

Minutes for July 12, 1966

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. Robertson

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel

Gov. Brimmer

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, July 12, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Partee, Associate Director, Division of Research and Statistics
Miss Wolcott, Technical Assistant, Office of the Secretary
Mr. Fry, Economist, Division of Research and Statistics
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

Approved letters. The following letters were approved unanimously after consideration of background information that had been made available to the Board. Copies are attached under the respective item numbers indicated.

	<u>Item No.</u>
Letter to Trust Company of Georgia, Atlanta, Georgia, approving the establishment of a branch at Old Gordon Road and Fulton Industrial Boulevard, S.W.	1
Letter to The Fifth Third Union Trust Company, Cincinnati, Ohio, approving the establishment of a branch at Fourth and Walnut Streets, coincident with the relocation of its main office from that address to a site one block to the north.	2

7/12/66

-2-

	<u>Item No.</u>
Letter to The Fifth Third Union Trust Company, Cincinnati, Ohio, approving the establishment of a branch in Springfield Township.	3
Letters to Wells Fargo Bank, San Francisco, California, approving the establishment of branches at (1) Alameda Naval Air Station, and (2) Oakland Naval Supply Center.	4-5
Letter to the Federal Reserve Bank of New York approving the payment of salary to Fred H. Klopstock as Manager at the rate fixed by the Bank's Board of Directors.	6

Effect of airline strike on float. As a result of the airline strike that had begun last week, it was expected that there might be widespread delays in check processing, thus adding a large amount of reserves to the banking system through the creation of float. The matter had been the subject of a telephone conference meeting of the Open Market Committee yesterday, at which time certain authority was given to the Open Market Account Manager for use if necessary. Consideration of other possible approaches to the problem continued at this meeting of the Board.

Mr. Farrell reported that from a check with several Reserve Banks on clearing operations, it did not appear that the airline strike had yet had much impact. He noted that float customarily rose at this season of the year in any event because of vacations and other personnel factors. Mr. Partee indicated that nothing unusual had shown up thus far in the banking statistics. He added that the Board's staff was

7/12/66

-3-

projecting that a substantial impact would begin to appear this Wednesday, which would be the last day of the current reserve week.

Discussion then centered upon steps that might be taken in the event a drastic increase in float should occur. Mr. Farrell noted that one suggestion that had been advanced was to adjust the deferment schedules of the Reserve Banks, including the possibility of a change from two days to three days in maximum deferment.

Mr. Hackley observed that under Regulation J (Check Clearing and Collection) each Reserve Bank had authority to fix its own time schedules within the maximum deferment of two days. The two-day maximum had been specified, effective January 12, 1951, in a letter from the Board to the Reserve Banks dated December 18, 1950. If it was decided to move to a three-day maximum, a telegram could be sent to the Reserve Banks superseding the December 1950 letter.

Mr. Farrell raised the question whether such a change should be made without consultation with the Reserve Bank Presidents, in view of the long history of debate on this matter, and Vice Chairman Robertson replied that today's discussion should be regarded as confined to contingency planning to meet the specific problem posed by the airline strike. While the views of the Presidents could be helpful in this context, the timing factor might be such as to require an immediate decision regarding action that would be taken on a temporary basis. Governor Brimmer emphasized that he would consider it inadvisable to

7/12/66

-4-

use the present situation as a reason for making a permanent change in maximum deferment; such a step should be taken only after careful consideration, including consultation with the Reserve Bank Presidents.

There followed discussion of whether any changes in time schedules within the two-day maximum should be applied uniformly, pursuant to Board instruction, or on the basis of decisions by individual Reserve Banks. Consideration also was given to results that might flow from deferment schedule changes, including regional variations, and to possible repercussions on the money market, which was already tight.

It was the consensus that on the basis of present information no immediate Board action with respect to deferment schedules was called for. However, Vice Chairman Robertson requested that the staff keep abreast of developments that might indicate the need for emergency action. He asked specifically that Mr. Farrell be in touch with all of the Reserve Banks for this purpose and to solicit any views and recommendations, so that he (Mr. Farrell) could be prepared to make a recommendation to the Board if it should become necessary for the Board to act quickly.

