

Minutes for February 20, 1964

To: Members of the Board

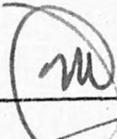
From: Office of the Secretary

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

  
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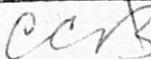
Gov. Mills

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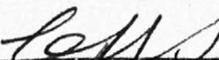
Gov. Robertson

  
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Gov. Balderston

  
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Gov. Shepardson

  
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Gov. Mitchell

  
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Gov. Daane

  
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## Minutes of the Board of Governors of the Federal Reserve

System on Thursday, February 20, 1964. 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. Daane

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Broida, Assistant Secretary  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
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. Partee, Adviser, Division of Research and  
Statistics  
Mr. Furth, Adviser, Division of International  
Finance  
Mr. Hersey, Adviser, Division of International  
Finance  
Mr. Katz, Associate Adviser, Division of  
International Finance  
Mr. Mattras, General Assistant, Office of the  
Secretary  
Mr. Eckert, Chief, Banking Section, Division of  
Research and Statistics  
Mr. Bernard, Economist, Division of Research and  
Statistics  
Mr. Gemmill, Economist, Division of International  
Finance  
Mr. Baker, Economist, Division of International  
Finance

Money market review. Mr. Bernard reported on developments in the Government securities market, after which Mr. Holland discussed

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bank reserves and the money supply and reviewed recent System open market operations. Mr. Gemmill then reported on developments in the foreign exchange market.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Broida, Young, Noyes, Brill, Furth, and Mattras, and the following members of the staff entered the room:

Mr. Molony, Assistant to the Board  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Johnson, Director, Division of Personnel Administration  
 Mr. Hexter, Assistant General Counsel  
 Mr. Shay, Assistant General Counsel  
 Mr. Goodman, Assistant Director, Division of Examinations  
 Mr. McClintock, Supervisory Review Examiner, Division of Examinations

Circulated or distributed items. 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 Security Bank, Lincoln Park, Michigan, approving an extension of time to establish a branch in the vicinity of Dix Road and Old Goddard Road.	1
Letter to the Federal Reserve Bank of Philadelphia approving the payment of salary to Dudley G. Lockett as an officer of the Bank with the title of Economist at a specified rate.	2

Application by International Banking Corporation (Item No. 3).

There had been distributed a memorandum from the Division of Examinations dated February 18, 1964, regarding an application by International Banking Corporation, New York, New York, an agreement corporation, for

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permission to purchase approximately 10 per cent of the shares of Banco de Financiacion Industrial, Madrid, Spain. A draft of letter granting the Board's consent was attached.

Governor Mills expressed the view that the application seemed to merit approval on the basis that such action would be consistent with the steps taken recently by the Board. He noted, however, that Banco stock would be held by a group of Western European banks and that there had been similar situations of this kind in other cases coming before the Board. This could develop at some point into financial cartelization of a kind that would be suspect and subject to investigation by the Department of Justice if it occurred in the United States. Further, it was questionable whether the shareholders would be able to place national interest above the profit objective. Governor Mills therefore felt that the Board should be alert to the activities of the foreign financial institutions in which Edge Act and agreement corporations had invested along with foreign banks, with a view to trying to reach a judgment as to whether such participations were in the public interest so far as the United States was concerned.

Mr. Goodman commented that since the revised Regulation K permitted a range of investments to be made without prior Board approval, this imposed a particular responsibility from the examining and supervisory standpoint. The Division of Examinations recognized this responsibility and would be endeavoring to meet it.

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The Board then approved unanimously the proposed letter to International Banking Corporation. A copy is attached to these minutes as Item No. 3.

Messrs. Solomon, Shay, Goodman, and McClintock then withdrew from the meeting.

Special Manager's report. There had been distributed a report on foreign currency operations in 1963 by the Special Manager of the System Open Market Account, proposed for inclusion in the Board's Annual Report for 1963.

During discussion a number of editorial changes were suggested. It was also suggested that a check be made with the Special Manager to make sure that adequate clearance had been, or would be, obtained from the Department of the Treasury since the report covered joint foreign currency operations of the System and the Treasury. In this connection, question was raised whether the report needed to deal as extensively as it did with Treasury operations. It was pointed out the report should not obscure the fact that the operations of the System and the Treasury in the foreign currency area were closely interwoven; however, there were some expressions to the effect that consideration might be given to the rephrasing of certain passages and that in any event full Treasury clearance should be obtained.

It was then agreed that the report would be edited along the lines suggested and that any further comments of members of the Board

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would be transmitted to Mr. Molony for consideration in preparing the report in final form for inclusion in the Annual Report.

Messrs. Young, Noyes, and Furth then withdrew from the meeting.

Review of Federal Reserve policy. At the meeting on February 12, 1964, Governors Mitchell and Daane were asked, in regard to the possibility of including in the Board's 50th Annual Report a summary of System policy for the period 1949 to 1963, to review a revised draft of manuscript.

