Minutes for August 2, 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 WM
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, August 2, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Mitchell
Mr. Daane
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Young, Senior Adviser to the Board and Director, Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
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. Kakalec, Controller
Mr. Harris, Coordinator of Defense Planning
Mr. Byrne, Director, Division of Data Processing
Mr. Shay, Assistant General Counsel
Mr. Koch, Deputy Director, Division of Research and Statistics
Mr. Partee, Associate Director, Division of Research and Statistics
Mr. Gramley, Associate Adviser, Division of Research and Statistics
Mr. Sigel, Associate Adviser, Division of Research and Statistics
Mr. Sammons, Associate Director, Division of International Finance
Mr. Hersey, Adviser, Division of International Finance
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Kern, Assistant Director, Division of Administrative Services
Mr. Langham, Assistant Director, Division of Data Processing

Miss Wolcott, Technical Assistant, Office of the Secretary
Mr. White, Technical Assistant, Division of Bank Operations
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Smith, Assistant to the Director, Division of Administrative Services
Mr. Staiger, Senior Economist, Division of Data Processing

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

	Item No.
Letters to Bank of the Commonwealth, Detroit, Michigan, approving the establishment of branches in Farmington Township and Sterling Township.	1-2
Letter to Worthen Bank and Trust Company, Little Rock, Arkansas, approving the establishment of an in-town branch.	3
Letter to Ypsilanti Savings Bank, Ypsilanti, Michigan, approving the establishment of an in-town branch and an investment in bank premises, and commenting on the bank's capital position.	4
Letter to Nevada Bank of Commerce, Reno, Nevada, approving the establishment of a branch in Carlin.	5

Report on S. 3627 (Item No. 6). There had been distributed a draft of letter to Chairman Robertson of the Senate Committee on Banking and Currency replying to a request for a report on S. 3627, a bill to provide for the more flexible regulation of maximum rates of interest or dividends payable by banks and certain other financial institutions on deposits or share accounts, introduced at the Board's request by Senators Robertson and Bennett. The letter would recommend that additional authority be granted to the Board to increase reserve requirements on time deposits up to a maximum of 10 per cent and that the Federal Reserve Banks be authorized to buy and sell in the open market all obligations issued or guaranteed by agencies of the United States. A draft of legislation implementing these additional authorizations was attached.

In commenting on the situation, the Vice Chairman noted that the Secretary of the Treasury was sending to Chairman Robertson today a letter favorable to the proposals embodied in S. 3627 and recommending that additional authority be granted the System in the two areas relating to reserve requirements and agency obligations.

Governor Robertson pointed out that the Board was on record as favoring the proposed additional authority in regard to reserve requirements against time deposits. As for the second item, the proposal would extend the System's present discretionary authority to purchase and sell certain agency obligations in the open market. He would want to make clear in his testimony before the Committee that the System would not propose to use the additional authority to funnel funds into selected areas; that the authority should instead be thought of simply as extending the System's present discretionary authority and as being useful for purposes such as increasing the System's flexibility in implementing monetary policy or in preventing disorderly markets.

Governor Daane commented that he saw a risk of pressure being exerted upon the System to use the additional authority in respect to agency obligations for purposes other than those of the kind Governor Robertson had mentioned. He had a visceral feeling that this was a wrong thing for the Board to espouse, and he would not be inclined to take a positive position in favor of it.

Governor Mitchell noted that, as had been brought out, the System already had authority to purchase and sell certain agency obligations. While the System had not operated in those securities, there was no legal bar. In the circumstances, he could see no reason to hold back from requesting legal authority to operate across the board.

In further discussion Governor Daane said he was not convinced that it would be easy, if the authority were available, to operate on a discretionary basis. The door would be opened to the kind of procedure envisaged by the House bill, in which System operations in certain agency obligations would be conducted at the request of the Secretary of the Treasury. The likely outcome would be pressure to funnel credit into specific sectors. Further, there seemed to be no valid argument that the lack of such authority constituted a hindrance to the System in the conduct of operations implementing monetary policy.

