

Minutes for May 27, 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

  
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Gov. Robertson

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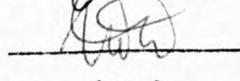
Gov. Balderston

  
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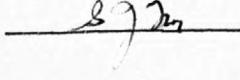
Gov. Shepardson

  
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Gov. Mitchell

  
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Gov. Daane

  
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Gov. Maisel

  
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Minutes of the Board of Governors of the Federal Reserve System on Thursday, May 27, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Robertson  
 Mr. Shepardson  
 Mr. Mitchell  
 Mr. Daane  
 Mr. Maisel

Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Brill, Director, Division of Research and Statistics  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Hexter, Assistant General Counsel  
 Mr. Sprecher, Assistant Director, Division of Personnel Administration  
 Mr. Spencer, General Assistant, Office of the Secretary  
 Mr. Young, Senior Attorney, Legal Division

Circulated 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 the Federal Reserve Bank of Kansas City (1) approving certain modifications with respect to the proposed addition to the head office building and (2) authorizing completion of final plans and specifications in accordance with such modifications.	1
Letter to the Federal Reserve Bank of Boston interposing no objection to a leave of absence without pay for John J. Arena, Senior Economist, to serve as a member of the staff of the Council of Economic Advisers.	2
Letter to the Federal Reserve Bank of St. Louis approving a revision of the employees' salary structures at the head office and branches.	3

5/27/65

-2-

Item No.

Letter to the Federal Reserve Bank of St. Louis approving the payment of salaries to four officers at rates fixed by the Bank's Board of Directors. 4

Fee for outside counsel (Item No. 5). There had been distributed a memorandum from the Legal Division dated May 20, 1965, regarding a request from the Federal Reserve Bank of Kansas City for Board approval of a payment of \$1,125 for legal services in connection with the recovery of damages incurred during construction of the Oklahoma City Branch building.

The memorandum noted that in the fall of 1964 the Kansas City Reserve Bank, without prior Board approval, paid outside counsel \$5,711.22 for services rendered in connection with a compromise settlement paid by one of several defendants named in the suit (Kay Engineering Company), with the understanding that the company would pursue other parties named as defendants to secure additional payments for the purpose of reimbursing the Reserve Bank for the full amount of the damage. In a letter dated October 15, 1964, the Bank explained the situation. The Board, in its reply of November 12, 1964, interposed no objection to the payment of the fee but called attention to the instructions issued by the Board that Reserve Banks should not, when retaining outside counsel, agree to pay a fee in excess of \$2,500 without the prior approval of the Board.

The city of Oklahoma City had now agreed to pay Kay Engineering Company \$9,000, of which the Reserve Bank would receive \$4,500. The

5/27/65

-3-

Reserve Bank indicated in its letter of May 14 that under the arrangement with outside counsel, counsel was entitled to 25 per cent of the amount recovered, whereas the Reserve Bank's letter of October 15 had conveyed the impression that the legal fee for outside counsel would be limited to the amount paid at that time.

Attached to the memorandum was a draft letter to the Reserve Bank interposing no objection to the payment of \$1,125 to outside counsel in view of the Bank's current statement regarding the stipulated fee. The last sentence would state that the Board had assumed, however, that the earlier payment represented the total amount of the fee.

After a discussion of the Board's outstanding instructions to the Reserve Banks relating to the obtaining of approval for the payment of fees greater than \$2,500 to outside counsel, whatever the basis for such fees, the letter to the Federal Reserve Bank of Kansas City was approved unanimously, with the understanding that the last sentence of the draft would be deleted, as had been suggested by Governor Maisel during the discussion. A copy of the letter, in the form sent, is attached as Item No. 5.

Messrs. Solomon and Young then withdrew from the meeting.