Governor Daane reported that he and Governor Mitchell had reviewed the revised draft and, while the editing had improved the presentation, they questioned whether the article would be appropriate for inclusion in the Annual Report. It was felt that the Annual Report was already rather long; beyond that, Governor Mitchell had observed that any two people could review the 15-year period in question and have different interpretations of what the System had done, and why. The presentation of a monolithic view could be subject to criticism since System policy was reached by the process of compromise.

Governor Daane then stated that he had reached the same conclusion as Governor Mitchell regarding the use of the article in the Annual Report, but for somewhat different reasons. He felt that an article of this scope deserved review by a lot of people in the System since it was to interpret System policy for the period involved. It would therefore seem inadvisable to attempt to include it in the Annual Report. The material might preferably be used in a Bulletin article or be issued as a separate publication.

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Mr. Molony commented that the essential question appeared to be whether the Federal Reserve System could in fact tell its own story of what it did and the reasons for its decisions. A 15-year review of postwar activity appeared to him appropriate in principle for inclusion in the 50th Annual Report. The System had not published such a review, but other parties had given their own versions. It was thought that Mr. Hersey had approached the task in a judicious and competent manner. However, there remained the issue as to whether any single interpretation of the rationale for the System's policy actions would be generally acceptable.

Chairman Martin stated that in his view there was need for effective exposition of the System's operations. As a practical matter, it was difficult to obtain agreement within the System as to the reasons for past policies, but some exposition was desirable. However, in view of the problems that had been mentioned, including the problem of timing, he would not press to include the 15-year review in the Annual Report for 1963.

In further discussion, there were expressions by Board members that it should be possible to prepare a review of System policy, as decided upon, irrespective of the difficulties involved in the variety of views entering into the decision-making process. It was agreed, however, that the 15-year review should be omitted from the 50th Annual Report and that the manuscript should be sent

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to the Board members for review with the thought of its possible adaptation for use in the Federal Reserve Bulletin or for other purposes. The general problem of how to present the story of System policy to the public should also be studied further.

The meeting then adjourned.

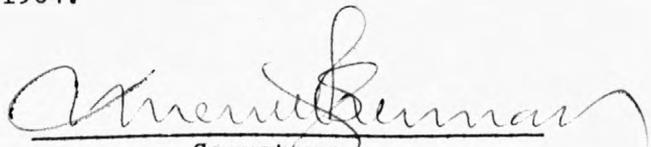
Secretary's Notes: A letter was sent today to International Banking Corporation, New York, New York, acknowledging receipt of advice that The Bank of Monrovia, Monrovia, Liberia, intended to establish a branch in Harbel, Liberia, such branch to replace its Harbel agency.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of New York (attached Item No. 4) approving the appointment of Gerald M. Malovany as assistant examiner.

Memorandum from the Division of Examinations recommending that the position of Assistant Director formerly held by Henry Benner be abolished, and stating that the position of Secretary to Mr. Benner was therefore also abolished, effective as of the close of business February 15, 1964.

Governor Shepardson today noted on behalf of the Board a memorandum from the Division of Examinations advising that Esther Severud, Secretary (to Mr. Benner) in that Division, had made application for discontinued service retirement, effective as of the close of business February 15, 1964.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

Item No. 1  
2/20/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 20, 1964



Board of Directors,  
Security Bank,  
Lincoln Park, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to June 1, 1964, the time within which Security Bank may establish an in-town branch in the vicinity of the intersection of Dix Road and Old Goddard Road.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2  
2/20/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 20, 1964.



CONFIDENTIAL (FR)

Mr. Karl R. Bopp, President,  
Federal Reserve Bank of Philadelphia,  
Philadelphia, Pennsylvania. 19101.

Dear Mr. Bopp:

The Board of Governors approves the payment of salary to Mr. Dudley G. Luckett as an officer of the Federal Reserve Bank of Philadelphia with the title of Economist, at the rate of \$15,500 per annum from the time of entrance on duty through December 31, 1964, if so fixed by your Board of Directors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

Item No. 3  
2/20/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 20, 1964.

International Banking Corporation,  
399 Park Avenue,  
New York 22, New York.

Gentlemen:

In accordance with your request and on the basis of the information furnished in your letters of January 24 and February 11, 1964, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants consent for International Banking Corporation ("IBC") to purchase and hold 120,001 shares, par value Pesetas 500 each, of Banco de Financiacion Industrial (INDUBAN), Madrid, Spain, at a cost not to exceed approximately US\$1,010,000, provided such shares are acquired within one year from the date of this letter. The Board's consent is given pursuant to the requirement therefor in the outstanding agreement between IBC and the Board of Governors under the provisions of Section 25 of the Federal Reserve Act.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

Item No. 4  
2/20/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 20, 1964

Mr. Howard D. Crosse, Vice President,  
Federal Reserve Bank of New York,  
New York, New York 10045.

Dear Mr. Crosse:

In accordance with the request contained in Mr. Bilby's letter of February 17, 1964, the Board approves the appointment of Gerald M. Malovany as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

