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Minutes for January 24, 1964

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

CB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Deane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Friday, January 24, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Brill, Director, Division of Research and Statistics
Mr. Holland, Associate Director, Division of Research and Statistics
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Williams, Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Katz, Associate Adviser, Division of International Finance
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Axilrod, Senior Economist, Division of Research and Statistics
Mr. Keir, Senior Economist, Division of Research and Statistics
Mr. Bernard, Economist, Division of Research and Statistics
Mr. Gekker, Economist, Division of International Finance
Mr. Gemmill, Economist, Division of International Finance

Money market review. Mr. Bernard discussed recent developments in the Government securities market, with particular reference to current Treasury financing, and commented upon the outlook for Treasury offerings in the coming year in light of the Federal budget. Mr. Eckert discussed

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the money supply, bank credit, and related matters, and was requested to submit to the Board a memorandum reflecting his presentation, during which he referred, among other things, to a distributed summary of monetary developments in the four-week period ended January 22, 1964. Mr. Gekker discussed foreign exchange developments and commented upon recent estimates of Russian gold reserves and production.

Messrs. Fauver, Holland, Koch, Williams, Furth, Katz, Bernard, Eckert, Gekker, Gemmill, Axilrod, and Keir then withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on January 22, 1964, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, and Dallas on January 23, 1964, 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.

Circulated items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to Chemical International Finance, Ltd.,
New York, New York, regarding its purchase of
stock of a French corporation organized for
the sole purpose of holding a lease for certain
quarters at 12 Place Vendome, Paris, France, to
be occupied by the Paris Representative of
Chemical Bank New York Trust Company, New York,
New York.

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Letter to the Presidents of all Federal Reserve Banks regarding the annual conference of representatives of Bank Examination Departments of the Federal Reserve Banks to be held on March 9 and 10, 1964. 1/

Open Market Committee policy record. There had been distributed a memorandum from Mr. Sherman dated January 23, 1964, submitting a draft of material for inclusion in the Board's 1963 Annual Report concerning policy actions of the Federal Open Market Committee. This included revised drafts of policy record entries covering the meetings of the Committee on December 3 and 17, 1963 (entries for the 17 meetings held from January 8 through November 26, 1963, had already been approved by the Board for inclusion in the Annual Report), and a statement proposed as a preface to the set of policy record entries in the Annual Report.

After Mr. Sherman had commented briefly on the matter, Governor Robertson stated that he had no objection to the material as drafted. Referring, however, to previous approval by the Board, for inclusion in the Annual Report, of the entry for the Committee meeting on October 22, 1963, and in particular to certain language therein that linked the reduction in U. S. capital outflows in the third quarter in part with the effects of the proposed interest equalization tax and increases in domestic interest rates, especially short-term rates, "associated with the July rise in Federal Reserve Bank discount rates," he said that his review of the October 22 Committee minutes failed to disclose general

1/ The Board's action included approval of the payment of the cost of a dinner in connection with the conference.

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agreement within the Committee as to such an association. He did not propose reconsideration of the October 22 policy record entry but urged that care continue to be exercised to make sure that the policy record entries were fully supported by the minutes of the respective meetings.

Following discussion of Governor Robertson's comments, the draft entries for December 3 and 17, 1963, were approved unanimously for inclusion in the record of Open Market Committee policy actions in the Annual Report, together with the proposed prefatory statement.

Governor Balderston inquired whether the record of Committee and Board policy actions during 1963 would be in form for submission to the Joint Economic Committee by next Friday (January 31), as requested orally by a member of the Committee during recent hearings. Mr. Sherman replied that there appeared to be no reason why such a schedule could not be met. The material would be transmitted in mimeographed form rather than in galley proof.

Mr. Cardon, Legislative Counsel, and Mr. Smith, Assistant Director, Division of Examinations, then entered the room.

