A joint meeting of the Board of Governors of the Federal Reserve System and the Presidents of the Federal Reserve Banks was held at the Board's offices in Washington, D. C., on Thursday, June 11, 1953, at 3:45 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Evans
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

Messrs. Erickson, Sproul, Williams, Fulton, Leach, Bryan, Young, Johns, Powell, Leedy, Gilbert, and Earhart, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively.

Mr. Heflin, Secretary of the Conference of Presidents of the Federal Reserve Banks

Before this meeting there had been submitted to the Board a memorandum listing the topics which the Presidents wished to discuss at this joint meeting. The topics, the statement of the Presidents' Conference with respect to each, and the discussion concerning them at this meeting were as follows:

1. Verification and destruction of unfit United States paper currency by the Federal Reserve Banks. The Conference accepted the recommendation of its Committee on Miscellaneous Operations that the Federal Reserve Banks undertake, beginning July 1, 1953, the verification and destruction of unfit United States paper currency as requested by the Secretary of the Treasury.

It was understood that for the six month period beginning July 1, 1953, the Reserve Banks would be reimbursed at the rate of $.30 per one thousand pieces of currency verified and destroyed and that at the end of that period this rate would be reviewed in the light of actual cost experience.

The Conference also authorized the appointment of a special committee to study the problems involved in the provision and destruction of all types of paper currency with a view to determining the position the Reserve Banks should take with respect to this matter in the future.

President Earhart, Chairman of the Committee on Miscellaneous Operations, reviewed developments relating to the request by the Treasury Department that the Federal Reserve Banks undertake the verification and destruction of unfit United States paper currency beginning July 1, 1953. In the course of his comments, he said that each Reserve Bank would have an opportunity to comment on the regulations to be issued by the Treasury, which would be in the same form as other instructions issued to the Reserve Banks in connection with their functions as fiscal agents of the United States.

Referring to the discussion of the matter at the meeting of the Presidents' Conference in Richmond earlier this week, President Earhart stated that the principal question raised at that time was the basis of reimbursement to the Reserve Banks by the Treasury. That Department, he said, was desirous that reimbursement be on the basis of a flat rate per number of pieces of currency verified and destroyed rather than on the basis of the actual cost incurred by each Bank. He added that, according

to an estimate by the Subcommittee on Cash, Leased Wire, and Sundry Operations, the Reserve Banks would save about 16¢ per thousand pieces of currency because they would no longer be obliged to perform certain work which they are now doing, and that the Treasury felt it should receive the benefit of this saving on the part of the Reserve Banks and be charged only for the difference between that figure and 30¢ per thousand pieces, the estimated cost of the verification and destruction operations. The Presidents, he said, were of the opinion that reimbursement should be based on the actual cost of the work of verification and destruction of which the Treasury would be relieved.

Further discussion by the Presidents, President Earhart said, concerned the question of whether the Reserve Banks should also take over the verification and destruction of Federal Reserve notes, and it was pointed out that there were reasons which might necessitate an amendment to the law or perhaps a Presidential proclamation to permit the assumption of that function by the Reserve Banks. Since the matter appeared to present legal questions, including the terms under which the Federal Reserve Banks took over certain functions performed at the sub-Treasuries, it was decided to appoint a special committee to go into the whole question of the provision and destruction by the Federal Reserve Banks of all types of currency.

Governor Robertson expressed the opinion that in order to meet any question as to the adequacy of the procedures relating to the verification

and destruction of United States currency, it would be desirable to have the Treasury designate individuals, perhaps local representatives of the Secret Service, to inspect the operations at the Reserve Banks periodically. If the Treasury would not agree to that procedure, he felt that the System, for its own protection, should consider having special examinations by representatives of the Board at frequent intervals. He felt, however, that the Reserve Banks should decide as to these matters.

President Earhart said no particular thought was given by the Presidents to the points raised by Governor Robertson and no questions were raised along those lines in discussions which he had with officials of the Treasury, but that such inspections had been discussed at the subcommittee level and he understood that there was general agreement that inspections were desirable.

There appeared to be agreement on the part of the Presidents that the currency verification and destruction function was of such a nature that all possible safeguards should be placed around it, and Chairman Leach stated that the Committee on Miscellaneous Operations would give consideration to Governor Robertson's suggestions. It was understood that on this basis the Federal Reserve Banks would take over the verification and destruction function on July 1, 1953.

