

Minutes for October 2, 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.

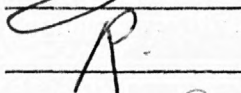
Chm. Martin



Gov. Mills



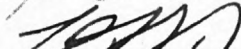
Gov. Robertson



Gov. Balderston



Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System  
on Friday, October 2, 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. Mitchell

Mr. Sherman, Secretary  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
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. Sammons, Adviser, Division of International  
Finance  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Mr. Morgan, Staff Assistant, Board Members'  
Offices  
Mr. Eckert, Chief, Banking Section, Division of  
Research and Statistics  
Mr. Keir, Chief, Capital Markets Section, Division of  
Research and Statistics  
Mr. Beard, Economist, Division of Research and  
Statistics  
Mr. Baker, Economist, Division of International  
Finance  
Mr. Gemmill, Economist, Division of International  
Finance

Money market review. Mr. Beard commented on developments in the  
Government securities market, with observations on the effect of recent  
advance refundings by the Treasury. Mr. Partee then reported on the  
level of reserves and bank deposits, illustrating his remarks by reference

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to distributed tables on bank reserve utilization and money market perspective and charts on growth in demand and time deposits, by class of bank. Mr. Baker then discussed conditions in foreign exchange markets. The staff responded to various questions asked by members of the Board based on the presentations.

All members of the staff then withdrew except Messrs. Sherman, Cardon, Fauver, and Sammons, and Mrs. Semia, and the following entered the room:

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. Daniels, Assistant Director, Division of Bank  
Operations  
Mr. Smith, Assistant Director, Division of Examinations  
Mr. Sprecher, Assistant Director, Division of Personnel  
Administration  
Mr. Hart, Personnel Assistant, Division of Personnel  
Administration

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on September 30, 1964, and by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on October 1, 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 or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

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Item No.

Letter to the Federal Reserve Bank of New York interposing no objection to arrangements made for Janet Bogardus, Chief Librarian, Research Department, to act as consultant to the Ford Foundation's Middle East and Africa program and to advise on the establishment of a comprehensive library in Addis Ababa, Ethiopia.

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Letter to Bankers International Financing Company, Inc., New York, New York, granting permission to purchase additional shares of Bancom Development Corporation, Makati, Rizal, Philippines.

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Mr. Sammons then withdrew from the meeting.

Cincinnati Branch premises (Item No. 3). In a letter of September 4, 1963, pursuant to action on September 3, the Board authorized the Federal Reserve Bank of Cleveland to employ architects to provide preliminary drawings and construction cost estimates for a building for the Cincinnati Branch, as outlined in a letter of August 13, 1963, from President Hickman. The Board's letter noted that the authorization did not constitute advance approval of a new building for the Cincinnati Branch and asked that, after a feasibility study by the architects to determine possible uses of a new building site, a report be submitted to the Board, to include additional information on what disposition could be made of the present property.

There had been circulated a memorandum dated September 4, 1964, from the Division of Bank Operations regarding a request from President Hickman, in a letter of August 17, 1964, for authority (1) to obtain an

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option to purchase certain real estate in Cincinnati and (2) to have the architects proceed with preliminary plans for a new building.

The memorandum set out various information relating to the land proposed to be acquired and the building contemplated by the architects' preliminary drawings. It was brought out, among other things, that no provision was being made for automobile parking, except for a possibility of 29 spaces under a pedestrian walkway; that parking on the site outside the building for a large number of cars would not conform with present plans of Cincinnati's downtown redevelopment program; that there was no indication of the size or location of the security court, or of the entrance to or exit from it; that the appraised price of the present Branch property, if sold under stated conditions, was \$2,025,000; that the cost of the present property plus improvements totaled \$3,258,533; and that the estimated cost of the proposed new construction was about \$10,600,000, which, however, did not include certain special banking equipment. The reasons given by the Cleveland Bank to show need for a new Cincinnati Branch building were reviewed.

