FR 609

Minutes for August 26, 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 M

Gov. Robertson R

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel

Gov. Brimmer

Minutes of the Board of Governors of the Federal Reserve System on Friday, August 26, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Shepardson, Acting Chairman
Mr. Mitchell
Mr. Maisel
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. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, Staff Assistant, Office of the Secretary
Mr. Furth, Consultant

Messrs. Brill, Gramley, Keir, Bernard, Ettin, Fry, and Kelty, and Mrs. Peskin of the Division of Research and Statistics

Messrs. Katz, Gemmill, and Baker of the Division of International Finance

Money market review. There were distributed tables affording prospective on the money market, capital markets, and bank reserve utilization, copies of which have been placed in the Board's files.

Mr. Kelty reported on recent developments in the money and capital markets, following which Mr. Fry discussed projections of bank reserve utilization. Mr. Baker then commented on recent developments in foreign exchange markets.

Following these reports, all members of the staff except Messrs. Sherman, Kenyon, Bakke, Young, Holland, Molony, Fauver, Brill, Leavitt, and Spencer withdrew from the meeting and Messrs. Hackley, General Counsel, and Smith, Assistant Director, Division of Examinations, entered the room.

Discount rates. Advice had been received that the Board of Directors of the Federal Reserve Bank of Chicago had, on August 25, 1966, established rates of 5-1/2 per cent on discounts and advances to member banks under sections 13 and 13a of the Federal Reserve Act, 6 per cent on advances to member banks under section 10(b), and 6-1/2 per cent on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13, subject to review and determination by the Board of Governors.

The rates established by the Chicago Reserve Bank were disapproved by unanimous vote, with the understanding that appropriate advice would be sent to that Bank. This meant that the rates on discounts and advances in the Bank's existing schedule automatically continued in effect.

The establishment without change by the Federal Reserve Banks of Richmond, Atlanta, St. Louis, Kansas City, and Dallas on August 25, 1966, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Report on competitive factors. A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of First Security Bank, Mesa, Arizona, and Bank of Yuma, Yuma, Arizona, was approved unanimously for transmittal, the conclusion being stated as follows:

> Consummation of the proposed merger of First Security Bank, Mesa, Arizona, and Bank of Yuma, Yuma, Arizona, would not have an adverse effect on competition.

Examinations of Cleveland and Richmond Banks. There had been circulated to the Board the reports of examination of the Federal Reserve Banks of Cleveland and Richmond, as of March 18, 1966, and April 15, 1966, respectively.

Mr. Smith reviewed the examination findings and there developed to be no matters concerning which action by the Board was deemed necessary at this time.

Discount administration. Under date of August 26, 1966, there had been distributed a memorandum from Mr. Holland relating to possible revision of the draft program for coordinating the administration of the discount function with other instruments of monetary policy. The memorandum had been prepared against the background of comments by the Reserve Bank Presidents at their meeting with the Board on August 23, 1966. Attached to the memorandum was a reference list of issues that had been raised by the Presidents. Also attached was an outline of a proposed set of implementing procedures that might be established, depending upon how the Board resolved the issues of principle involved with respect to allocation of credit, release of reserves, and the extent of publicity that should be given to the discount program.

Asked for his comments, Mr. Holland stated that the staff would appreciate guidance from the Board regarding its reaction to the suggestions that had been advanced, in preparation for a drafting session to be held next Monday with discount officers from three Reserve Banks present.

Governor Shepardson noted that over the weekend the Board could expect to receive additional comments from Reserve Bank Presidents, supplementing their remarks during the discussion on August 23. In the light of such comments, and any made at today's meeting, the staff could work with the discount officers in developing procedures for administering the discount window to implement basic decisions.

During the discussion that followed, Governor Maisel said it was important to decide how strong a stand the Board wanted to take regarding revisions in the philosophy of discount administration. In his opinion, the policy position was not yet clear and should be spelled out further. Any public announcement concerning the new program should make clear that the Federal Reserve was seeking to discourage member banks from liquidating securities in their investment portfolios at this time. The System should not be neutral with respect to the manner in which adjustment of bank positions was accomplished. It should be stressed that the Reserve Banks were prepared to ease the pressure on member banks to limit the duration of their borrowings if they would move in the direction of making adjustments through curtailment of business lending rather than by selling securities.

Governor Mitchell commented that he would not be inclined to yield too much on the principles enumerated in the original staff draft memorandum. He noted that the Reserve Banks had always counseled with member banks that used the discount window about adjusting their positions. However, undue emphasis on rebuilding of liquidity in connection with the discount program might occasion an overreaction and lead to a contraction in aggregate credit measures that was not wanted. He would favor a selective approach.

Governor Brimmer remarked that the memorandum suggested two substantive changes in the discount program that he was not sure were warranted. He felt that one objective of current discount administration should be to encourage member banks to improve their liquidity position, and that this concept was as important as a curtailment of business loans. In addition, he felt that any limitation of discussion of the new policy to borrowing member banks would be undesirable. In his view, it was important that moral suasion be brought to bear on all member banks, not only borrowing banks.

Mr. Holland observed that the staff could try to devise implementation of the original approach, the compromise approach, or both. Business loans, he noted, recently had shown indications of slowing up for the first time in months. The area of the financial market that needed the most protection at this time was the sector involving municipal issues, and possibly Federal agency issues. In light of this, it might be desirable to turn away somewhat from an overall liquidity emphasis toward a compromise that would afford some cushion to the vulnerable part of the securities market by discouraging liquidation of such issues from bank portfolios.

After further discussion, Governor Shepardson expressed the opinion that the basic effort should be to devise implementation of a program along the lines suggested in Mr. Holland's memorandum. Over the weekend, as he had mentioned earlier, the Board could expect to receive from Reserve Bank Presidents more considered statements than those expressed at the August 23 meeting. As to publicity, that was not a matter that had to be decided today, although he felt some public statement might be desirable.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of St. Louis (copy attached as Item No. 1) approving the appointment of Sidney E. Peckron as Alternate Assistant Federal Reserve Agent.

Memorandum from the Division of Data Processing recommending an increase in the basic annual salary of Rosalie Haldeman, Stenographer in that Division, from $4,936 to $5,331, with a change in title to Secretary, effective August 28, 1966.

Secretary

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

Item No. 1
8/26/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 26, 1966

Mr. Frederic M. Peirce,
Chairman of the Board
and Federal Reserve Agent,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri. 63166

Dear Mr. Peirce:

In accordance with the request in your letter of August 11, 1966, the Board of Governors approves the appointment of Mr. Sidney E. Peckron as an Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of St. Louis, effective September 1, 1966, to succeed Mr. Elmer H. Wobbe.

This approval is given with the understanding that Mr. Peckron will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent, Mr. Peckron may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It will be appreciated if Mr. Peckron is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted that upon receipt of the approval of the appointment by the Board of Governors, Mr. Peckron will execute the usual Oath of Office which will be forwarded to the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.