2. Study of System's discount and discount rate mechanism. The Conference discussed the Board's letter

of April 29, 1953 regarding its study of the System's discount and discount rate mechanism and the memoranda which the Presidents had since received from the Board on various aspects of the study. It was understood that after each President had reviewed the memoranda received from the Board he would prepare a statement of his views thereon for circulation among the other Presidents with a view to a full discussion of the matter at the next meeting of the Conference and the next meeting of the Board and the Presidents.

Chairman Martin said that the Board wished to offer the suggestion that this study be carried forward under the direction of a committee which would be composed of a President of a Reserve Bank, who would be selected by the Presidents' Conference, a Chairman of a Reserve Bank, who would be selected by the Chairmen's Conference, and Governor Mills, who would serve as the representative of the Board and as chairman of the committee.

Governor Robertson commented that if this procedure were followed the special committee would consider the views of each Reserve Bank President which would be submitted in accordance with the action of the Presidents' Conference referred to above.

The Presidents indicated agreement with this procedure.

3. Reserve requirements--the uniform reserve plan. The Conference discussed present member bank reserve requirements and were of the opinion that the so-called uniform reserve plan offers greater promise of reducing inequities in reserve requirements of member banks than anything that has been devised. While it was realized that there would

> be little chance of securing adoption of the plan by the Congress unless and until it becomes appropriate to bring about some reduction in required reserves of all member banks, it was the opinion of the Conference that the System should review the uniform reserve plan to determine whether or not it wishes to propose and support it and if so when and in what way it would like to have it made effective.

President Sproul referred to the recent proposal by the New York Clearing House Association that reserve requirements of central reserve city banks be reduced to the level of requirements for reserve city banks and expressed the opinion that the System would be faced with additional requests for special actions to meet the alleged inequities inherent in the present system of reserve requirements. In the circumstances, he thought it would be desirable for the System to determine whether the so-called uniform reserve plan or some other plan should be advocated and the time when a change to a new system of reserve requirements should be proposed.

Chairman Martin stated that the Board would be pleased to have the Presidents work on this matter and that a study of the problem had been going forward at the Board under the direction of Governor Mills.

Governor Mills said that preliminary studies by the Board's staff indicated that a type of uniform reserve plan was the most logical plan that could be adopted. In due course, he said, the plan in process of development by the Board would be made available to the Reserve Banks for critical comment.

Chairman Leach said that in the circumstances the Presidents would await the receipt of the plan being developed at the Board.

During the discussion of this topic, Mr. Deming, First Vice President of the Federal Reserve Bank of St. Louis, entered the room.

4. Public understanding of the System's responsibilities. The Presidents discussed the effort being made by certain members of the Congress and others to discredit System actions in the monetary and credit fields. Attention was called, among other things, to the introduction in the Congress of H. Con. Res. 98, which provides that the Federal Reserve Board and the Open Market Committee "should support the price of United States Government securities at par, but not exceeding par, as was done before the so-called Treasury-Federal Reserve accord" of March 4, 1951.

It was the sense of the Conference that satisfactory replies could and should be made to this pattern of charges and that the Board and the Presidents should collaborate as soon as practicable on additional measures to improve public understanding of the System's responsibilities in the monetary and credit fields.

Chairman Leach commented that in discussion at the meeting of the Presidents' Conference the point was made that not a great deal was appearing in the press to explain to the public that while higher interest rates were costly, inflation would cost the public a lot more. He said the Presidents wished to explore with the Board whether there were any steps that could be taken in the direction of explaining the situation to the public.

Chairman Martin responded that both the Board and the Presidents should be considering the answers that could be given to the superficially persuasive arguments now being made that current monetary and credit and debt management policies were "engineering a depression." He went on to say that a constant stream of such charges might be anticipated and that the Federal Reserve System should give attention to analyzing the current criticisms and determining the most effective answers to them.

In a further discussion, Chairman Leach suggested that the Board and the Presidents exchange any ideas that might be developed as to how this situation should be met.

5. Federal legislative developments affecting banking in 83rd Congress. The Presidents noted with satisfaction the legislation recently enacted by the Congress increasing the aggregate costs which may be incurred by all Federal Reserve Banks for Branch Bank buildings from $10 million to $30 million and wish to express their appreciation of the time and effort expended by the Board and its staff in connection with this matter.

The Conference discussed the bill introduced by Senators Maybank and Capehart on February 18, 1953 (S. 975) which prohibits any savings and loan association from establishing and operating new branches within the State in which its home office is located unless the law of such State expressly authorized State savings and loan associations to establish branches or unless in the absence of such law it is the practice to permit the establishment of such branches by State associations, and recommends to the Board System support of this legislation.