At Chairman Martin's request, Mr. Farrell commented in supplementation of the memorandum, bringing out among other things that there seemed to be conflicting opinions as to the state of the present Branch building, the appraisers indicating that it was in excellent condition, and the Bank's officers being of the opinion that it needed extensive repairs. He remarked also that at the estimated cost the new Branch

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building would be the most expensive of any building in the System, head office or branch, except the New York and Chicago Bank buildings.

Governor Mitchell, who during circulation of the file had suggested that the Board send someone to survey the situation at first hand, commented that it seemed to him that the site being considered did not have adequate room for handling currency and coin operations.

Governor Mills suggested that such a survey be made in the context of looking ahead to try to judge what the value of the present building would be in five years. He had always had reservations about situations in which substantial expense had been incurred in improving a property, only to jettison it and purchase other property, but if the present building was likely to deteriorate in value over the next few years and had a reasonable market value now, that would seem to be a reason in support of acquiring the new property.

Governor Balderston reported conversations he had had with President Hickman regarding aspects of the proposed building project relating to participation in the City of Cincinnati's redevelopment effort. Some psychological value apparently was attached to having the Branch included in a newly-constituted financial center being laid out by city planners, rather than to find itself operating from outside that center. It was thought that a sort of policy question was involved, in which present participation would redound to the benefit of the System ten to twenty years from now. Governor Balderston suggested that it might be advisable to have representatives of the Cleveland Reserve Bank,

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perhaps Vice President Kiel in charge of the Cincinnati Branch, come to Washington to discuss the matter with the Board.

Chairman Martin expressed the view that a major problem was involved and that the Board needed considerably more information than it now had before passing upon the proposal. This might call for sending Board representatives to Cincinnati to make an on-site inspection and for having officers of the Cleveland Bank, including perhaps Chairman Hall, meet with the Board.

Governor Robertson said that he had reservations about a situation that might be influenced less by actual need than by desire to participate in a community project, which he had doubt was a suitable use for Federal Reserve funds. He was troubled also by the inadequacy of garage facilities, and by the fact that only about 60 per cent of the present Branch building was used for Branch operations, the remainder being leased to tenants.

Mr. Farrell pointed out on a map various features of the property proposed to be acquired and commented on the limitations on provision of parking space under the Cincinnati redevelopment program. One related question that seemed to be unanswered was how armored truck traffic was to be handled.

Governor Mitchell expressed the view that there was a great deal to be said for having a moratorium on all System building construction for about five years to see what developed in the computer field.

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The only Federal Reserve operating function that he believed was bound to continue to grow was the currency and coin operation, and for that function it was essential that trucks be able to come into a court. He believed it was important to buy enough land when new System properties were purchased.

After further discussion, it was agreed that the Board would defer action until representatives of the Division of Bank Operations had visited Cincinnati and reported back regarding the present building and the proposed plan. President Hickman was informed of the Board's action in a letter of October 5, 1964, a copy of which is attached as Item No. 3.

Messrs. Cardon, Fauver, Farrell, Daniels, and Smith then withdrew from the meeting.

Officers' salaries at New York Reserve Bank (Item No. 4). There had been distributed a draft of reply to a letter of August 7, 1964, from President Hayes of the Federal Reserve Bank of New York regarding general guidelines for the administration of officers' salaries.

Governor Mitchell commented on background circumstances, pointing out that the draft had been prepared by the Division of Personnel Administration and then revised somewhat on the basis of discussion by the Board's Committee on Organization, Compensation, and Building Plans.

After discussion the letter was approved unanimously. A copy of the letter in the form transmitted to President Hayes on October 6, 1964, is attached as Item No. 4.



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Messrs. Johnson, Sprecher, and Hart then withdrew from the meeting.

Court decision affecting national bank branching. Governor Balderston stated that a Federal District Court in Utah on September 30, 1964, had rendered a decision in the case of Walker Bank & Trust Company v. Saxon that had significant implications regarding the authority of the Comptroller of the Currency to permit national banks to establish branches. Briefly, the decision would appear to hold that, if State law permits State banks to establish branches, though only within certain geographical limits, national banks may be authorized to establish branches anywhere in that State.

