

Minutes for January 11, 1965.

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

mm

Gov. Mills

[Signature]

Gov. Robertson

RO

Gov. Balderston

CCB

Gov. Shepardson

SSS

Gov. Mitchell

UM

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Monday, January 11, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
 Mr. Mills 1/
 Mr. Robertson 2/
 Mr. Shepardson
 Mr. Mitchell
 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. Furth, Consultant

Messrs. Brill, Holland, Koch, Garfield, Partee,
 Solomon, Williams, Axilrod, Eckert, Fisher,
 Gehman, Gramley, Keir, Osborne, Trueblood,
 and Wernick of the Division of Research
 and Statistics

Messrs. Hersey, Sammons, Katz, Irvine, Reynolds,
 Wood, Gekker, Hayes, Maroni, and Mills of the
 Division of International Finance

Economic review. A review of significant domestic and international business and financial developments was presented by the Research and International Finance Divisions, following which there was a general discussion based on these reports.

Governor Mills then withdrew from the meeting. All members of the staff who had been present except Messrs. Sherman, Kenyon, Brill, and Sammons also withdrew at this point and the following entered the room:

1/ Withdrew from meeting at point indicated in minutes.
2/ Attended morning session only.

1/11/65

-2-

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Kakalec, Controller
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Lyon, Review Examiner, Division of Examinations
Mr. Noory, Assistant Review Examiner, Division of
Examinations

Report on Treasury draft bill (Item No. 1). Unanimous

approval was given to a letter to the Bureau of Budget (copy attached as Item No. 1) reporting on a Treasury draft bill "To continue the authority of domestic banks to pay interest on time deposits of foreign governments at rates differing from those applicable to domestic depositors." This draft bill was the subject of a memorandum from Mr. Hackley dated January 8, 1965, that had been distributed.

Governor Robertson stated that although he was fundamentally opposed to this sort of legislation, he could not say that the experience of the past three years had been adverse. The legislation had been accepted better than he had thought it would be, in his opinion because people had overstated the seriousness of the problem that gave rise to it. He would prefer a continuation of the original legislation for another three years, but in the circumstances he would not oppose making a report favorable to the present draft bill, under which the original legislation would be extended on a permanent basis. Governor Mitchell indicated that his views were similar to those of Governor Robertson.

1/11/65

-3-

Limited voting permits (Items 2-5). The following items, copies of which are attached hereto under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Telegram to the Federal Reserve Agent at Atlanta authorizing the issuance to Capital Bancshares, Inc., Miami, Florida, of a limited permit to vote its stock of Capital National Bank of Miami, Miami, Florida.	2
Telegram to the Federal Reserve Agent at San Francisco authorizing the issuance to Navajo Bancorporation, Inc., Phoenix, Arizona, of a limited permit to vote its stock of The First Navajo National Bank, Holbrook, Arizona.	3
Telegram to the Federal Reserve Agent at Chicago authorizing the issuance to C. B. Investment Corporation, Waukegan, Illinois, of a limited permit to vote its stock of Western National Bank of Cicero, Cicero, Illinois.	4
Telegram to the Federal Reserve Agent at Chicago authorizing the issuance to Western Springs Investment Corporation, Waukegan, Illinois, of a limited permit to vote its stock of The First National Bank of Western Springs, Western Springs, Illinois.	5

The Division of Examinations had originally transmitted to the Board a recommendation that there be granted to C. B. Investment Corporation a determination exempting it from all holding company affiliate requirements except for the purposes of section 23A of the Federal Reserve Act. However, in light of certain information obtained following the subsequent receipt of an application by Western Springs

1/11/65

-4-

Investment Corporation for a similar determination, the Division now recommended that limited voting permits be issued in both cases pending further study by the Division of the circumstances involved. The Board concurred in this recommended approach.

Consultant group on price measurement (Item No. 6). The Board approved unanimously the recommendations contained in a memorandum from Mr. Brill dated January 7, 1965 (copy attached as Item No. 6), concerning establishment of a consultant group to study the problems of price measurement, particularly in relation to the analytic needs of the Federal Reserve System.