The Conference also discussed H.R. 4036 which would establish a National Monetary Commission composed

of three members of each House of Congress, three individuals from the Executive Branch and nine from private life empowered to investigate legal reserves of banks, eligible deposits against such reserves, open market operations of the Federal Reserve Banks, and other matters pertaining to the banking and monetary system of the United States. The Presidents would be interested in any information the Board may have regarding this bill.

In this connection the Presidents urge the Board to solicit the views of the Reserve Banks and their directors with respect to legislation which the Board plans to support or oppose. The Presidents realize that time will not always permit such an exchange of views but feel that in cases in which it is practicable substantial benefit would accrue to both the Board and the Banks.

Chairman Leach expressed the appreciation of the Presidents for the Board's efforts in connection with the Reserve Bank branch building legislation, and Chairman Martin remarked that the efforts of certain of the Reserve Bank directors also had been helpful.

Chairman Martin then stated that, according to advice received by the Board, bills S. 975 and H.R. 4036 had been referred to committees and there was little likelihood that they would be brought up for active consideration at the present session of the Congress.

Chairman Leach stated that in a discussion of legislative matters by the Presidents, the thought was expressed that benefits might accrue to both the Board and the Reserve Banks if the views of the Banks were sought with respect to pending legislation of interest to the System such as

legislation to provide credit to small business enterprises.

Chairman Martin remarked that, as brought out in the statement of the Presidents on this topic, the time element was one which the Board always had to take into account. He then inquired whether there were any specific instances concerning which the Presidents might wish to comment.

President Sproul said that although there was no disagreement on the part of the Banks with the position taken by the Board concerning the recently proposed amendment which would have removed the exemption of the Reserve Banks from the definition of "employer" under the Taft-Hartley Act, this was the type of proposed legislation where, if there had been differences of opinion, the Reserve Banks would have liked to have had an opportunity to express their views.

Governor Robertson brought out that in the case referred to by President Sproul, time was of the essence, and that the same situation prevailed with respect to the recent request for testimony on proposed bank holding company legislation.

6. Statement of objectives of System bank and public relations programs. At the September 23-24, 1952 meeting of the Conference, the Presidents considered the report of its Subcommittee on Bank and Public Relations and Free Services of August 27, 1952 regarding the concept of a public relations program for the Federal Reserve Banks and pointed up the need for a statement covering the objectives of the System's bank and public relations programs. At the joint meeting of the Board and the Presidents on September 26, 1952 the Board endorsed the need for such a statement of objectives and suggested

that after the Board received the views of the Presidents the Board and the Presidents collaborate on how to proceed in the preparation of a System statement.

With this background the Conference at its current meeting adopted the following statement of objectives as recommended by its Committee on Bank and Public Relations:

BASIC OBJECTIVES OF THE BANK AND PUBLIC INFORMATION PROGRAM OF THE FEDERAL RESERVE SYSTEM

To bring about understanding of the Federal Reserve System's statutory purposes, responsibilities and operations so as to maximize the effectiveness of the System, and conversely,

To keep the Federal Reserve System aware of attitudes toward the Federal Reserve System's policies and regulations and of the policies and operations of individual Reserve Banks.

The Presidents adopted this statement of objectives with the full realization that it does not provide answers to specific problems of what are appropriate Reserve Bank activities in the bank and public relations field. On the other hand it was felt that the best procedure would be for the System to first agree upon a broad general statement of objectives with a view to later supplementing such a statement with observations concerning specific problems for the use and guidance of the Reserve Banks in working out their bank and public relations programs in the several Federal Reserve Districts.

President Williams, Chairman of the Committee on Bank and Public Relations, stated that although the statement of objectives adopted by the Conference was admittedly brief and couched in broad language, it was felt that a statement of this sort would be helpful as a starting point

for a joint effort on the part of the Board and the Presidents to work out a program. He added that the phrase "bank and public information program" was used to avoid the implications that might be associated with the words "public relations". President Williams said the Conference realized that the real test would come in the implementation of the statement of objectives.

Chairman Martin said that the statement of objectives appeared to represent an excellent start in working out an effective System bank and public relations program.

This concluded the consideration of the topics listed by the Presidents for discussion at this joint meeting.

7. Federal Reserve Bank and branch territories.

Chairman Martin referred to his suggestion at the joint meeting of the Board and the Presidents on March 5, 1953, that the Presidents undertake studies of the respective Bank and branch territories to ascertain whether changes should be made in the interest of serving member banks more effectively. He inquired whether there was any progress to report on those studies, stating that it was becoming increasingly evident that the problem of Bank and branch territories would be one with which the System would be confronted in the future.

