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Minutes for February 14, 1963

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

mw

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Thursday, February 14, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Young, Adviser to the Board and Director, Division of International Finance  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Mattras, General Assistant, Office of the Secretary  
Mr. Young, Senior Attorney, Legal Division  
Mr. Doyle, Attorney, Legal Division

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

	<u>Item No.</u>
Letter to Community Bank of Warsaw, Warsaw, Missouri, 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 Community Bank of Warsaw, Warsaw, Missouri, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	2

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Item No.

Letter to the Federal Reserve Bank of San Francisco approving the appointment of Armand A. Pascual as Assistant Federal Reserve Agent.

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Memorandum from Messrs. Young and Noyes regarding attendance of Stephen P. Taylor, Chief, Flow of Funds and Savings Section, Division of Research and Statistics, at a meeting of the Working Group on Statistics of Financial Assets and Liabilities, Conference of European Statisticians, to be held in Geneva, Switzerland, May 20-24, 1963.

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Letter to the Chairman of the House Committee on Government Operations reporting on (1) H. R. 867, H. R. 1920, H. R. 886, H. R. 889, H. R. 2413, and H. R. 3289, bills that would amend the Budget and Accounting Act, 1921, to provide for the retirement of the public debt by setting aside specified percentages of budget receipts for that purpose, and (2) H. R. 113, a bill that would specify that the budget submitted by the President to the Congress include "an item for not less than \$2,000,000,000 to be applied toward reduction of the national debt."

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Mr. Johnson then withdrew from the meeting.

Report on competitive factors (Baldwin-Luther, Michigan).

There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed consolidation of Lake County State Bank, Baldwin, Michigan, with Luther State Bank, Luther, Michigan.

The report was approved unanimously for transmission to the Corporation, the conclusion reading as follows:

While a small amount of competition would be eliminated, the over-all effect of the proposed consolidation of these two small banks on competition would not be adverse.

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Report on S. 731 (Item No. 6). There had been distributed a memorandum from the Legal Division dated February 13, 1963, submitting a draft of letter to the Chairman of the Senate Banking and Currency Committee reporting on S. 731, a bill "To repeal certain legislation relating to the purchase of silver, and for other purposes."

The memorandum noted that the bill would (1) repeal the Acts of June 29, 1934, July 6, 1939, and July 31, 1946, relating to the purchase of silver; (2) authorize Federal Reserve Banks to issue Federal Reserve notes of one dollar denomination; and (3) terminate, in certain situations, the special tax on transfers of interests in silver bullion. The bill was substantially the same as S. 2885, on which the Board reported favorably to the Senate Banking and Currency Committee on February 27, 1962.

The proposed letter would report favorably on the current bill but suggest that the bill include authorization for the issuance of two dollar Federal Reserve notes as well as one dollar notes.

During discussion, it was noted that the suggestion with respect to the two dollar notes had been made previously by the Board. After consideration of this point, it was agreed that the suggestion should be renewed in the interest of consistency.

A subsidiary question was raised with regard to the possibility of replacing the present 12 issues of Federal Reserve notes with one central issue. It was pointed out that the passage of bill S. 731 would

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result in a substantial increase in the volume of notes that the Reserve Banks would have to handle. However, Mr. Farrell expressed the view that consideration of the possibility of a single note issue might preferably be deferred until such time as an over-all review of the currency structure was undertaken.

There also arose a discussion with regard to the possibility of changing the present legend on Federal Reserve notes, in view of questions that had been raised from time to time about the statement that such notes were "redeemable in lawful money." In this connection, Mr. Hackley noted that the Secretary of the Treasury had authority to change the legend on the notes without additional legislation. Mr. Farrell expressed the opinion that this question, like the question of a single Federal Reserve note issue, was one that might well await a general review of the currency structure.

During further discussion, agreement was expressed that the question of a single issue of Federal Reserve notes and the question of changing the legend on the notes might need to be considered further at a future date, but that it would be preferable not to complicate the report on the current bill.

The Board then approved unanimously the proposed letter with one minor change in wording. A copy of the letter, as sent, is attached to these minutes as Item No. 6.

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Messrs. Leavitt and Young (Legal) then withdrew and the following entered the room: Mr. Furth, Adviser, Division of International Finance, and Mr. Katz, Associate Adviser, Division of International Finance.