The meeting then recessed and reconvened at 2:30 p.m. with the following attendance:

Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Holland, Associate Director,
Division of Research and Statistics
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations

Mr. Swan, President, Federal Reserve Bank of
San Francisco
Mr. Merritt, Vice President, Federal Reserve Bank
of San Francisco

1/11/65

-5-

San Francisco National Bank. Messrs. Swan and Merritt reported to the Board in some detail on developments related to San Francisco National Bank, San Francisco, California, particularly insofar as the bank's difficulties had caused it to borrow extensively from the Reserve Bank. Included in their report were comments concerning a possible merger of the member bank with another institution and comments concerning the limitations that were presented in considering additional assistance to the bank through the discount window should a merger not materialize in the near future.

There was general agreement that the Reserve Bank had been taking all steps that could reasonably be taken to cope with the situation, and it was understood that the management of the Reserve Bank would continue to follow the matter closely and take whatever actions seemed appropriate in its discretion.

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 Mercantile Bank of Canada, Montreal, Canada, intended to establish an additional branch in Canada, to be located in Halifax, Nova Scotia.

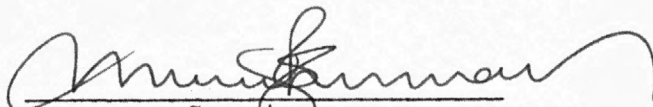
Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from Mr. Young dated January 8, 1965, proposing that a small dinner be given for three representatives of the British Treasury and central bank who will be in Washington on January 25-26, 1965, for informal conversations on financial problems, it being understood that a few members of the Board and Treasury staffs would be invited to attend.

1/11/65

-6-

Memorandum from the Division of Administrative Services recommending acceptance of the resignation of Donald R. Poole, Operator (Offset Press) in that Division, effective at the close of business January 22, 1965.



Secretary

Item No. 1
1/11/65

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 11, 1965.

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Hughes:

This is in response to your Office's Legislative Referral Memorandum of January 7, 1965, requesting the views of the Board of Governors with respect to a draft bill proposed by the Treasury Department "To continue the authority of domestic banks to pay interest on time deposits of foreign governments at rates differing from those applicable to domestic depositors."

The Board of Governors would favor the introduction and enactment of the proposed legislation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICEItem No. 2
1/11/65BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 11, 1965

TARVER -- ATLANTA

KECEA

- A. Capital Bancshares, Inc., Miami, Florida.
- B. Capital National Bank of Miami, Miami, Florida.
- C. None.
- D. At any time prior to May 1, 1965, at the annual meeting of shareholders of such bank, or any adjournments thereof, to elect directors for the ensuing year and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

(Signed) Karl E. Bakke

BAKKE

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

TELEGRAM
LEASED WIRE SERVICEItem No. 3
1/11/65**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**
WASHINGTON

January 11, 1965

WHITMAN -- SAN FRANCISCO

KECEA

- A. Navajo Bancorporation, Inc., Phoenix, Arizona.
- B. The First Navajo National Bank, Holbrook, Arizona.
- C. None.
- D. At any time prior to May 1, 1965, at the annual meeting of shareholders of such bank, or any adjournments thereof, to elect directors for the ensuing year and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

(Signed) Karl E. Bakke

BAKKE

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (8-964).

111

TELEGRAM
LEASED WIRE SERVICE

Item No. 4
1/11/65

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 11, 1965.

LUNDING -- CHICAGO

KECEA

- A. C. B. Investment Corporation, Waukegan, Illinois.
- B. Western National Bank of Cicero, Cicero, Illinois.
- C. Prior to issuance of limited voting permit authorized herein, Applicant shall execute and deliver to you in duplicate an application for a voting permit (Form P-1) with Exhibits A, C, M, and O.
- D. At any time prior to May 1, 1965, at the annual meeting of shareholders of such bank, or any adjournments thereof, (1) to elect directors for the ensuing year and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank; and (2) to reduce the par value of outstanding stock from \$20 to \$10 per share and to declare a stock dividend, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

(Signed) Karl E. Bakke

BAKKE

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

112
Item No. 5
1/11/65

January 11, 1965.

LUNDING -- CHICAGO

KECEA

- A. Western Springs Investment Corporation, Waukegan, Illinois.
- B. The First National Bank of Western Springs, Western Springs, Illinois.
- C. Prior to issuance of limited voting permit authorized herein, Applicant shall execute and deliver to you in duplicate an application for a voting permit (Form P-1) with Exhibits A, C, M, and O.
- D. At any time prior to May 1, 1965, at the annual meeting of shareholders of such bank, or any adjournments thereof, to elect directors for the ensuing year and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

(Signed) Karl E. Bakke

BAKKE

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (8-964).