Appearances of Reserve Bank Presidents before a Subcommittee of the House Banking and Currency Committee. Mr. Cardon advised that he had been notified by the staff of the House Banking and Currency Committee of a request by Chairman Patman that the Reserve Bank Presidents bring with them the 1962 and 1963 reports of examination of their Banks when they testified during the current hearings on the Federal Reserve System being conducted by the Subcommittee on Domestic Finance. It

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was understood that it was not intended that the contents of these reports would be made a matter of record and that the only anticipated line of questioning concerning the reports would be where, if at all, the Chief Federal Reserve Examiner had commented in them upon the propriety of certain expenses about which the Presidents would be asked. Mr. Cardon expressed the view that it would be desirable to explore means of getting into the hearing record copies of the Board's letters to the Federal Reserve Banks concerning certain categories of Reserve Bank expenditures to indicate why expenditures falling within the scope of those letters were not itemized in the examination reports.

It was suggested that the Presidents should be made aware of the probable line of questioning following presentation of their statements to the Subcommittee, and Mr. Cardon replied that they were being kept advised of hearing developments.

Governor Balderston then stated that there appeared to be two questions before the Board; first, the matter of the reports of examination, and second, getting a clear statement of the Board's standards regarding Reserve Bank expenses into the record.

Governor Mills observed that the request concerning the reports of examination would seem difficult to refuse; all other documents requested had been furnished.

Mr. Cardon noted the fact that the Chairman of the Subcommittee already had in his possession the 1962 reports of examination, including the confidential sections, and that the examiners' working papers had been made available to the Subcommittee staff.

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Governor Mills stated that in view of this, the Presidents presumably would not be asked to leave the reports with the Subcommittee. Mr. Cardon replied that this would be true, at least for the 1962 reports, but more to the point, the request was not premised on a search for information but rather a desire to show the absence of comment on particular Reserve Bank expenses in the reports.

Governor Balderston observed that the Presidents should be prepared to explain why no such comment was made, and Mr. Cardon agreed, saying that it would be desirable to counteract any suggestion that the examiners either overlooked or were attempting to cover up certain expenses. It was suggested that this could be done by stating that various expenses were not criticized because they were within the purview of the Board's standing instructions to the Banks.

Governor Robertson questioned whether the letters should appropriately be offered for the record by the Presidents, and whether the Presidents should attempt to comment on why something was or was not included in the reports of examination. These matters should be dealt with, it seemed to him, by Board spokesmen.

Mr. Cardon stated that Chairman Patman already had copies of the Board's S-letters. The purpose of having the Presidents refer to them would be to counteract any implication that the examining procedure was deficient.

Governor Balderston agreed that if a question arose as to why the examiners had failed to criticize certain expenses, the Subcommittee

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should be referred to the Board for an explanation. If, however, the question was why certain expenses were justified, the Presidents could refer to the guidelines set forth in the S-letters and offer them for the record.

Governor Mills commented that he felt it desirable for the Presidents to have the reports of examination with them at the hearing so that they could refer to any particular question with respect to entries therein raised by the Subcommittee.

Governor Balderston agreed but reiterated his view that a President's comments should be confined to defending the propriety of particular expenses, which defense might include reference to the Board's S-letters.

Governor Shepardson concurred in the view that it would be advisable to have the S-letters put into the record because, although Chairman Patman had them in his possession, other Subcommittee members might not be familiar with them.

It was then agreed that the Reserve Bank Presidents would be advised that the Board had no objection to their compliance with Chairman Patman's request concerning the reports of examination and that, while they should not undertake to deal with any questions concerning the competence of the Board's examiners, questions concerning whether certain expenses were justified obviously would have a relationship to whether the examiners should have criticized them in light of the outstanding S-letters. It was also agreed that introduction of

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the Board's S-letters into the record of the hearing would not be inappropriate.

All of the members of the staff except Messrs. Sherman and Brill withdrew from the meeting at this point.

