

Minutes for February 25, 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

(M)

Gov. Mills

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

TS

Gov. Mitchell

IM

Gov. Daane

DD

Minutes of the Board of Governors of the Federal Reserve System on Thursday, February 25, 1965. 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. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research
and Statistics
Mr. Farrell, Director, Division of Bank
Operations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Holland, Associate Director, Division of
Research and Statistics
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of
the Secretary
Mr. Ring, Technical Assistant, Division of
Bank Operations
Messrs. Goodfellow and Poundstone, Review Ex-
aminers, Division of Examinations

Cincinnati Branch building (Item No. 1). The Board had had a series of discussions of proposals looking toward construction of a new building for the Cincinnati Branch, for which the Federal Reserve

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Bank of Cleveland proposed to buy land in the Core Renewal Area of Cincinnati. After discussion on February 8, 1965, the Board felt that the Cleveland Bank should explore the possibility of acquiring a site with a minimum of 90,000 square feet to allow adequate space for lateral expansion if needed; the property the Bank had proposed to acquire contained 45,784 square feet. Mr. Farrell subsequently visited Cincinnati, at the Board's request, for personal discussion of the matter. In a letter of February 23, 1965, which had been distributed, the Cleveland Bank indicated that it appeared possible to acquire a second parcel of land adjoining the site originally proposed, the combined area totaling 58,394 square feet. The Bank requested the Board's approval of making an offer to the City of Cincinnati to purchase the parcels at a cost expected to fall between \$12 and \$18 a square foot.

At the Board's request Mr. Farrell reported on his recent conferences with Chairman Hall and officers of the Federal Reserve Bank of Cleveland, and with a representative of the City Planning Commission of Cincinnati. He (Mr. Farrell) displayed a map on which he pointed out various properties surrounding the proposed Branch site and discussed their possible availability. One such property was not included in the redevelopment program, and therefore it was not to be expected that it could be purchased at the low price at which the proposed primary site was being offered. He had gotten the impression,

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for reasons he cited, that Chairman Hall felt that local authorities might be persuaded to sell to the Cleveland Bank as much property as was considered necessary for a new Branch building. However, Mr. Farrell had also heard comments that conflicted with this impression. It had been mentioned, for example, that it might be difficult to acquire more land in the Core Renewal Area than was needed for actual building because one of the City's objectives in the redevelopment project was improvement of tax revenues.

Governor Mitchell commented on the desirability of establishing clearer guidelines for planning buildings on the basis of projected needs. The Board, on the basis of its experience with 36 locations, was in a better position to judge future needs than were the local boards with their more limited experience. He believed that a program for a new Cincinnati Branch building should start with a search for a plot of ground of as much as 100,000 square feet, which would allow ample space for possible future needs.

Governor Balderston expressed the view that while the Board should hold firm as to the need to provide for future expansion, and for adequate vault space, the philosophy of decentralization of authority would argue for leaning upon the Cleveland and Cincinnati Boards as much as was feasible. The local boards in the System felt excluded from many matters relating to monetary policy, and it would seem that the Board should go as far as it could in good conscience to let them

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work out problems about physical plants, as to which they had both keen interest and competence.

Governor Mills commented on present and planned use of areas adjoining the proposed Branch site, and expressed concern lest the Federal Reserve, after locating in the Redevelopment Area, should then be stranded if plans for improvement of nearby property were abandoned. He had observed that local boards were sometimes swayed too much by civic considerations at the expense of regard for cost. It seemed to him that the Board's general supervision of the System carried with it some responsibility to resist over-emphasis on civic betterment.

Further discussion centered upon study of the map displayed, the likelihood of being able to purchase particular pieces of property, the adequacy and efficiency of different combinations of properties for Branch use, and the feasibility of bidding for certain pieces of property on condition that other pieces also could be acquired.

At the conclusion of the discussion it was agreed to inform the Cleveland Bank that the Board did not regard the area (58,394 square feet) of the land it wished to buy as adequate for future expansion, and that the Bank was authorized to make a firm offer for that land only if it was possible to expand the property to be acquired to a total ranging from 75,000 to 95,000 square feet. A copy of the

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letter conveying this view to the Federal Reserve Bank of Cleveland is attached as Item No. 1.

Mr. Holland then withdrew and Mr. Broida, Assistant Secretary, joined the meeting.