European Coal and Steel Community (Item No. 7). There had been distributed a memorandum from the Legal Division dated February 13, 1963, supplementing a memorandum dated December 18, 1962, with regard to the question whether time deposits of the European Coal and Steel Community were exempted by Public Law 87-827 from the maximum interest rate limitations imposed by the Board pursuant to section 19 of the Federal Reserve Act. This matter had been considered by the Board on December 20, 1962, and it had been understood that a final determination of the question would be deferred until representatives of the Community had been afforded an opportunity to present their views to the Board. On January 24, 1963, representatives of the Community met with members of the Board's staff; a summary of that meeting had been prepared by Mr. Doyle and had been distributed in the form of a memorandum dated January 29, 1963. On January 25, 1963, the representatives of the Community met with the Board.

Mr. Hackley reviewed the problem and commented on the arguments both pro and con, as outlined in the Division's memorandum of February 13, 1963. He noted that the representatives of the Community argued that the Community should be regarded, for purposes of the statute, as a "foreign government." However, the meeting with Community representatives

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had not changed his feeling that a reasonable interpretation of the statute would not permit the conclusion that the Community was a foreign government for the purposes of Public Law 87-827.

Mr. Hackley pointed out that if the Board should take an adverse position on the question, the Community representatives had expressed the hope that the Board's position would not be publicized, or else that the request for a ruling could be withdrawn. The Department of State also had expressed an interest in not having an adverse ruling made public. Mr. Hackley expressed the feeling that it might not be an altogether satisfactory procedure to allow the request for an interpretation to be withdrawn at this point. The concern of the Community would appear to be met if the Board did not publicize its position. The Board's position could be stated in a letter to the Federal Reserve Bank of New York along the lines of the draft submitted with the February 13 memorandum, with instructions to make it clear to the member bank that had raised the question that the Board's opinion was not being publicized. Similarly, appropriate advice could be transmitted to the State Department. Mr. Hackley also noted that if the Board were disposed to agree with the position of the Community, the Treasury had indicated that Mr. Roosa, Under Secretary for Monetary Affairs, would like to be consulted before a definite position was taken by the Board.

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After further discussion, the letter to the Federal Reserve Bank of New York was approved unanimously, with the understanding that the ruling would not be publicized and that a copy of the letter would be sent to the Department of State as a matter of information. A copy of the letter is attached to these minutes as Item No. 7.

United Nations organizations (Item No. 8). On January 18, 1963, the Board had considered the question whether time deposits of the United Nations Special Fund and the United Nations Technical Assistance Administration were exempted by Public Law 87-827 from interest rate limitations prescribed by the Board. At that time the Legal Division had concluded, for reasons stated in a memorandum dated January 15, 1963, that time deposits of these organizations were not exempt from interest rate limitations, and it recommended that the Federal Reserve Bank of New York be advised to such effect.

The Board had decided, however, to defer action on the matter until after the representatives of the European Coal and Steel Community had an opportunity to present their views to the Board on a similar request. Since the Board had heard the views of the Community representatives and had acted on the question raised with respect to time deposits of the Community, Mr. Hackley reviewed the situation with respect to the two United Nations organizations and reiterated the opinion that their time deposits should not be regarded as exempt from the Board's interest rate limitations.

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The Board then approved unanimously a letter to the Federal Reserve Bank of New York that reflected the conclusion reached by the Legal Division. It was understood that the Board's position would not be publicized, and that the letter to the New York Reserve Bank would reflect this fact.

A copy of the letter is attached to these minutes as Item No. 8.

The meeting then adjourned.

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

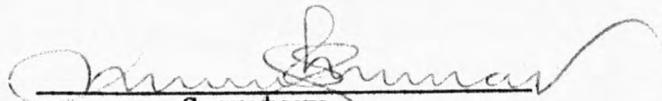
Appointment

Edward J. Finck as Teletype Operator, Division of Administrative Services, with basic annual salary at the rate of \$4,885, effective the date of entrance upon duty.

Acceptance of resignations

Eugene C. Harrison, Legal Assistant, Legal Division, effective at the close of business February 27, 1963.

William N. Taylor, Messenger, Division of Administrative Services, effective at the close of business February 14, 1963.

  
Secretary

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

Item No. 1  
2/14/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 14, 1963

Board of Directors,  
Community Bank of Warsaw,  
Warsaw, Missouri.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors President Lumpe's letter dated January 18, 1963, together with the accompanying resolution, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six-months' notice of such withdrawal.