Assignment of Mr. Yager. Governor Shepardson referred to the action of the Board on January 9, 1964, in authorizing the assignment of Charles A. Yager of the Division of Research and Statistics to the position of Director of the National Accounts and Statistics Branch of the Organization for Economic Cooperation and Development with headquarters in Paris, France, and to the policy approved by the Board for financial arrangements in filling such assignments. He stated that confirmation had now been received from the Secretary General of the Organization as to Mr. Yager's appointment to the position, and that it was expected that he would take up the assignment the latter part of February. Under the arrangements, Governor Shepardson noted, Mr. Yager would be retained as a Board employee and would be provided allowances in the same amount as those afforded foreign service officers of the Department of State in the Paris area, with the understanding that the Board would obtain reimbursement for Mr. Yager's salary and the other allowances in the amount that would be paid by the Organization to an employee on its own staff for such services. It was estimated that the net cost to the Board in Mr. Yager's case would be about \$6,000 to \$7,000 during the two-year period involved, running from approximately the end of February 1964 to the end of February 1966.

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Approval was given to the assignment of Mr. Yager and to the general arrangements outlined by Governor Shepardson, pursuant to the Board's general authorization of January 9, 1964.

Assignments of Section Chiefs. Governor Shepardson reported that in connection with Mr. Yager's assignment to the aforementioned position in Paris, Mr. Brill proposed that, effective January 27, 1964, Stephen H. Axilrod, presently Senior Economist in the Banking Section, be appointed Chief of the Government Finance Section and Peter M. Keir, presently Senior Economist in the Government Finance Section, be appointed Chief of the Capital Markets Section. While Board action was not required, Governor Shepardson stated that he was bringing the matter to the Board's attention for any comments, and the members of the Board noted the proposed assignments without objection.

Secretary's Note: On January 27, 1964, Governor Shepardson approved on behalf of the Board a memorandum from the Division of Research and Statistics recommending an increase in the annual salary rate of Mr. Axilrod from \$16,180 to \$16,695, effective January 27, 1964.

Foreign travel. Governor Shepardson stated that Glenn M. Goodman, Assistant Director of the Division of Examinations, had requested approval of travel to attend the Bankers Association for Foreign Trade meeting to be held in Quebec, Canada, May 24-28, 1964.

After a brief discussion, the proposed foreign travel was approved.

At this point Messrs. Sherman and Brill withdrew from the meeting and the Board went into executive session.

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Following the meeting, Governor Shepardson informed the Secretary that during the executive session the Board took the following actions:

1. Following a report by Governor Shepardson that the Employees' Committee recently had presented to him a memorandum requesting that the Board absorb a portion of the costs of luncheons for members of the staff who accepted invitations to official luncheons in the Board's private dining rooms, the Board decided that it would be inappropriate for it to make an allowance for the differential in meal costs between those that would be provided elsewhere and those that might be served in the private dining rooms. The Board agreed, however, that as a matter of practice in making arrangements for such luncheons, staff members invited to attend should be made to understand clearly that their attendance was on a strictly voluntary basis and that no staff member should feel under any obligation to attend such official luncheons if he did not wish to do so.

2. Governor Shepardson presented to the Board Bureau of the Budget Circular No. A-22, Revised, dated December 19, 1963, having to do with the use of limousines and heavy and medium sedans by agencies of the Executive Branch, and after reviewing the material in the light of study by Counsel of the Board and the Director of the Division of Administrative Services, the Board concluded that the Circular issued by the Bureau of the Budget did not apply to the automobiles used by the Board, that there was no need for the Board to respond to the

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Circular, and that no action should be taken with respect to retention of the Board's present cars other than to continue to apply the test of operating efficiency in meeting the Board's needs; but that consideration be given at the time of replacement of the present automobiles to use thereafter of "light weight" or "medium weight" automobiles. In taking this action the Board took cognizance of the Circular issued by the Bureau of the Budget but noted that in the case of the Board no cars were assigned for the use of individuals and that such cars as were maintained by the Board were used solely to meet the official needs of the Board's organization.

The meeting then adjourned.

Secretary's Notes: On January 23, 1964,
Governor Shepardson approved on behalf
of the Board the following items:

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 3) approving the appointment of John M. Drennan as assistant examiner.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Salary increases

Aaron Dortch, Operator (Xerox-Mimeograph), Division of Administrative Services, from \$4,888 to \$5,138 per annum, effective January 19, 1964.

Marla Lembo, Clerk-Stenographer, Division of Bank Operations, from \$4,495 to \$4,850 per annum, with a change in title to Secretary, effective February 2, 1964.

