed by the Federal Reserve long enough. If the Board was convinced that the statistics were indefensible, he felt that it should not delay longer. It should face up to whatever ill feeling might be generated within the trade.

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Governor Mitchell commented that there appeared to be some trading value for the System in the proposed letter to Mr. Bennett from the fact that the letter mentioned the possible initiation of a new national departmental report of department store sales, but did not mention similar reports on a local basis. It was likely, he said, that reaction by the trade to this proposal would take one of two forms. On the one hand, department stores presently reporting might say that in the absence of local departmental sales and stocks reports on the present basis they would not report on any basis; on the other hand, since the same department stores wanted a local departmental report, they might go along with the proposed new national departmental if they could have in return a 25-item local departmental sales report for example. Governor Mitchell pointed out that given a Federal Reserve commitment to produce a national departmental sales series, it should not be too difficult a statistical problem to produce a local departmental report should there be a demand in the trade for it. He called attention to the fact that the draft letter to Mr. Bennett did not take a position on this question one way or the other.

After commenting on the problems that had been encountered in compiling satisfactory local data and the possibilities of effecting improvement, Governor Mitchell said that personally he

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would not object to the System's providing a 25-item department store sales report on a local basis if the cooperation of the trade could be secured.

Governor Shepardson expressed the view that the significant question related to the apparent lack of statistical validity of the data currently being collected, which seemed due largely to non-participation by certain elements of the trade. If the statistics were desired by the trade, he felt it was up to the trade to obtain the necessary participation.

There followed comments on the lack of cohesiveness within the trade that militated against obtaining full participation, after which Governor Balderston made a statement in which he referred to the long history of the department store reporting program, the circumstances under which it was initiated, the relationships that had been built up between the Federal Reserve and the trade, the position taken by the Board some two or three years ago, and the views expressed by representatives of the trade when they met with the Board. The System, he noted, was in the position of losing the support of a group with which it had worked closely over the years. However, steps had been taken that seemed appropriate. The Committee of Five had been established and had worked hard on the matter. The time had now come, in his opinion, to inform the trade that on the basis of quality considerations

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the System could not continue with something that lacked statistical validity. (Governor Balderston later clarified that in making this comment he referred to the long departmental report.)

In reply to a question, Mr. Sherman commented that the proposed letter might be clarified on the point that the proposed termination of statistics referred to the long departmental report, which was particularly weak statistically. The letter would not state that at this stage the Federal Reserve would withdraw completely from the department store reporting program. In fact, it indicated that the Federal Reserve would remain in the field until the Bureau of the Census was able to take over. It would be several years before the Bureau built up the merchandise line series to a point where those figures would be available to the department stores and meet the needs of many of them better than the present series. The letter, insofar as it referred to the termination of the collection of statistics by the Federal Reserve in the near future, had reference to one particular report.

Question was raised whether there was known to be any strong feeling on the part of Reserve Bank Presidents against terminating the long departmental report, and Mr. Sherman indicated that he was not aware of such a feeling. It was noted that there might be limited enthusiasm among the Presidents for expressing a willingness

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on the part of the Federal Reserve to undertake the establishment of a national departmental report of sales, covering 25 departments. It was also noted that the establishment of such a series might not be feasible technically. However, a System subcommittee had suggested such a series early this year, feeling that it was technically feasible and that there was a chance of getting trade cooperation on a national basis.

Governor Shepardson inquired whether January 31, 1963, was regarded as a good terminal date for the present departmental sales and stocks reports, and Mr. Noyes replied he regarded this date, which would be the end of the department store fiscal year, as a good one. The trade, of course, might object that the notice given was short. He supposed the trade would say that the department stores ought to have an opportunity to consider whether they wanted to take over this report at their own expense. They might say, in spite of the discussions over a period of almost three years, that they did not realize the Federal Reserve was going to take this step, and that they would like time to set something up themselves on a basis whereby the series would not lose continuity.

Governor Shepardson asked whether the use of the expression "tentative date" inferred the possibility of extending the terminal date for a few more months to permit some adjustment or the possibility that, instead of January 31, 1963, it might finally be

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decided that January 31, 1964, was a more appropriate cut-off date.

This question was discussed, with the result that it was agreed to delete the word "tentative."

Mr. Noyes then inquired whether the Board would feel that there was any reason to state more positively in the letter that the Federal Reserve would be prepared to continue its participation in the weekly and monthly total store sales reports, assuming the necessary support from the trade, until it was generally agreed that these reports could be taken over as part of the Census Bureau program.

Governor Mitchell indicated that he would have no objection, although the letter already contained a reference to necessary maintenance work being undertaken by the Federal Reserve if there was assurance that the department store trade outlets concerned generally would support such a program. It would be necessary, he noted, to bring in the chain stores and discount houses. If the Board was going to make a more positive statement than now contained in the letter, the Board should be prepared to say to the Reserve Bank Presidents that if they wanted to continue the local reports, the Board would encourage them to go ahead. However, if the Board should be inclined to take such a position, he thought it might be well first to check with the Presidents to determine how much interest there was in continuing the local data.

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Discussion then turned to the portion of the proposed letter that stated that it had been, and still was, the intent of the Federal Reserve to limit its data gathering activity of trade figures to local areas and transition requirements as the Census Bureau expanded into the field.