The Board of Governors waives the requirement of six-months' notice of withdrawal. Under the provisions of Section 208.10(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. Upon surrender to the Federal Reserve Bank of St. Louis of the Federal Reserve stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of St. Louis.

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  
2/14/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 14, 1963

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

Dear Mr. Cocke:

Reference is made to your letter of  
January 30, 1963, concerning the application of  
Community Bank of Warsaw, Warsaw, Missouri, 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 insur-  
ance have been urged upon or agreed to by the  
bank.

Very truly yours,

(Elizabeth L. Carmichael)

Elizabeth L. Carmichael,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3  
2/14/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



February 14, 1963

Mr. F. B. Whitman,  
Federal Reserve Agent,  
Federal Reserve Bank of San Francisco,  
San Francisco 20, California.

Dear Mr. Whitman:

In accordance with the request contained in your letter of January 31, 1963, the Board of Governors approves the appointment of Mr. Armand A. Pascual as Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco to succeed Mr. Philip M. Stone upon his retirement.

This approval is given with the understanding that Mr. Pascual will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that Office, his responsibility will be to the Board of Governors.

When not engaged in the performance of his duties as Assistant Federal Reserve Agent Mr. Pascual, may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Assistant Federal Reserve Agent.

It will be appreciated if Mr. Pascual is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that, upon the approval of the appointment of Mr. Pascual by the Board of Governors, he will execute the usual Oath of Office which will be forwarded to the Board giving the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 542  
2/14/63

Date February 4, 1963

# Office Correspondence

To Board of Governors

Subject: \_\_\_\_\_

From Ralph A. Young and Guy E. Noyes

The attached letter from Mr. Raymond T. Bowman requests that the Board approve the attendance of Mr. Stephen P. Taylor at a meeting of the Working Group on Statistics of Financial Assets and Liabilities, Conference of European Statisticians, to be held in Geneva, Switzerland on May 20-24, 1963. Mr. Bowman indicates that if the Board approves Mr. Taylor's attendance at this meeting, the Budget Bureau would recommend to the Department of State that he be designated United States Representative.

We recommend that Mr. Taylor be authorized to attend this meeting at the Board's expense, and that his itinerary include short visits to the OECD Secretariat in Paris, the BIS in Basle, the Bundesbank in Frankfurt, and the Bank of England in London. He would discuss with the appropriate specialists recent developments in the production and use of flow of funds accounts. Such discussions would be advantageous to the pertinent work of the Division in that personal contact with organizations and individuals doing significant work in the area concerned would provide valuable insights benefitting our own analytical program. The benefits would be reciprocal in view of the wide-spread interest in what we are doing in the flow-of-funds area.

We estimate the elapsed time for Mr. Taylor's trip would be about three weeks. We also recommend that he be authorized to take annual leave while in Europe, if this can be permitted without interfering with essential work here.

*[Signature]*  
*[Signature]*

Attachment



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 5  
2/14/63

OFFICE OF THE CHAIRMAN

February 14, 1963

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 letters of January 24, 25, 30, and February 6, 1963, requesting a review of bills H. R. 867, H. R. 1920, H. R. 886, H. R. 889, H. R. 2413, and H. R. 3289 that would amend the Budget and Accounting Act, 1921, to provide for the retirement of the public debt by setting aside specified percentages of budget receipts for that purpose. These bills are similar in content except for the percentage rates of debt retirement specified. This is also in response to your letter of January 22, requesting a review of H. R. 113, which specifies that the budget submitted by the President to the Congress include "an item for not less than \$2,000,000,000 to be applied toward reduction of the national debt."

These seven bills are similar in economic and budgetary logic to H. R. 8637 which was introduced into the 1st Session of the 87th Congress, and which was reviewed in my letter of August 30, 1961. The comments in that letter, a copy of which is enclosed, would seem to be applicable to the bills on which you now have asked a report. The Board has found no reason to change the views that it expressed at that time, and, accordingly it still doubts that enactment of these measures would serve any useful purpose.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 6  
2/14/63

OFFICE OF THE CHAIRMAN

February 14, 1963



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

Dear Mr. Chairman:

This is in response to your letter of February 7, 1963, requesting a report from the Board of Governors on S. 731, a bill "To repeal certain legislation relating to the purchase of silver, and for other purposes." The bill would (1) repeal provisions of the Acts of June 29, 1934, July 6, 1939, and July 31, 1946, relating to the purchase of silver; (2) authorize the Federal Reserve Banks to issue Federal Reserve notes of one dollar denomination, and (3) terminate, in certain situations, the special tax on transfers of interests in silver bullion.