January 7, 1965.

To: Board of Governors
From: Daniel H. Brill

Subject: Establishment of a consultant group on price measurement

This memorandum recommends Board sponsorship of a study to explore the problems of price measurement in relation to the analytic needs of the Federal Reserve System. The problems involved are both conceptual and statistical. Given reasonable price stability as an objective of monetary policy, what price measure or measures are most relevant for the determination of policy? The consumer price index? The wholesale price index? The industrial commodity price index? The sensitive industrial materials price index?

Undoubtedly, price measures at each of these levels play a role in the understanding of economic developments and in the framing of policy, but it is not at all clear that any of the existing indexes measure the concepts that would be most appropriate for interpreting developments from the viewpoint of monetary policy and for policy guidance to the monetary authorities.

Even if it were determined that existing indexes are conceptually relevant, or the best that can in practice be measured, serious questions have been raised as to their accuracy. These questions relate to variations of transactions prices around list prices as well as to the measurement of quality change and to appropriate weights.

At the last meeting between the Board and its group of academic consultants, a paper was presented by Professor Kravis of the University of Pennsylvania touching on these problems and indicating the need for extensive further research in these areas. Kravis and I have continued discussion of the problem and have reached the conclusion that a serious attack on the subject would be fruitful at this time. Four years ago a report on Government price statistics was issued by a consultant group to the Bureau of the Budget (generally known as the "Stigler Committee," after its chairman Professor George Stigler of the University of Chicago and the National Bureau of Economic Research), but this report has had only limited impact, partly because the report lacked sufficient focus on specific user needs, partly because of lack of funds and personnel to implement various recommendations, and partly because the subject of economic measurement is not one of the currently "glamorous" issues in economic research and is not attracting enough of the best talent.

Kravis and I feel that a small group of scholars, versed in the conceptual problems of price measurement and indexing but also experienced in the problems of price data collection and price behavior,

can be assembled to work with our staff in exploring methods for improving price measures to meet the specific needs of the monetary authorities. The objectives of such a group would be (a) to delineate more sharply the conceptual issues as to price measures relevant to monetary policy, (b) to recommend whatever changes in data collection and indexing techniques are needed to produce more accurate measures of the relevant price concepts, and (c) to stimulate research in the causes of price change and the measurement of prices, both within and without Government.

It is indeed fortunate that a scholar of Professor Kravis' stature is willing to collaborate with us in such an exploration. He is a recognized expert in the field, contributing extensively to the literature on this subject, and has been "through the mill" in operating experience at the Bureau of Labor Statistics. Kravis has offered to serve as chairman of a study group and has already obtained the promise of cooperation from another outstanding expert in the field, Professor Dorothy Brady. Other scholars being considered for inclusion in the study group are Professors Griliches and Rees of Chicago, Dr. Lipsey of the National Bureau, and Dr. Dennison of Brookings Institution. Messrs. Garfield and Altmann of our Division would be the principal Board staff participants. It seems best at this juncture not to ask the Budget Bureau, which sponsored the Stigler report, to participate officially in this study but it is planned to discuss various issues with their people and also with the agencies directly concerned with producing price statistics.

If the Board concurs in the recommendation that such an economic investigation be undertaken, it would probably be most expeditious to appoint Professor Kravis as a consultant to the Division. If this is done promptly, he can begin assembling the group of scholars and have a preliminary meeting as early this year as proves feasible.

No provision for such a consultant group was made in the Research Division's budget for 1965. While I have been carrying on discussions with Professor Kravis for several months, he could not be sure until year-end that he would have sufficient time to devote to the project to ensure its success. He has now made this determination and is prepared to start shortly.

At this stage it is difficult to forecast the expenditures that might be involved. Assuming that activities of the group for the current year would largely involve exploration of the problem, expenditures would be mainly for travel, consultant fees, and perhaps up to half a dozen commissioned papers on selected aspects of the subject. On this basis it is unlikely that expenditures in 1965 would exceed \$10,000. If the group's deliberations eventuated in recommendations