Mr. Hackley commented on the possible implications of the decision, emphasizing that further information was needed from official sources.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

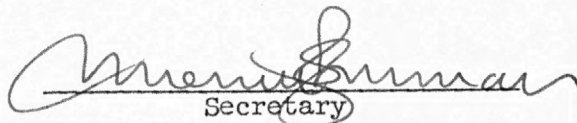
Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 5) approving the appointment of Warren Irvin Shore as assistant examiner.

Memorandum from the Division of Research and Statistics dated September 25, 1964, (1) recommending continuance of the appointment of David T. Hulett as Summer Research Assistant in that Division, with annual salary at the rate of \$6,050, until about December 31, 1964; and (2) requesting authorization to arrange office space for Mr. Hulett and use of the Board's computer for a period of approximately nine months beginning about January 1, 1965, during his tenure of a thesis research fellowship granted by the American Bankers Association.

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Memorandum from the Division of Administrative Services recommending the appointment of Donald R. Poole as Operator (Offset Press) in that Division, with basic annual salary at the rate of \$6,864, effective the date of entrance upon duty.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
10/2/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 2, 1964

Mr. Thomas M. Timlen, Jr.,  
Secretary,  
Federal Reserve Bank of New York,  
New York, New York. 10045.

Dear Mr. Timlen:

Receipt is acknowledged of your letter of September 17, 1964, in which you reported that your Bank had approved a leave of absence without pay for a period of up to eight weeks for Miss Janet Bogardus to enable her to act as consultant to the Ford Foundation's Middle East and Africa program, and advise on the establishment of a comprehensive library in Addis Ababa, Ethiopia. The Board of Governors interposes no objection to the arrangements outlined in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2  
10/2/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 2, 1964.

Bankers International Financing  
Company, Inc.,  
16 Wall Street,  
New York 15, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of September 21, 1964, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants consent for your Corporation to purchase and hold up to 80,000 additional shares, par value Philippine Pesos 10 each, of the common stock of Bancom Development Corporation, Makati, Rizal, Philippines, at a cost of approximately US\$200,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of Bancom Development Corporation within the terms of the above consent in excess of 10 per cent of your Corporation's capital and surplus.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



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

Item No. 3  
10/2/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 5, 1964

Mr. W. Braddock Hickman, President,  
Federal Reserve Bank of Cleveland,  
Cleveland, Ohio. 44101

Dear Mr. Hickman:

The Board has discussed the requests in your letter of August 17, 1964, that the Federal Reserve Bank of Cleveland be authorized (1) to obtain an option to purchase real estate in Cincinnati for a proposed new building for the Cincinnati Branch and (2) to have the architects proceed with preliminary building plans.

Following the discussion, the Board deferred action on the requests in your letter. The Division of Bank Operations was directed to make an on-site inspection of the present Cincinnati Branch building and to review other aspects of the proposal to acquire a new building site and report back to the Board on the results of its review.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

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Item No. 4  
10/2/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 6, 1964.

CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,  
Federal Reserve Bank of New York,  
New York, New York 10045.

Dear Mr. Hayes:

Your letter of August 7, 1964, regarding officers' salaries, which is similar in content to those of October 16, 1962, November 15, 1962, and July 26, 1963, has been carefully analyzed by the Board's staff and considered in detail by the Board in light of its established general guidelines for the administration of officers' salaries. The Board's letter of August 18, 1964, to the Chairman and President of each Federal Reserve Bank sets forth these general guidelines for the coming review of officers' salaries to be effective for the year 1965.

As set forth in the Board's letter of January 27, 1961, the Federal Reserve Act makes it clear that the Board has the final judgment and responsibility as to the appropriateness of salaries at Reserve Banks. The Board considers this responsibility to be exercised in the fixing of salary ranges, and in controlling frequency and amount of official merit or promotional increases.