1. The Board believes that it is unnecessary to utilize silver as part of the United States monetary system other than as a material for coinage. Therefore, there is no need for retention of the existing silver purchase provisions.

2. The Board favors the proposed amendment of the law that would authorize the issuance of Federal Reserve notes in one dollar denomination in addition to those denominations already authorized. However, the Board believes that any replacement or supplementation of the supply of silver certificates with such Federal Reserve notes should take place gradually enough to moderate any effect on the statutory minimum gold certificate reserve.

It is noted that the result of the bill would be to authorize the Federal Reserve System to issue notes in all present denominations of currency with the exception of the two dollar denomination. In the interest of consistency, it may be considered appropriate to authorize issuance of two dollar as well as one dollar Federal Reserve notes.

3. The Board would not object to the amendment proposed in section 4 of the bill to section 4896 of the Internal Revenue Code of 1954, which relates to the applicability of the provisions taxing transfers of interests in silver bullion.

Sincerely yours,

*Wm. McC. Martin, Jr.*

Wm. McC. Martin, Jr.

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

Item No. 7  
2/14/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 14, 1963

Mr. Alfred Hayes, President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Hayes:

This refers to Mr. Crowley's letter of November 16, 1962, and Mr. Clarke's letter of November 27, 1962, regarding the question whether time deposits of the High Authority of the European Coal and Steel Community ("ECSC") are exempted by the Act of October 15, 1962 (P. L. 87-827) from interest rate limitations prescribed by the Board pursuant to section 19 of the Federal Reserve Act.

In connection with this question, the Board has considered memoranda submitted by the firm of Cravath, Swaine and Moore, and arguments advanced by representatives of the ECSC at meetings with the Board's staff and with the Board on January 24 and 25, 1963.

The amendment of October 15, 1962, exempts from interest rate limitations time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, and international financial institutions of which the United States is a member. It is not contended that the ECSC is an international financial institution of which the United States is a member or a monetary or financial authority of foreign governments.

The Board recognizes that for some purposes the ECSC might be considered a "foreign government", in view of the nature of its powers and functions. However, in the absence of evidence that Congress meant to use the term "foreign governments" in a sense broader than its usual meaning of governments of national states, the Board has concluded that the ECSC is not a foreign government within the meaning and purpose of P. L. 87-827.

Accordingly, it is the Board's opinion that time deposits maintained by the ECSC with member banks of the Federal Reserve System are not exempted by P. L. 87-827 from interest rate limitations prescribed by the Board pursuant to section 19 of the Federal Reserve Act.

## FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

Mr. Alfred Hayes

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The Board's opinion in this matter is not being published or given circulation, and it is requested that this be made clear by your Bank in your advice to the member bank or banks by which the question has been or may be raised.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 8  
2/14/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 14, 1963

Mr. Alfred Hayes, President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Hayes:

This refers to Mr. Clarke's letter of November 29, 1962, with its enclosures, requesting advice as to whether the exemption from deposit interest rate limitations provided by Public Law 87-827, amending section 19 of the Federal Reserve Act, is applicable to time deposits of the United Nations Special Fund, the United Nations Technical Assistance Administration, and the United Nations Temporary Economic Administration. It is understood that the request for an interpretation as to the status of the last-mentioned organization has since been withdrawn by the member bank concerned.

According to the Board's information, it is understood that the U. N. Technical Assistance Administration makes grants for technical assistance purposes in certain countries; that it derives its funds from voluntary contributions by member nations; and that it makes no loans and does not engage in capital investments. It is also understood that the U. N. Special Fund makes surveys, engages in research, and seeks to develop manpower training and education in order to assist in the development of certain countries; that its funds are derived from voluntary contributions by member nations; and that it does not make loans or investments.

In the Board's opinion, neither of these organizations, as it presently functions, may reasonably be regarded as a foreign government, a financial or monetary authority of foreign governments, or an international "financial" institution of which the United States is a member. The Board concludes, therefore, that time deposits of the U. N. Special Fund and of the U. N. Technical Assistance Administration are not exempted by Public Law 87-827 from the maximum interest rate limitations prescribed by the Board pursuant to section 19 of the Federal Reserve Act and the Board's Regulation Q.

Mr. Alfred Hayes

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The Board's opinion in this matter is not being published or given circulation, and it is requested that this be made clear by your Bank in any advice given by you to the member bank or banks by which the questions have been or may be raised.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.