Outside activity

Julia G. Back, Library Assistant, Division of Research and Statistics, to perform clerical work on a part-time basis for I. F. Stone's Weekly.

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On January 23, 1964, Governor Shepardson also noted on behalf of the Board a memorandum from the Division of Examinations advising that Henry Benner, Assistant Director in that Division, had filed application for retirement, effective at the close of business January 31, 1964.

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:

Appointments

Judith K. Schoenberg as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$7,490, effective the date of entrance upon duty.

Winthrop Case, to assist the Economic Editing Unit in the Division of Research and Statistics on a temporary contractual basis, effective to June 30, 1964, with compensation at the rate of \$55 per day, and transportation expenses and per diem for time spent in travel status to be paid in accordance with the Board's travel regulations. The memorandum stated that, for purposes of travel, Mr. Case's headquarters would be New York City, that he would receive a per diem of \$16 when in Washington, and that transportation expenses would be limited to the necessary round trip from New York City plus additional round trips not to exceed one per month while on duty in Washington.

Outside activities

Diane Quick, Secretary, Office of the Secretary, to work part time for a local printing firm.

Levon H. Garabedian, General Assistant, Division of Research and Statistics, to grade papers at American University during the spring semester.


Secretary

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

Item No. 266
1/24/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 24, 1964

Chemical International Finance, Ltd.,
20 Pine Street,
New York, New York 10015

Gentlemen:

Your letter of December 13, 1963, transmitted through the Federal Reserve Bank of New York, referred to the Board's letter of August 8, 1962, granting consent for Chemical International Finance, Ltd. to purchase and hold 100 per cent of the capital stock of a French corporation ("Vendome") organized for the sole purpose of holding a lease for certain quarters at 12 Place Vendome, Paris, France, to be occupied by the Paris Representative of Chemical Bank New York Trust Company, New York, New York, at a cost not to exceed approximately US\$100,000, provided the stock was acquired within one year from August 8, 1962.

It is noted that your Corporation acquired 5,150 shares of Vendome Decoration, S. A. at a total cost of \$104,090.45. You state that under French law a minimum of seven stockholders is required for corporations, and, in order to comply with this requirement, stock certificates for six shares have been issued in the name of persons other than Chemical International Finance, Ltd. and are held by Chemical Bank's representative office in Paris with stock powers attached ready for transfer at any time.

It is also noted, without objection, that the final acquisition of 360 shares was made subsequent to August 8, 1963 because of the illness of a former stockholder.

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
1/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 24, 1964.

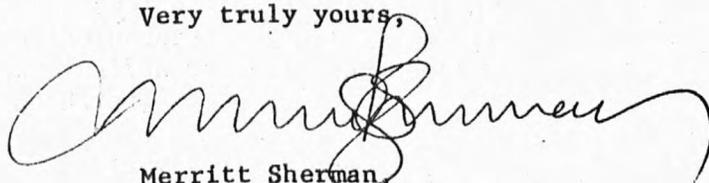
Dear Sir:

The vice presidents in charge of examinations at the Federal Reserve Banks have advised that the dates of March 9 and 10, 1964, are satisfactory for the conference of representatives of Bank Examination Departments of Federal Reserve Banks. This meeting has been approved by the Board and will be held in the Board's offices in Washington.

The replies from the vice presidents indicate that each Reserve Bank will be represented by the vice president in charge of examinations and the chief examiner. In some instances, other officers of the Reserve Bank Examination Departments will attend.

The vice presidents are being asked to suggest topics for discussion, and a copy of the agenda will be sent to you as soon as it has been completed.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
1/24/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 23, 1964

CONFIDENTIAL (FR)

Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Denmark:

In accordance with the request contained in your letter of January 20, 1964, the Board approves the appointment of John M. Drennan as an assistant examiner for the Federal Reserve Bank of Atlanta, effective February 3, 1964.

It is noted that Mr. Drennan is indebted to The Peoples Bank, Atlanta, Georgia, a nonmember bank. Accordingly, the Board's approval of the appointment of Mr. Drennan 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.