Chairman Leach stated that with present transportation facilities it would be difficult to prove that additional branches should be established anywhere in the Fifth District from the standpoint of services rendered to

member banks, since nearly all points could now be reached overnight from the head office or a branch. He then referred to the current nationwide check collection study, and stated that that study might conceivably develop new suggestions with respect to adjustments in Bank and branch territories and services to member banks.

President Earhart felt that there was less need for branches now than formerly because of improved transportation facilities and the spread of branch banking. The only grounds for changes, he thought, would be on the basis that the check collection study might bring out needs not anticipated or if it were decided that demands for "door" delivery of currency should be met, in which event a case might be made for establishing currency depots from which currency shipments could be made by armored truck.

President Young said that the Chicago Bank would complete and send to the Board shortly its study of the question of establishing a check collection office in Des Moines, Iowa. He also said that the Bank was proceeding with a survey of all banking institutions in Michigan now being served by the head office preliminary to considering a recommendation to the Board that the Detroit Branch territory be expanded to include the entire lower peninsula of Michigan.

8. Leasing of space in Federal Reserve Bank buildings.

There were distributed copies of the following draft of letter to the Presidents of all Federal Reserve Banks:

"The question of leasing space in Federal Reserve buildings to outside tenants has arisen in connection with planning new branch buildings. Recently the Board had occasion to consider in an individual case whether, because of the nature of the business, a prospective tenant would be a suitable one for a Federal Reserve building.

"The Board has taken the position that in new Federal Reserve buildings -- and this is also applicable, wherever practicable, to new additions to existing buildings -- the design should be such that unused space could be leased to outside tenants. The Board believes that this is in accordance with sound business judgment.

"This is not to imply, however, that space reserved for future expansion or other space not needed for current operations should necessarily be rented out. In some cases it might be preferable to close off the reserve space. Either course, it is believed, would be preferable to extravagant use of space which would properly subject the Bank or branch to criticism.

"In connection with the question of tenants, the Board is of the opinion that, as a general policy, space in a Federal Reserve Bank building should not be rented to banks, savings or loan associations, investment houses, security dealers, or other similar financial organizations dealing with the public.

"In view of the building programs now under consideration at the Federal Reserve Banks and branches it appears desirable that the Board's views on these matters be made known to all Federal Reserve Banks."

Governor Evans stated that the matter came to the Board's attention recently in connection with the leasing of certain space in the Portland Branch building, that several members of the Board felt that banks and other financial institutions dealing with the public would not as a general rule be desirable tenants because of implications which might be drawn from their being located in a Federal Reserve building, and that accordingly the Board had drawn up a draft of letter on which it would like to have the Presidents' comments.

President Earhart said that the Portland arrangement was a temporary one and that he would have no objection to the letter as a guide for future action.

The other Presidents likewise indicated that they would have no objection to the views set forth in the letter.

9. Study of consumer credit.

Reference was made by Governor Robertson to the study of consumer credit and its relation to monetary policy which was instituted under the direction of a committee consisting of President Sproul, President Johns, and himself pursuant to the suggestion made by the Presidents at their meeting with the Board on March 5, 1953. He said that the report of the study was now available and that copies would be transmitted to all of the Reserve Banks, along with copies of the underlying staff reports, with the thought that the explanations and analyses contained in the staff papers would be of interest. Governor Robertson went on to say that comments on the report would be appreciated and that the committee thought it would be desirable for the Board and the Reserve Banks to review the situation again in about six months to ascertain whether there had been any significant developments in the interim.

10. Treatment of depreciation on Government securities.

In response to an inquiry by President Sproul, Governor Robertson said that the question of a reaffirmation by the bank supervisory authorities

of the existing announced policy with regard to the valuation of Government securities on the books of commercial banks was under discussion. He commented that the Comptroller of the Currency recently made a statement reflecting the views of that Office, that the Federal Deposit Insurance Corporation was considering the matter, and that it was the present thinking that separate statements of this kind by the respective agencies would be preferable to a joint statement. In response to another question by President Sproul, Governor Robertson said that some of the State bank supervisors were inclined to depart from the announced policy and that the matter would be brought up at the next meeting of the standing committee representing the Federal bank supervisory agencies and the State bank supervisors.

Thereupon the meeting adjourned.

S R Carpenter
Secretary