Governor Mitchell and Mr. Sherman noted that this was the key sentence in the letter. The former pointed out that it said clearly that the Federal Reserve was going to get out of the field of gathering national figures as soon as the Census Bureau was in a position to carry forward. On the question of local data, however, the letter was not so specific. He felt that some of the Reserve Bank Presidents probably would decide to continue to gather local data and would take steps to improve the samples so that the figures were meaningful. Mr. Sherman commented that the sentence had been carefully worded on the negative side; that was the whole attitude and intent. If the sentence was shifted to the side that the Federal Reserve would continue, he was sure there would be uneasiness within the System, since that would weaken the position of the Federal Reserve over a period of several years in backing out of this field. He had felt that that was almost basic to the System's approach. The Committee of Five, while concerning itself primarily with the quality of the statistics, had talked about the longer run problem of who would collect the

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statistics, and the trade representatives on the Committee appreciated that part of the problem. They were only members of the trade, of course, and could not speak for the trade as a whole. Management could speak for a particular unit, but no one could speak for the trade group as a whole. The letter would constitute a means of letting the trade generally know that after a period of almost three years the System still intended ultimately to get out of the department store reporting field. In the meantime, it would limit its activities to local areas and transition requirements.

Governor Mills expressed agreement with the proposed letter, which he noted would be reviewed by the Reserve Bank Presidents before being sent to Mr. Bennett. The discussion by the Board would be repeated to a degree by the Presidents and their thinking would then be reported to the Board.

Governor Balderston indicated that certain editorial suggestions on the letter would be transmitted by him to Mr. Sherman, and it was understood that these suggestions would be taken into account.

With that understanding, the transmittal of the letter to the Reserve Bank Presidents in draft form for their consideration was approved unanimously, it being understood that further consideration by the Board would await receipt of the views of the Presidents. A copy of the letter sent to President Fulton,

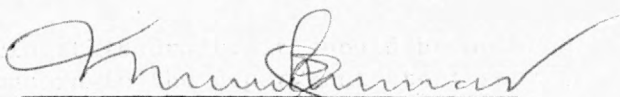
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Chairman of the Presidents' Conference, pursuant to this action is attached as Item No. 1.

The question whether copies of the proposed letter to Mr. Bennett would be sent by Mr. Sherman to the two trade representatives on the Committee of Five at this time or after word had been received from the Presidents' Conference was left to the decision of Mr. Sherman, but it was understood that in any event copies of the letter would be sent to them on a basis whereby they would have such copies before the letter reached Mr. Bennett.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of New York (attached Item No. 2) approving the appointment of C. Robert Gronquist as assistant examiner.


Secretary

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

Item No. 1
11/27/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 27, 1962.

Mr. W. D. Fulton, Chairman,
Conference of Presidents of the
Federal Reserve Banks,
c/o Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Fulton:

Attached is a draft of letter that the Board is considering sending to the President of the National Retail Merchants Association regarding the Federal Reserve department store reports. This letter has been prepared in the light of the action of the Presidents' Conference at its meeting on March 5, 1962 and subsequent discussions of the subject by the Board. A copy is being sent directly to Mr. Irons in his capacity as Chairman of the Committee on Research and Statistics of the Conference of Presidents, as well as to the President of each Reserve Bank. It is hoped that the Board may receive comments of the Reserve Bank Presidents by the conclusion of their meeting scheduled for next week.

To assist in considering this draft, it should be pointed out that the Board's primary concern in the department store reports is twofold: (a) the Federal Reserve should not be a source for economic data known to be seriously inadequate or unreliable in measuring the field purported to be covered; (b) the Federal Reserve needs and is interested in furthering the production of good current information regarding consumer takings, and whatever the System may continue to do in the department store field should be directed toward improving such data.

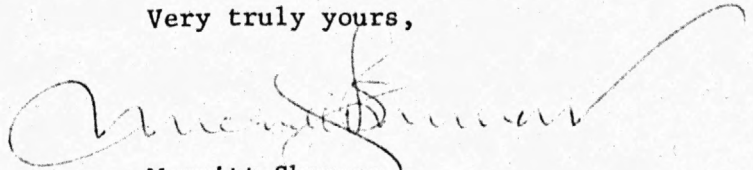
Having stated these primary objectives, the Board would not be unhappy if all work relating to department store data could be transferred to the Bureau of the Census under a program that would provide improved information on consumer takings. It believes this to be a reasonable prospect within the next few years, but a complete transfer is not of pressing importance, provided the work

Mr. W. D. Fulton

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that may be carried on in the meantime fits the primary objectives stated earlier in this letter. Furthermore, such a transfer of this work to Census should be brought about in a manner that will not needlessly impair relations with an important segment of the business community.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman", with a long, sweeping flourish extending to the right.

Merritt Sherman,
Secretary.

Enclosure.

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

Item No. 2
11/27/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 27, 1962

CONFIDENTIAL (FR)

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

In accordance with the request contained in your letter of November 20, 1962, the Board approves the appointment of C. Robert Gronquist as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

It is noted that Mr. Gronquist is indebted to The National Bank of Westfield, Westfield, New Jersey. Accordingly, the Board's approval of Mr. Gronquist's appointment is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.