Governor Brimmer suggested that the environment in which the question was before the Board must be considered. The legislation now being proposed was a negotiated package, to the main parts of which it was necessary for the Board to subscribe if the package was to have the general support of the several agencies concerned. He agreed, however, that as Governor Robertson had suggested, it should be made clear in the forthcoming testimony that the System would not propose to use the authority to rescue faltering segments of the economy.

There followed discussion of the volume of agency obligations outstanding and the portion thereof in which the System currently had authority to operate. While the number of issues falling under the present authority was substantial, such issues represented only a minor portion of the total dollar amount of agency obligations outstanding.

Governor Robertson observed that legislation subjecting the System to direction by an outside party in its dealings in agency obligations would be a far less attractive alternative than the current proposal. He went on to express the view that it was difficult to distinguish, in terms of general principle, between the obligations that the System already was authorized to purchase and sell and those obligations as to which the System lacked such authority.

Governor Shepardson inquired whether there was any indication of the position the Treasury might take on the point in question. Governor Robertson replied that he understood the Treasury would take the position that the recommended additional authority was not intended to funnel credit into particular areas. Governor Shepardson then said that he thought support of the proposal was appropriate, even though he recognized the hazard Governor Daane had mentioned.

Accordingly, approval was given to the transmittal of the proposed letter to Chairman Robertson, Governor Daane dissenting insofar as the position taken with respect to agency obligations was concerned. A copy of the letter, as sent, is attached as Item No. 6.

Chairmanship at Minneapolis Bank (Item No. 7). The Vice Chairman reported that a letter of July 21, 1966, from Chairman Bemis of the Federal Reserve Bank of Minneapolis had suggested the name of a possible successor. Although Mr. Bemis had been serving as a Class C director since March 1961, he had served as Chairman only since the first of this year. Therefore, under the general policy of the Board he would be eligible for reappointment to a full three-year term as Class C director at the end of this year if he continued to serve as Chairman.

Governor Robertson had before him a proposed reply to Chairman Bemis that would thank him for his suggestion but indicate that the Board was hopeful he would be willing to accept reappointment.

After discussion, unanimous approval was given to the letter, a copy of which is attached as Item No. 7.

Reorganization of data processing. There had been distributed a memorandum dated July 20, 1966, from the Division of Data Processing transmitting staff documents dealing with three aspects of a proposed reorganization of that Division and handling of responsibilities for data processing; namely, (1) computer-communications planning for the Federal Reserve System; (2) reorganization of the Division of Data

Processing; and (3) interim solution to the space problems of the Division. Recommendations in each area were set forth in the memoranda.

Pursuant to the understanding at the meeting on July 25, 1966, consideration of these papers had been deferred pending receipt of memoranda from the Divisions of Research and Statistics, Bank Operations, Examinations, and International Finance commenting on the basic documents. Memoranda dated July 29, 1966, from those divisions had now been distributed, as well as a further memorandum dated August 1, 1966, from Mr. Byrne.

Comments in the division memoranda were directed mainly toward the recommendations relating to the proposed reorganization of the Division of Data Processing. In his August 1 memorandum, Mr. Byrne indicated that following discussion with the various divisions concerned there appeared to be general agreement with the Divisions of International Finance and Examinations; and resolution of the issues raised by the Division of Bank Operations having to do principally with areas of responsibility appeared feasible through close coordination between the two divisions. Discussion with the Division of Research and Statistics, however, revealed areas of misunderstanding and points of disagreement that had not been settled. Among other things, Mr. Byrne suggested that a committee consisting of a Board member and the heads of several divisions be established to provide continuing assessment of all computer-related services and to assure satisfactory service and adequate utilization of resources.

At the start of today's discussion Mr. Byrne noted that there seemed to be general agreement among the divisions that reorganization of the handling of data processing should get under way. The principal area of concern centered around the possibility of insufficient flexibility in the proposed organizational setup. He indicated that the underlying philosophy was that the Division of Data Processing would be basically a service organization and that the primary objective would be to provide users with the best possible service. In a research-oriented organization such as the Board, improvements in the operating system, as envisaged in his memoranda, should be to the overall benefit of users.