Allocation of System Open Market Account. Pursuant to action by the Board on October 7, 1964, a letter was sent to the Presidents of all Federal Reserve Banks on October 16 asking for comments on a proposed procedure for settling Interdistrict Settlement Fund clearings through security holdings rather than through gold certificate holdings. The procedure, which had been suggested primarily to simplify the task of avoiding deficiencies in the reserves the Reserve Banks were required by statute to hold against their deposit and note liabilities, was set forth in a memorandum dated April 10, 1964, from the Division of Bank Operations.

There had now been distributed a memorandum dated February 23, 1965, from the Division of Bank Operations reporting that six of the Federal Reserve Banks had favored or had no objection to the suggested procedure, five Banks had opposed it, and one (Richmond) had stated that before giving its endorsement it would like assurances that the settlements would not create problems with respect to securities pledged against Federal Reserve notes. The memorandum expressed the view that the note collateral problems sometimes faced by the Richmond Bank (and also by the Federal Reserve Bank of Boston) could not be

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improved through System Account adjustment measures because such measures did not alter the combined level of a Bank's holding of gold certificates and securities. The problems would, however, be remedied by pending legislation that would remove the 25 per cent gold certificate reserve requirement for Federal Reserve Bank deposit liabilities. (Note: That legislation was signed by the President on March 3, 1965, as Public Law 89-3.) The memorandum examined the objections expressed by five of the Reserve Banks and concluded that most if not all of them were either attributable to misunderstanding or susceptible to rather easy solution within the framework of the proposed plan for settlement in securities. It was understood that, in the light of the pending legislation, the Manager of the System Open Market Account would suggest at the forthcoming meeting of the Federal Open Market Committee the need for a comprehensive review of the procedures for allocating securities in the Account. While the purpose of such a review would be to minimize the frequency of reallocations, even with the passage of the proposed legislation special reallocations would be necessary occasionally as long as daily clearings were settled in gold certificates. Procedures for clearing through the securities account would be even more effective in reducing the need for reallocations and special adjustments if the new legislation was passed than had been expected when the plan was

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first proposed. The memorandum concluded by offering several alternatives for the Board's consideration:

(1) The Board might wish to drop the whole matter because half of the Banks had raised questions, despite the fact that most of their objections would appear to be easily solved;

(2) It might be suggested to the Presidents' Conference that the idea seemed to have enough merit for further consideration by an appropriate subcommittee or by an ad hoc conference of accounting representatives of the Reserve Banks;

(3) The Board might wish to suggest that the Open Market Committee's review of reallocation procedures include full consideration of the security clearings proposal as one possible alternative to a formula for periodic reallocations;

(4) The Board might wish to inform the Reserve Banks that it was inclined to adopt the arrangement, modified to meet most of the objections previously raised, and ask if they had any further objections.

Mr. Farrell commented on the alternatives that had been suggested and upon the increased effectiveness of the proposed procedure that was expected to result from the anticipated removal of the present statutory reserve requirement against deposit liabilities of Reserve Banks. With the release of pressure from that requirement, the gold certificate holdings of the Reserve Banks could be allocated in such a way as to provide a cushion for each Bank above its requirement, and there might not be need for reallocation for as long as a year.

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It was understood that the Manager of the System Account, in recommending a review of the over-all subject at the forthcoming meeting of the Federal Open Market Committee, would suggest continuance of the present procedure pending such review, but with reallocations to be made monthly rather than weekly. In the course of the review, since the statutory reserve requirement was expected no longer to present an urgent problem, the System might want to consider other bases of allocation that might give greater emphasis to an equitable distribution of earning assets among the Reserve Banks.

Governor Daane expressed general concurrence with the alternative under which it would be suggested that the Open Market Committee's review of reallocation procedures include consideration of the proposal for settlement in securities rather than in gold certificates. He asked whether there was objection to this alternative, and Mr. Farrell replied that he saw none, unless members of the Board had some basic objection.

Governor Mitchell asked if present circumstances might not present a favorable climate for seeking substitution of a single issue of Federal Reserve notes for the issues of the individual Reserve Banks. If the System's entire holdings of gold certificates were placed against a single issue, there would be no immediate problem of reserve deficiencies. The problem could arise again, however, if there should be a further substantial loss of gold. As he recalled,

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some opinion had been expressed within the Reserve Banks in favor of a single issue in the one dollar denomination. In view of the advantages of a single issue in terms of money saved and simplicity of System operations, it appeared to Governor Mitchell that the arguments in favor of multiple issues were not persuasive.