Secretary's Note: A memorandum from Mr. Farrell reflecting his conversations with the Reserve Banks was distributed to the Board as an information item under date of July 15, 1966; a copy has been placed in the Board's files.

Governor Shepardson raised the question whether it would not be well to issue a statement along the lines of the draft considered

7/12/66

-5-

yesterday concerning the possible effects of the airline strike on float and on the amount of reserves available to the banking system. He pointed out that the issuance of such a statement might have value in preventing Federal Reserve statistical data from being misinterpreted.

The consensus favored withholding the issuance of such a statement temporarily, with the understanding that the staff would follow developments closely, keep the Board advised, and be prepared with such recommendations as might seem appropriate.

All members of the staff except Mr. Sherman then withdrew from the meeting.

Meeting with American Bankers Association representatives.

Governor Robertson stated that yesterday Mr. Charls Walker, Executive Vice President, American Bankers Association, had called him stating that he, President Archie Davis, and Washington representative Charles McNeill would like to visit the Board on July 18 for the purpose of discussing the "interest rate war." Mr. Walker stated that he understood a legislative proposal might be introduced within the next few days having for its purpose a roll-back in existing rate ceilings as set under the Board's Regulation Q (Payment of Interest on Deposits) and the similar regulation of the Federal Deposit Insurance Corporation. Governor Robertson stated that his inclination was to tell Mr. Walker that he would be glad to see the ABA representatives. However, in such a meeting he would refrain from doing more than listening to whatever

7/12/66

-6-

comments the visitors might wish to make. None of the other members of the Board indicated disagreement with this procedure.

Governor Robertson went on to say that he had been thinking about the possibility of a legislative package that would enable the Federal Home Loan Bank Board to set maximum permissible rates that might be paid by savings and loan associations on funds placed with them; that would give the Federal Deposit Insurance Corporation clear-cut authority to set maximum rates that could be paid by mutual savings banks; and which, if authority in those two fields were to be given, would provide authority for the Federal Reserve as well as the Federal Deposit Insurance Corporation to fix maximum permissible rates on any basis, including size of deposits. If such authority were given, his own thinking would lead him to the conclusion that the Board should reduce the maximum permissible rate on multiple or alternate maturity certificates of deposit from 5-1/2 per cent to 5 per cent for certificates of 90 days or longer and to 4 per cent on certificates of less than 90 days. If a package of this sort were available, Governor Robertson thought that it might then be possible and appropriate to make a move on the discount rate without resulting in a tendency for rates to escalate further. He would wish to have a full discussion of the matter with the Secretary of the Treasury and the Council of Economic Advisers, although a decision would be the responsibility of the Board. He would be glad to have the reaction of the other members of the Board to the possible desirability

7/12/66

-7-

of such a legislative package and a program along the lines indicated or some variation thereof.

Each of the members of the Board then commented on the general situation. There followed a general discussion of the subject of interest rates at the conclusion of which it was understood that there would be further consideration of the matter at a later meeting of the Board.

The meeting then adjourned.

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

Letters to the Federal Reserve Bank of Richmond (copies attached as Items 7 and 8) approving the appointment of Joseph H. Lucas, Jr., John D. Sanders, and John A. Vaughan as assistant examiners.

Memorandum from Mr. Holland, Adviser to the Board, dated June 27, 1966, recommending that Professor Franco Modigliani be commissioned to write a paper on the use of the discount rate to ration credit, with compensation at the rate of \$75 per day for about 30 days plus necessary travel expenses in accordance with the Board's travel regulations for whatever number of trips from Cambridge, Massachusetts, to Washington, D. C., might be necessary.

Memorandum from the Division of Personnel Administration dated July 8, 1966, recommending that the salary rate for Substitute Nurses be increased from \$24 per day to \$27 per day, effective July 11, 1966.