With the introduction of more sophisticated equipment there would have to be, in Mr. Byrne's judgment, a shift from the open-shop concept to a closed-shop concept. He felt that these terms were perhaps unfortunate; the essential proposal was that the actual operation of the computer would be restricted to Data Processing Division personnel. This did not contemplate a closed shop with respect to programming; in fact, it was his recommendation that economists be encouraged to pursue the ad hoc type of programming. Under the proposed procedure he hoped to maximize the overall utilization of the computer and make more time available to more users.

Attention then turned to the question of how best to deal with the various proposals: whether to focus on longer-term data processing plans for the System as a whole or upon the immediate Board problem. In this connection Governor Shepardson expressed the view that the operational concept of the Division should be determined first, after which such questions regarding space as might be answerable at this time could be disposed of.

Governor Shepardson observed that when data processing was first introduced to the Board it was agreed that the open-shop approach was the proper one. This had resulted in a better understanding on the part of the several divisions, within a relatively short time, of the possibilities of the computer as a useful tool. The first computers, however, were of relatively simple design and relatively easy to operate. Now the Board was acquiring a much more sophisticated machine, one that could carry multiple projects and one that would require more control to achieve the maximum benefit from its capabilities. It was therefore necessary to devise a method of operation in which an organization of people fully trained and cognizant of developing needs would provide leadership and service. It was time to subscribe to a new philosophy, the basic concept of which was one of service--the greatest possible service to the Board in the beginning and then to the System as a whole.

After further discussion, during which it was generally agreed to focus for the moment on consideration of internal operations as they would be affected by the reorganizational concept, the Vice Chairman called for comments from the staff directed particularly toward this point.

The principal comments made in response were by Mr. Koch. He expressed agreement with moving toward a more structured approach to mass production jobs. He went on, however, to bring out how well basic research needs had been accommodated under the open-shop plan and expressed apprehension, on behalf of the research staff, as to whether the proposed approach took sufficiently into account the requirements of economists engaged in theoretical analysis and experimental programs related to monetary research. He saw a risk of placing too much emphasis on the efficiency of computer operations per se. It was his thought that the closed-shop concept implied a degree of rigidity in operating procedures that would militate against satisfying the needs of the research program, and he suggested the possibility of combining the open and closed-shop concepts in some fashion.

Mr. Koch's remarks led to a rather lengthy interchange of comments concerning the service that would be available to research users under the contemplated operating procedures, and also to further interpretation of the philosophy embodied in a closed-shop system, particularly as it related to direct access to the computer. From this discussion it became apparent that the apprehensions of the research staff had not been resolved, and some of the Board members likewise expressed concern. It was decided to continue the discussion at tomorrow's meeting of the Board, at which time the views of other operating divisions of the Board would be heard.

The meeting then adjourned.

Secretary

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

Item No. 1
8/2/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 2, 1966

Board of Directors,
Bank of the Commonwealth,
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of the Commonwealth, Detroit, Michigan, of a branch in the vicinity of the intersection of Thirteen Mile Road and Orchard Lake Road, Farmington Township, Oakland County, Michigan, 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
8/2/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 2, 1966

Board of Directors,
Bank of the Commonwealth,
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of the Commonwealth, Detroit, Michigan, of a branch in the vicinity of the intersection of Nineteen Mile Road and Schoenherr Road, Sterling Township, Macomb County, Michigan, 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. 3
8/2/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 2, 1966

Board of Directors,
Worthen Bank and Trust Company,
Little Rock, Arkansas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Worthen Bank and Trust Company, Little Rock, Arkansas, of a branch at 7321 Cantrell Road, Little Rock, Arkansas, 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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Item No. 4
8/2/66

August 2, 1966.

Board of Directors,
Ypsilanti Savings Bank,
Ypsilanti, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Ypsilanti Savings Bank, Ypsilanti, Michigan, of a branch at 139 North Washington Street, Ypsilanti, Michigan, provided the branch is established within one year from the date of this letter.