In reaching the judgments incorporated into the salary ranges that have been approved and the guidelines for salary administration, the Board has had in mind the operating and professional skills used at Reserve Banks, the responsibilities of Reserve Bank officers compared with those of executives in business and Government, and community rates of pay for positions of comparable skills and responsibility.

While the Board has had some opportunity to appraise firsthand the quality of Reserve Bank official personnel, and while it is afforded indirect insights into the performance of various officers at System committee and other meetings, it must rely primarily on the presidents and directors at the Reserve Banks for recommendations regarding those persons who are fulfilling their assignments most effectively. It is for this reason that the Board's guidelines afford a considerable degree of flexibility in naming the officers most worthy of merit increases.

Analysis of your suggestions indicates that about 78 per cent of your current staff would be excepted from the 40 per cent rule under the proposal exempting officers who occupy professional-type positions and those in salary groups D, E, and F. Alternative suggestions would exempt 39 to 63 per cent of the current staff from the 40 per cent formula. The Board believes that adoption of any of these suggestions would eliminate the control and selection necessary to carry out its responsibilities with respect to salaries of Reserve Bank officers.

Analysis also shows that of the 64 officers indicated to be on the staff of the New York Bank on January 1, 1965, the 40 per cent limitation will not affect 7 officers whose salaries are below the minimums of groups D, E, or F. Of the remaining 57, we find that 34 were granted promotional or merit adjustments ranging from \$1,000 to \$3,000 in the last year, i.e., since November 1963. It would thus seem that the Bank could grant about 23 merit increases under the 40 per cent formula; and it would appear that 19 officers, or less than the number eligible under the formula, would normally be considered for merit increases in January 1965 (excluding 34 who received increases in the last year, one on leave, two who will retire in 1965, and one who is at maximum of grade). All of the eligible officers have received increases of from \$1,000 to \$3,000 since May 1962, with 16 of these increases occurring in January 1963 or later.

Thus, all of the New York officers have received either promotional or merit increases ranging from \$1,000 to \$5,000 since May 1962; so that the 40 per cent limitation does not seem to curtail selectivity in your current review of officers.

Because of your concern with the possible risk of losing officers to other employers, the Board has reviewed the record of officers leaving the Bank since January 1, 1960. At that time there were some 56 officers on the staff, and 29 new appointments have been made since. Of this expanded total of 85 officers, 13 have retired and only 8 have resigned. Enhanced status or prestige, or preference for the academic-type life, clearly appear to be the compelling factors motivating nearly all, if not all, of these resignations.

While you have indicated that the compa ratios of salaries of New York officers have been consistently low for several years, we find that all Federal Reserve Banks are in much the same position because of the gradual adjustments to or within the upward structure revisions that became effective January 1, 1963. In reviewing these compa ratios, we find that New York actually has the highest average compa ratio among all the Reserve Banks, at about 92 per cent for all grades combined.

Mr. Alfred Hayes

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With regard to the salaries of the officers in grades D, E, and F who are now below the special maximum of \$17,500 established by the Board for nonofficer positions of the professional-type level, it appears that the seven officers to whom you refer are relatively young and have received their appointments since 1960. It is noted that their present salaries will not be as high as some of the non-officer staff, particularly in the professional-technical area. It has, of course, been recognized over the years that some professional-technical nonofficer positions would have salaries higher than for those of some of the more junior officer positions, and it was felt at the time of establishment of the Officers' Salary Administration Plan in 1953 that this was desirable and appropriate. It is consistent with this premise that the nonofficer structure has traditionally overlapped at least the first grade of the officers' salary levels. The seven officers who have recently been appointed will in time be raised to the minimums of the grades involved, and potentially these officers have much greater ranges than those of the nonofficer staff.

With respect to officers of the professional-type, it is believed that the salary grade classifications offer an appropriate means of compensating professional-type officers in relation to their counterparts in operating functions and within the spread of the ranges. The Board believes that appropriate recognition of the official staff can continue to be made without establishing any hierarchy among existing groups to place the professional-type officers in a special category. If exemption were made for such officers, it would introduce the kind of differential treatment that would impair officer morale and esprit de corp generally.