Governor Mills remarked that although from the standpoint of pure logic he believed Governor Mitchell was correct, he (Governor Mills) had always been disinclined to counter the prevailing view among the Reserve Bank Presidents that the imprint of the individual Bank's name on its notes preserved the identity of the Reserve Banks and the regional character of the System.

Governor Robertson commented that although the proposal for a single issue of Federal Reserve notes had in the past failed to win System approval, he believed it was a move that must be made sometime, and the sooner the better. A single issue would save money and be more efficient, and in his view the risk of injuring a Reserve Bank's prestige by not having its name on Federal Reserve notes was de minimis. He thought that few people took note of this factor.

Governor Shepardson said he had essentially the same feeling. It appeared to him that a big price was being paid to maintain the separate note issues, for very little purpose.

Chairman Martin asked if it was the sense of the Board that the question be raised again with the Conference of Presidents with

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an indication that the Board's thinking was tending in the direction of favoring a single note issue.

Governor Daane agreed that at some point the Board should come out in favor of a single note issue, but he questioned whether this was the best time. It might be useful to take up the question with the Presidents.

Further discussion reflected a consensus in favor of renewing with the Presidents the question of a single issue of Federal Reserve notes, and it was understood that this would be done.

Messrs. Young, Daniels, Smith, and Ring then withdrew from the meeting.

Bank holding company legislation. At its meeting on February 8, 1965, the Board decided, in connection with its legislative program, that instead of recommending a short bill covering only major changes in the Bank Holding Company Act, it would be preferable to recommend a comprehensive bill along the lines suggested in the Board's 1958 Special Report to the Congress, with certain features added that had developed out of recent discussions. Accordingly, the Legal Division had prepared such a draft bill, which, with an explanatory memorandum and a revised draft of transmittal letter to the Banking and Currency Committees of Congress, was distributed with a memorandum from the Division dated February 23, 1965.

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After discussion the Board approved the draft bill, transmittal letter, and explanatory memorandum, to be sent to the Congress when other components of the Board's legislative program were transmitted.

Messrs. Hexter, O'Connell, Goodman, Goodfellow, and Poundstone then withdrew from the meeting.

Record of Board's 1964 policy actions. There had been distributed a memorandum dated February 23, 1965, with which Mr. Sherman submitted draft entries for the Board's Annual Report covering policy actions taken during 1964.

Governor Daane suggested certain changes in the entry covering the Board's actions on November 23, 1964, regarding Federal Reserve discount rates and maximum rates of interest payable under Regulation Q, Payment of Interest on Deposits. However, several of the members of the Board indicated a need for additional time to study certain of the entries, and action was therefore deferred.

Governor Mills stated that since he would not be present when the policy record was discussed at greater length, he wished to record his general approval of the entries. He had been a dissenter from the action on December 16, 1964, through which the surplus accounts of the Federal Reserve Banks were to be maintained at a level equal to paid-in capital (rather than subscribed capital). Although the statement of his dissent included with the draft entry for the policy record reported his position sufficiently for that purpose, he wished to express his

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continuing concern that such action, by tending to weaken the over-all corporate structure of the Federal Reserve Banks, paved the way for possible future threats of nationalization if there should come a time when the Reserve Banks experienced financial difficulties and assistance had to be provided to them by the Federal Government. If such circumstances should arise, a basis would be laid for the claim that, since the Federal Reserve System had to be resuscitated out of the public purse, there was little reason why it should not be made part of the Executive Branch of the Government.

Governor Mills. It was noted that this would be the last Board meeting to be attended by Governor Mills, who had submitted to the President his resignation to be effective at the end of this month, and he expressed his personal pleasure in the associations he had enjoyed for many years with the members of the Board and its staff. Chairman Martin responded with similar sentiments on behalf of himself and the other members of the Board.

The meeting then adjourned.

Secretary's Notes: Subsequent to the meeting the members of the Board approved the sending of a letter to Governor Mills indicating that the Board had authorized presentation to him of the Board Room chair that he had used since becoming a member of the Board in 1952.

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

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Letter to the Federal Reserve Bank of Chicago (attached Item No. 2) approving the appointment of Gordon L. McConnell as assistant examiner.

Memoranda recommending the following actions relating to the Board's staff:

Salary increases, effective February 28, 1965

Eva Louise Jarvis, Minutes Clerk, Office of the Secretary, from \$4,140 to \$4,480 per annum.