Question of staffing in open market area. At the Chairman's request, Mr. Sherman outlined a question that had been raised by President Galusha of the Federal Reserve Bank of Minneapolis as to whether

5/27/65

-4-

it would be appropriate for him to designate John Kareken, Consultant to the Reserve Bank, as Associate Economist of the Federal Open Market Committee. Since the Committee's Rules of Organization provide that its staff members are to be selected from among the officers and employees of the Board of Governors and the Federal Reserve Banks, President Galusha had suggested that Mr. Kareken might be made an employee of the Minneapolis Bank, in which capacity he would spend approximately one-third of his time. As Mr. Sherman explained, there was no legal question involved, and the technical question relating to the Open Market Committee's Rules of Organization would be met if Mr. Kareken were made an employee of the Reserve Bank. This left open the question of policy.

In the ensuing discussion the question presented by President Galusha was explored from various standpoints, including such value in terms of precedent as might be attached to situations that had occurred in the past at the New York and Richmond Reserve Banks where persons were affiliated with the Banks and performed functions in the open market policy area while at the same time holding university connections.

There was general agreement that it would be desirable for President Galusha to have the services of Mr. Kareken available to him and that there appeared to be no reason against continuation of the existing arrangement under which Mr. Kareken served as Consultant to the Reserve Bank in addition to his professorial connection with the University of Minnesota. It was noted that the performance of his duties

5/27/65

-5-

as Consultant might include attendance at Open Market Committee meetings to such extent as desired by President Galusha since the Open Market Committee had been operating in recent years according to a procedure under which it was customary for each Reserve Bank President to bring with him one economic adviser.

At the same time, a view was expressed that questions of the kind presented by President Galusha could not appropriately be considered entirely on an ad hoc basis. Rather, they should be considered within the context of a general pattern, and with awareness of the problems that might be involved if a practice should become widespread whereby part-time consultants with academic connections were named as associate economists of the Open Market Committee. Likewise, some doubt was expressed as to the propriety of appointing a person as an officer or employee of a Reserve Bank when his principal affiliation was with a university rather than the Federal Reserve.

In all the circumstances, a consensus developed that the most appropriate solution to President Galusha's problem would be to maintain the status quo; that is, to continue Mr. Kareken as Consultant to the Reserve Bank for such purposes as might be helpful to Mr. Galusha, including the rendering of advice in the monetary policy area, and for work with System staff research committees, to which work Mr. Kareken had been making valuable contributions. This would be with the understanding that Mr. Kareken could accompany Mr. Galusha to meetings of

5/27/65

-6-

the Open Market Committee to such extent as the latter might desire. In this connection, it was pointed out that there was no obligation on the part of President Galusha to designate any member of the staff of the Minneapolis Bank as an associate economist of the Open Market Committee during his term of office as a member of the Committee.

It was understood that the views of the Board, as embodied in the consensus, would be related to President Galusha by Governor Shepardson.

All members of the staff then withdrew and the Board went into executive session. The Secretary was advised later that during the executive session the following actions were taken:

Designation of Governor Shepardson. The Board vested in Governor Shepardson for the year beginning August 1, 1965, the direction at the Board level of its internal administrative affairs, including matters pertaining to Board personnel, budget, and housekeeping, with the understanding that the Board as a whole would continue to keep in touch with the operating problems of the staff and would determine questions of policy.

The designation continued Governor Shepardson's authorization to approve requests for domestic travel and requests for foreign travel falling within categories specified by the Board, in accordance with the provisions of the official travel regulations of the Board.

The action also continued Governor Shepardson's authorization to approve on behalf of the Board (1) all proposed personnel actions

5/27/65

-7-

relating to Board employees other than members of the official staff; and (2) the proposed appointment of examiners, assistant examiners, and special or special assistant examiners of the Federal Reserve Banks. It continued to be the understanding that all approvals by Governor Shepardson under the authorization of this paragraph would be entered in the Board's minutes as of the date of his approval.