The Board also notes your concern with relationships between officers and nonofficer employees in particular areas such as Research, and it recognizes that the differential between the official and non-official salaries has narrowed and that the July salaries for the chiefs of sections and special assistants, ranging from \$15,200 to \$16,600, in one or two cases have slightly exceeded the normal maximum (\$16,500) of your employees' salary structure. The increases given by the Bank on July 1 to the group mentioned above were fairly substantial in the nonofficial category (\$750 to \$2,200), and there is still some headroom before reaching the penthouse maximum of \$17,500 which is available for special cases. The Board is aware that the top grade of the Government structure, which contains its chiefs of sections and senior economists, is currently somewhat above the top range of the present nonofficer salary structure of the New York Bank; however, as indicated in your letter, your current review of that salary structure may result in taking up some of this gap and should give you additional headroom for movement when it is felt necessary to bring these employees along in the future.



In view of the experience in New York salary administration within the top nonofficer staff, it should be pointed out that the Board (and Civil Service) salary increase policy at such levels is limited both in size and frequency. For example, in the Board's top grade (FR-15) which ranges from \$16,460 to \$21,590, the increase is \$570 for the first three steps at yearly intervals; increases of the same amount at 2-year intervals are available for the following six years; beyond that period, increases of a like amount are available at 3-year intervals. It can be seen that for jobs of equal or greater responsibility than those at the New York Bank the frequency and size of increase is a much lesser figure than is being granted currently to nonofficer employees at the New York Bank.

In your considerations of the relationships that exist between the officer and nonofficer staff, you might wish to consider the feasibility of expanding the present official structure, which presently has ranges from 31 per cent to 44 per cent, to possibly 50 per cent in the four bottom grades. Additional headroom in the officer salary grades from C through F, gained by retaining the present minimums and providing a 50 per cent spread to the maximums in these grades, would result in higher ceilings in each range. You might also consider relating the Grade 15 midpoint to the minimum of Grade E rather than that of Grade F. Assuming your current review of the nonofficial structure warrants an increase of this magnitude, such an action would appear to give more headroom while retaining a desirable relationship and overlap between the top nonofficer grades and the lower officer grades.

As you have referred to the recent change in salaries of Government employees and their possible relationship to local salary levels, there is shown below a comparison of high-level salaries in Government in relation to the 10 highest officer salaries at your Bank, exclusive of the President and First Vice President.

<u>Government</u>	<u>New Salary</u>	<u>Federal Reserve Bank of New York</u>	
Cabinet	\$35,000	VP Bilby (Acctg., Loans)	\$35,000
Appeals Court Judges	33,000	VP Harris (Cash, Collections)	32,500
Immediate Sub-Cabinet; District Court Judges; Chairman, Board of Governors	30,000	VP Coombs (Foreign)	31,500
Deputy and Under Secretaries; Chairman of the Boards and Commissioners; Members, Board of Governors; etc.	28,500	VP Crosse (Bank Supv. & Relations)	29,000
Assistant Secretaries, etc.	27,000	VP & GC Clarke (Legal)	28,500
Commissioners, Heads of principal services, etc.	26,000	VP Smith (Buffalo Branch)	28,000
		VP Sanford (Foreign)	27,500
		VP Stone (Open Market)	27,500
		VP Rozell (Personnel, Bldg.)	26,000
		AVP MacInnes (Check)	25,500

Mr. Alfred Hayes

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The Board's Committee will, within the framework of the Board's policy, be happy to meet with you to review officers' salary recommendations and any other questions concerning your letter and this reply.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 5  
10/2/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 2, 1964

Mr. Joseph R. Campbell, Vice President,  
Federal Reserve Bank of Philadelphia,  
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

In accordance with the request contained in your letter of September 25, 1964, the Board approves the appointment of Warren Irvin Shore as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