Jo Ann Cannada, Secretary, Division of Research and Statistics, from \$5,000 to \$5,165 per annum.

Frank de Leeuw, Economist, Division of Research and Statistics, from \$14,660 to \$15,150 per annum.

Jill D. Francis, Statistical Clerk, Division of Research and Statistics, from \$4,480 to \$4,630 per annum.

Lula B. Bierly, Clerk, Division of International Finance, from \$4,780 to \$4,930 per annum.

Geraldine M. Venable, Clerk-Cashier, Cafeteria, Division of Administrative Services, from \$4,555 to \$4,680 per annum.

Susie T. Oros, Senior Accounting Technician, Office of the Controller, from \$8,170 to \$8,690 per annum, with a change in title to Senior Accountant.

Louis Zeller, Digital Computer Programmer, Division of Data Processing, from \$7,465 to \$8,650 per annum, with a change in title to Digital Computer Programmer Supervisor.

Transfer

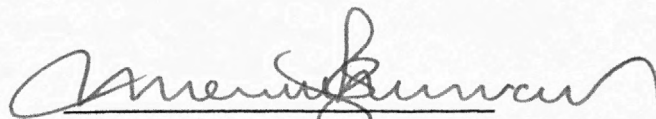
Petronella Maria van der Vossen, from the position of Stenographer in the Division of Personnel Administration to the position of Stenographer in the Office of the Secretary, with no change in basic annual salary at the rate of \$4,005, effective February 28, 1965.

Governor Shepardson today noted on behalf of the Board a memorandum from the Division of Administrative Services advising that

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Lloyd F. White, Chauffeur in that Division, had made application for disability retirement, effective at the close of business March 9, 1965.



Secretary

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
2/25/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1965.

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

Dear Mr. Hickman:

This refers to your letter of February 23, 1965, requesting that the Board authorize the Federal Reserve Bank of Cleveland to make a firm offer to the City of Cincinnati to purchase the complete "B2 area" in the Cincinnati "Core Project" at a price not to exceed \$18.00 per square foot. Your letter indicates that the "B2 area" contains approximately 58,000 square feet and includes the parcel originally under consideration plus a strip of land approximately 60 feet wide adjoining that property to the west and presently included in the Core Project plan as a pedestrian plaza.

When the Board last considered on February 8, 1965, a possible new site for the Cincinnati Branch, the proposal excluded the pedestrian plaza area and contemplated a plot containing about 45,000 square feet. As you were informed in a subsequent telephone conversation, the Board felt that a plot of that size did not leave enough room for such lateral expansion as may be needed in the future, and suggested that a plot suitable for this purpose should contain somewhere between 90,000 and 100,000 square feet, so that the original building would not occupy more than 50 per cent of the total plot. It is understood that Mr. Farrell discussed the Board's views on this matter during his meeting in Cincinnati on February 19 with Messrs. Hall, Morrison, and Kiel.

Upon further review of the matter, the Board feels that the increase in the proposed plot size from 45,784 square feet to 58,394 square feet, as proposed in your letter of February 23, still does not fully provide for future expansion. Accordingly, the Board authorizes your Bank to make a firm offer to the City of Cincinnati for the "complete B2 area" only if it is possible to expand the property to be acquired to a total area ranging from 75,000 to 95,000 square feet. The Board suggests that a plot of this size might be obtained by adding to the "complete B2 area" either--

Mr. W. Braddock Hickman

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- (a) The property now occupied by the Emery Building and the Mercantile Library Building extending northward on Walnut Street from Fourth Street, which it is understood would result in the total plot containing between 75,000 and 80,000 square feet.
- (b) The property on Fifth Street, which it is understood is now earmarked for the Transit Company in the redevelopment plan and which it is also understood contains about 35,000 square feet. On this basis the total Federal Reserve plot would be in the neighborhood of 90,000 square feet.

The Board recognizes that the property mentioned in alternative (a) above is not presently included in the redevelopment plan and would therefore have to be acquired on the open market. It believes, however, that moving ahead with the acquisition of the B2 area would be a mistake unless there was firm assurance that either the Walnut Street property or the Fifth Street property could be acquired. The Board would like to be advised of the approximate cost of these latter properties before any firm commitment is made for their acquisition.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 2

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WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 26, 1965

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the request contained in your letter of February 19, 1965, the Board approves the appointment of Gordon L. McConnell as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