Designation of Governor Maisel. The Board designated Governor Maisel to succeed former Governor Mills as a member of the Board of Trustees of the Retirement System of the Federal Reserve Banks, effective immediately, to serve until a successor was appointed by the Board. This designation was made pursuant to section 6 of the Rules and Regulations of the Retirement System, which provides that one member of the Board of Trustees shall be designated by the Board of Governors from its membership to serve at the Board's pleasure.

Continuing the existing arrangement established in 1949, Governor Maisel also succeeded Governor Mills as an associate of the Investment Committee of the Retirement System, in which capacity he would attend meetings of that Committee.

The meeting then recessed and reconvened in the Conference Room adjoining the Board Room at 10:55 a.m. for the presentation of plans that had been prepared for a possible remodeling of the dining facilities in the Federal Reserve Building. All members of the Board except Governor Balderston were present, along with Messrs. Sherman,

5/27/65

-8-

Kenyon, Brill, Farrell, Solomon, Kelleher, Kakalec, and Sprecher of the Board's staff.

In attendance for the purpose of making this presentation were Messrs. William Livingston, Sr., William Livingston, Jr., and Gordon Chesser of the architectural firm of Harbeson Hough Livingston & Larson.

The plan, as developed through a number of diagrams, reflected work conducted by the firm in the light of discussion at a previous meeting on September 23, 1964, at which it was suggested that possibilities be studied for the retention of principal dining facilities within the existing building if an annex building should be constructed across C Street.

From the presentation and questions that followed, it appeared that the cost of the suggested rearrangement and augmentation of facilities might be roughly in the area of \$1-1/4 million. However, if there was deducted from this figure the cost of comparable facilities placed in the annex building, the net additional cost might be only in the order of about \$100,000.

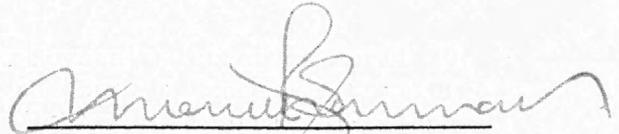
The discussion brought out that a decision at this point to accept or reject the current proposal for dining facilities was essential in order to enable the architectural firm to proceed further with plans for an annex building. However, if the general scheme was accepted, the details could still be modified in a number of respects according to the desires of the Board.

5/27/65

-9-

At the conclusion of the meeting it was understood that the members of the staff would forward any comments on the proposal to Governor Shepardson and that the matter would be considered at an early meeting of the Board with a view to making the Board's decision known to the architectural firm.

The meeting then adjourned.

  
Secretary

1791

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

Item No. 1  
5/27/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 27, 1965

Mr. George H. Clay, President,  
Federal Reserve Bank of Kansas City,  
Kansas City, Missouri. 64106

Dear Mr. Clay:

This refers to Vice President Boysen's letter of April 30, 1965, advising of the actions taken by the Bank's Executive Committee on suggestions contained in the Board's letter of February 19, 1965, pertaining to the proposed addition to the Kansas City head office building.

The Board approves the modifications described in Mr. Boysen's letter, and authorizes completion of final plans and specifications in accordance with those modifications.

The Board wishes to point out that the note at the bottom of the tabulation of costs of the fallout shelter on the stationery of Kivett & Myers could be misleading. The fallout shelter as now planned complies fully with Technical Memorandum 61-3 (Revised) March 1965, published by the Office of Civil Defense, concerning technical requirements for fallout shelters. As was noted in Mr. Witherell's letter of February 9, 1965, to Mr. Daniels, copies of which were sent to your Bank on February 25, 1965, the first plans called for blast protection doors and special filters for which no provision is made in the design of shelters in Federal buildings.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 27, 1965

Mr. D. H. Angney, Vice President,  
Federal Reserve Bank of Boston,  
Boston, Massachusetts 02106.

Dear Mr. Angney:

Reference is made to your letter of May 13, 1965, regarding a proposed leave of absence for Senior Economist John J. Arena for a period not to exceed twelve months, beginning in July 1965, to enable him to serve as a senior member of the staff of the Council of Economic Advisers.