The Board also approves under the provisions of Section 24A of the Federal Reserve Act an investment of $151,000 in bank premises incident to establishment of the branch.

The Board notes that your bank's capital position is somewhat less than satisfactory and urges that careful consideration be given to all means to strengthen the capital structure as soon as possible so that continued growth of your bank will be on a sound basis.

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
8/2/66

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

August 2, 1966

Board of Directors,
Nevada Bank of Commerce,
Reno, Nevada.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Nevada Bank of Commerce, Reno, Nevada, of a branch in the vicinity of the intersection of Sixth and School Streets, Carlin, Elko County, Nevada, 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.)

2797

Item No. 6
8/2/66

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE VICE CHAIRMAN

August 2, 1966

The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

This is in reply to your request of July 25, 1966, for a report on S. 3627, which you and Senator Bennett were kind enough to introduce at the Board's request. In my letter of July 15, I outlined the reasons why the Board recommends more flexible authority to set ceilings on interest rates on time deposits at commercial banks, together with parallel authority in the Federal Home Loan Bank Board with respect to rates paid by savings and loan associations.

We further recommend that, in addition to the authority provided in S. 3627, the Board be empowered to increase reserve requirements on time deposits up to a maximum of 10 per cent and the Federal Reserve Banks be authorized to buy and sell in the open market obligations issued or guaranteed by agencies of the United States.

Enclosed is a draft of legislation that would add these two authorizations to the provisions already incorporated in S. 3627.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.

Enclosure

DRAFT

A BILL

To provide for the more flexible regulation of maximum rates of interest or dividends payable by banks and certain other financial institutions on deposits or share accounts, to authorize higher reserve requirements on time deposits at member banks, and to authorize open market operations in agency issues by the Federal Reserve Banks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

RESERVES AND RATE CEILINGS--MEMBER BANKS

Section 1. (a) Section 19 of the Federal Reserve Act is amended by striking the first six paragraphs (12 U.S.C. 461, 462, and 462b) and inserting:

"(a) The Board is authorized for the purposes of this section to define the terms used in this section, to determine what shall be deemed a payment of interest, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this section and to prevent evasions thereof.

"(b) Every member bank shall maintain reserves against its deposits in such ratios as shall be determined by the affirmative vote of not less than four members of the Board within the following limitations:

"(1) In the case of any member bank in a reserve city, the minimum reserve ratio for any demand deposit shall be not less than 10 per centum and not more than 22 per centum, except that the Board, either in individual cases or by regulation, on such basis as it may deem reasonable and appropriate in view of the character of business transacted by such bank, may make applicable the reserve ratios prescribed for banks not in reserve cities.

"(2) In the case of any member bank not in a reserve city, the minimum reserve ratio for any demand deposit shall be not less than 7 per centum and not more than 14 per centum.

"(3) In the case of any deposit other than a demand deposit, the minimum reserve ratio shall be not less than 3 per centum and not more than 10 per centum.

"(c) Reserves held by any member bank to meet the requirements imposed pursuant to subsection (b) of this section shall be in the form of--

"(1) balances maintained for such purpose by such bank in the Federal Reserve Bank of which it is a member, and

"(2) the currency and coin held by such bank, or such part thereof as the Board may by regulation prescribe."

(b) The paragraphs which, prior to the amendments made by this Act, were the seventh (12 U.S.C. 374a), eighth (12 U.S.C. 374, 463), ninth (12 U.S.C. 464), tenth (12 U.S.C. 465), eleventh (12 U.S.C. 466), twelfth (12 U.S.C. 371a), and thirteenth (12 U.S.C. 371b) paragraphs of section 19 of the Federal Reserve Act are respectively redesignated as subsections (d), (e), (f), (g), (h), (i), and (j) of that section.

(c) Such section is further amended by striking the first sentence of subsection (j) as redesignated (12 U.S.C. 371b) and inserting: "The Board may from time to time, after consulting with the Board of Directors of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, limit by regulation the rates of interest which may be paid by member banks on time and savings deposits. The Board may prescribe different rate limitations for different classes of deposits, for deposits of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of member banks or their depositors, or according to such other reasonable bases as the Board may deem desirable in the public interest."