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

Appointments

Lawrence Richard Breen as Statistical Assistant, Division of Research and Statistics, with basic annual salary at the rate of \$5,181, effective the date of entrance upon duty.

Carolyn J. Latina as Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,797, effective the date of entrance upon duty.

7/12/66

-8-

Transfers

Landonia Ann Dressler, from the position of Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division of Examinations, with no change in basic annual salary at the rate of \$4,149, effective upon assuming her new duties.

Kathryn A. Morisse, Economist, Division of Research and Statistics, from the Capital Markets Section to the Business Conditions Section, with no change in basic annual salary at the rate of \$8,241, effective upon assuming her new duties.

Petronella van der Vossen, from the position of Stenographer in the Office of the Secretary to the position of Secretary in the Division of Research and Statistics, with an increase in basic annual salary from \$4,797 to \$5,181, effective July 17, 1966.

Change in title

Carol Westley, Programmer (Trainee), Division of Research and Statistics, change in title to Digital Computer Programmer, with no change in basic annual salary at the rate of \$5,181, effective July 17, 1966.

Acceptance of resignations

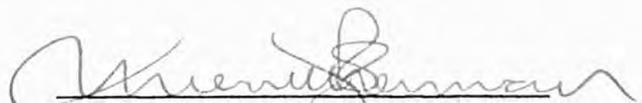
Annie Louise Liles, Clerk-Typist, Division of Research and Statistics, effective the close of business July 11, 1966.

Guy R. DeCarlo, Economist, Division of International Finance, effective July 15, 1966.

Permission to engage in outside activity

Samuel I. Katz, Adviser, Division of International Finance, to teach a course in International Economics at George Washington University.

Governor Shepardson today noted on behalf of the Board a memorandum advising that Flora J. Griffith, Chief Telephone Operator, Division of Administrative Services, had filed application for retirement, effective August 1, 1966.


Secretary

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

Item No. 1
7/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 12, 1966

Board of Directors,
Trust Company of Georgia,
Atlanta, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Trust Company of Georgia, Atlanta, Georgia, of a branch at the corner of Old Gordon Road and Fulton Industrial Boulevard, S.W., Atlanta, Georgia, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 2
7/12/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1966

Board of Directors,
The Fifth Third Union
Trust Company,
Cincinnati, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Fifth Third Union Trust Company, Cincinnati, Ohio, at the northwest corner of the intersection of Fourth and Walnut Streets, Cincinnati, Ohio, coincident with the relocation of The Fifth Third Union Trust Company's main office from that location to a site one block to the north, provided the branch is established within two years from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 3
7/12/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1966

Board of Directors,
The Fifth Third Union
Trust Company,
Cincinnati, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Fifth Third Union Trust Company, Cincinnati, Ohio, of a branch in Seven Hills Plaza (a proposed shopping center) at 10800 Hamilton Avenue, Springfield Township, Hamilton County, Ohio, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 4
7/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 12, 1966

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch at the Alameda Naval Air Station, Alameda, California, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 5
7/12/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1966

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch at the Oakland Naval Supply Center, Oakland, California, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 6
7/12/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1966

CONFIDENTIAL (FR)

Mr. William F. Treiber,
First Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Treiber:

The Board of Governors approves the payment of salary to Mr. Fred H. Klopstock as Manager (assigned to the International Research Department) at the Federal Reserve Bank of New York at the rate of \$20,000 per annum, for the period July 1 through December 31, 1966. This is the rate fixed by your Board of Directors as reported in your letter of June 30.

The Board has noted the change in assignment for Mr. Schadrack, effective July 1, and the leave of absence for Mr. Richard G. Davis beginning September 1.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 7
7/12/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1966

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the request contained in your letter of July 7, 1966, the Board approves the appointment of Joseph H. Lucas, Jr., as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 8
7/12/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1966

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the requests contained in your letters of July 6, 1966, the Board approves the appointment of John D. Sanders and John A. Vaughan as assistant examiners for the Federal Reserve Bank of Richmond, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.