The Board of Governors interposes no objection to the leave granted Mr. Arena while serving in the office of the Council, for the period approved by your Directors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 27, 1965

CONFIDENTIAL (FR)

Mr. Harry A. Shuford, President,  
Federal Reserve Bank of St. Louis,  
St. Louis, Missouri 63166.

Dear Mr. Shuford:

As requested in your letter of May 13, 1965, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the employees' salary structures at the Federal Reserve Bank of St. Louis, and branches, effective July 1, 1965.

Grade	St. Louis		Little Rock		Louisville		Memphis	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
1	\$ 2,760	\$ 3,780	\$ 2,600	\$ 3,120	\$ 2,600	\$ 3,360	\$ 2,600	\$ 3,120
2	2,940	3,960	2,700	3,360	2,700	3,540	2,700	3,360
3	3,120	4,200	2,820	3,660	2,940	3,960	2,820	3,720
4	3,360	4,560	2,940	3,960	3,180	4,320	3,060	4,140
5	3,660	4,920	3,240	4,380	3,540	4,800	3,420	4,620
6	4,020	5,400	3,600	4,860	3,900	5,280	3,780	5,100
7	4,380	5,940	3,960	5,400	4,320	5,820	4,200	5,640
8	4,860	6,540	4,440	5,940	4,800	6,480	4,620	6,240
9	5,400	7,260	4,860	6,600	5,280	7,140	5,160	6,960
10	6,000	8,040	5,400	7,260	5,760	7,800	5,640	7,620
11	6,660	9,000	5,940	8,040	6,360	8,580	6,240	8,400
12	7,380	9,960	6,540	8,880	7,020	9,480	6,900	9,300
13	8,220	11,160	7,320	9,840	7,800	10,560	7,620	10,320
14	9,180	12,420	8,220	11,100	8,700	11,760	8,520	11,520
15	10,260	13,860	9,240	12,480	9,720	13,140	9,540	12,840
16	11,400	15,360	10,320	13,920	10,800	14,580	10,620	14,340

The Board approves the payment of salaries to the employees within the limits specified for the grades in which the positions of the respective employees are classified. All employees whose salaries

Mr. Shuford - 2

are below the minimum of their grades as a result of this structure increase should be brought within appropriate ranges by October 1, 1965.

It is noted that the increase in salary expenses attributable to the proposed structure adjustments, other than below minimum costs, is expected to be nominal and that total salaries paid for the last half of 1965 are expected to approximate budget provisions.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman  
Secretary.



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

Item No. 4  
5/27/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 27, 1965

Confidential (FR)

Mr. Harry A. Shuford, President,  
Federal Reserve Bank of St. Louis,  
St. Louis, Missouri. 63166

Dear Mr. Shuford:

The Board of Governors approves the payment of salaries to officers of the Federal Reserve Bank of St. Louis listed below, for the period July 1 through December 31, 1965, at the rates indicated, which are those fixed by your Board of Directors, as reported in your letter of May 13, 1965.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Little Rock Branch</u>		
John F. Breen	Vice President and Manager	\$17,000
John K. Ward	Cashier	12,500
Michael T. Moriarty	Assistant Cashier	11,000
<u>Head Office</u>		
William R. Mueller	Assistant General Auditor	13,660

It has been noted that Fred Burton, Vice President and Manager of the Little Rock Branch, will effect service retirement as of June 30, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 5  
5/27/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 27, 1965.

Mr. Henry O. Koppang, First Vice President,  
Federal Reserve Bank of Kansas City,  
Kansas City, Missouri. 64106

Dear Mr. Koppang:

This is in response to your letter of May 14, 1965,  
to the Board's General Counsel requesting the Board's approval  
of the payment by your Bank of \$1,125.00 to outside counsel,  
representing 25 per cent of the Bank's share of the settlement  
made by Oklahoma City with Kay Engineering Company.

Because of your statement that your agreement with  
outside counsel stipulated a fee of 25 per cent of any recovery,  
the Board will interpose no objection to the payment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.