(d) The last paragraph of such section (12 U.S.C. 462a-1) and the proviso in section 8 of the Second Liberty Bond Act (31 U.S.C. 771) are repealed.

RATE CEILINGS--INSURED NONMEMBER BANKS

Sec. 2. The second and third sentences of section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) are amended to read as follows: "The Board of Directors may from time to time, after consulting with the Board of Governors of the Federal Reserve System and the Federal Home Loan Bank Board, limit by regulation the rates of interest or dividends that may be paid by insured nonmember banks (including insured mutual savings banks) on time and savings deposits. The Board of Directors may prescribe different rate limitations for different classes of deposits, for deposits of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of insured nonmember banks or their depositors, or according to such other reasonable bases as the Board of Directors may deem desirable in the public interest."

RATE CEILINGS--SAVINGS AND LOAN ASSOCIATIONS

Sec. 3. The Federal Home Loan Bank Act is amended by adding after section 5A thereof (12 U.S.C. 1425a) the following new section:

"Sec. 5B. The Board may from time to time, after consulting with the Board of Governors of the Federal Reserve System and the Board of Directors of the Federal Deposit Insurance Corporation, limit by regulation the rates of interest or dividends on deposits, shares, or withdrawable accounts that may be paid by members, other than those the deposits of which are insured in accordance with the provisions of the Federal Deposit Insurance Act, and by institutions which are insured institutions as defined in section 401(a) of the National Housing Act. The Board may prescribe different rate limitations for different classes of deposits, shares, or withdrawable accounts, for deposits, shares, or withdrawable accounts of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of such members or institutions or their depositors, shareholders, or withdrawable accountholders, or according to such other reasonable bases as the Board may deem desirable in the public interest."

OUTSTANDING RATE REGULATIONS

Sec. 4. Any regulation prescribed by the Board of Governors of the Federal Reserve System or the Board of Directors of the Federal Deposit Insurance Corporation with respect to the payment of deposits and interest thereon by member banks or insured nonmember banks which is in effect when this Act is enacted shall continue in effect unless and until it is modified or rescinded after consultation with the Board of Directors or the Board of Governors, as the case may be, and the Federal Home Loan Bank Board.

OPEN MARKET OPERATIONS

Sec. 5. Section 14(b) of the Federal Reserve Act (12 U.S.C. 355) is amended by inserting "(1)" immediately after "(b)" and by adding the following new paragraph at the end:

"(2) To buy and sell in the open market, under the direction and regulations of the Federal Open Market Committee, any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States."

Board of Governors of the
Federal Reserve System.

August 2, 1966.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
8/2/66

OFFICE OF THE VICE CHAIRMAN

August 1, 1966

Mr. Judson Bemis,
Chairman,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Sandy:

The Chairman, as you may know, is still away from his office recuperating from recent surgery, and therefore I am replying to your nice letter of July 21.

First, let me say that we appreciate the suggestion of Mr. Kenneth N. Dayton as a candidate for a Class C directorship on your Board. Your recommendation and his qualifications are persuasive, and we will certainly have him in mind should a vacancy occur.

I use the word "should" intentionally because we are not counting on a vacancy on the Minneapolis Board at the end of this year. For many years the Board has followed the policy that every Reserve Bank Chairman is entitled to a full three-year term so that he can make a maximum contribution of leadership to the bank's affairs. You have been in that post only since the beginning of this year, and at the time of your selection the Board was looking forward to reappointing you next December so that your excellent leadership of the Bank and valuable service to the System could be continued.

We are hopeful that you will be willing to accept another term. It may be that, for personal reasons, you do not wish to serve beyond the end of this year. If--and only if--that is the case, then I agree it would be desirable to get started early on the process of selecting a successor. Our first concern is to know whether you would be willing to serve as Chairman for the coming three years.

Sincerely yours,

J. L. Robertson

J. L. Robertson.

cc: Mr. Galusha