The attached set of minutes covering the meeting of the Board of Governors and the Presidents of the Federal Reserve Banks on March 5, 1958, which you have previously initialed, has been amended in certain respects, as indicated in the attached memorandum of changes, in the light of suggestions received from one of the Reserve Bank Presidents.

If you were present at the meeting and approve the minutes as amended, please initial in column A. If you were not present, please initial in column B to indicate that you have seen the amended minutes.

A   B

Chm. Martin    
Gov. Szymczak   
Gov. Vardaman   
Gov. Mills      
Gov. Robertson  
Gov. Balderston 
Gov. Shepardson 

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Federal Reserve Bank of St. Louis
Memorandum of changes in the minutes of the meeting of the Board of Governors with the Presidents of the Federal Reserve Banks held on March 5, 1958.

(Deletions are shown by cancelled type and additions by capital letters. Changes are described by location in revised minutes.)

Page 8, second paragraph, following first sentence:

At the Chairman's request, Mr. Thomas summarized the meeting of the Board and the Committee on Legal Reserve Requirements of the American Bankers Association which was held on February 21, as well as a meeting in which he participated subsequently with the Chairman of the Committee and other representatives of the Association. MR. THOMAS NOTED SOME OF THE SPECIFIC OBJECTIONS WHICH THE COMMITTEE HAD TO THE BOARD'S LEGISLATIVE PROPOSAL.

Page 9, last two sentences:

In addition, there was some opinion to the effect that, although technically the Board might have the authority to terminate the designations of the existing central reserve and reserve cities as such, it seemed clearly to be would appear to have been the intent of the Congress, as expressed in existing legislation, that there should be three classifications of cities for reserve purposes. For this reason, it also was felt by these Presidents that it would be desirable to make clear in proposing legislation what the intentions of the Board would be, not in terms of making a commitment for the attainment of stated objectives within a designated period of time but in terms of clarifying the need for reserve requirement legislation and indicating how the Board's proposal would permit moving toward desired objectives.

Page 10, first full paragraph, following first sentences:

Such member bank comment as was reported by the Presidents emphasized opposition, particularly on the part of the large banks, to any formula which would include activity of accounts as a factor in establishing the basis of reserve requirements. SOME OF THE PRESIDENTS INDICATED AGREEMENT WITH THE MEMBER BANKS ON THIS POINT.

Page 11, first full sentence:

In this connection, it was suggested that the Board's proposal, representing the representatives of the Board suggested that the Board's current proposal, while perhaps not fully defensible from a theoretical standpoint in all respects, represented a compromise between extreme divergent points of view.
To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks held on March 5, 1958.

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, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

Chm. Martin  
Gov. Szymczak  
Gov. Vardaman  
Gov. Mills  
Gov. Robertson  
Gov. Balderston  
Gov. Shepardson
Minutes of a meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks which was held in the Board Room of the Federal Reserve Building at 9:30 a.m. on Wednesday, March 5, 1958.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Shepardson
Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Farrell, Assistant Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Miller, Chief, Government Finance Section

Messrs. Erickson, Hayes, Bopp, Fulton, Leach, Bryan, Allen, Johns, Deming, Leedy, Irans, and Mangels, 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

Messrs. Rouse, Daane, Abbott, and Tow, Vice Presidents of the Federal Reserve Banks of New York, Richmond, St. Louis, and Kansas City, respectively; and Mr. Gaines, Manager of the Securities Department, Federal Reserve Bank of New York
Statement by Congressman Patman. In accordance with the understanding at the joint meeting of the Board and the Presidents on February 11, 1958, there had been sent to the Federal Reserve Banks under date of February 25 page proof of Representative Patman's statement before the House Banking and Currency Committee on February 7 in connection with hearings on the proposed Financial Institutions Act. The Board had advised Chairman Spence of the Banking and Currency Committee that it would like to furnish to the Committee in writing such information and comments as might be necessary to prevent any misunderstandings with regard to the various items on which Mr. Patman had commented, and the letter to the Reserve Banks stated that after there had been an opportunity to study Mr. Patman's criticisms of Federal Reserve expenditures in the light of Bank records, the Board would like to have such comments as each Bank might consider appropriate for the purpose of making clear to the Banking and Currency Committee the reasons for the expenditures cited by Mr. Patman.

In addition, there had been distributed to the Presidents yesterday in draft form a memorandum submitting a list of the topics covered in Mr. Patman's statement, divided into topics on which (a) no comments appeared necessary, (b) the Board intended to comment, and (c) comments from the respective Banks were suggested. The list had been prepared as an aid in coordinating the comments of the various Banks and the Board, and the memorandum made it clear that there was no intention on the part of the Board to influence the manner in which the Banks might...
want to prepare their statements. The fact that the Board intended to comment upon an item was not meant to preclude a Bank from commenting on the same item if it felt that in the light of the criticism a comment from it would be desirable. The memorandum also suggested that the statement from each Bank be of such a nature and completeness as to stand on its own feet, since it was intended to furnish these statements to the Banking and Currency Committee and they might be published. It was further suggested that the statements be prepared with the thought in mind that the Reserve Banks might be called upon to testify in regard to their statements and Representative Patman's criticisms. Although it was believed that the Bank comments should be fairly specific and complete, it was suggested that consideration be given, wherever appropriate, to the possibility that a single comment or explanation might suffice to cover a group of related items.

The memorandum further stated that, along with the statements prepared by the Banks, the Board intended to send to the Committee an over-all statement and that, if there was time, the Banks would be given an opportunity to comment on this statement. The Board's statement would be as brief as possible but it was planned to include, in addition to comments on specific topics, a summary of the principal points in the Bank statements and refutations of certain generalizations made by Mr. Patman. In this connection, it was requested that each Bank advise the Board separately (a) whether it had ever paid traveling or other expenses of directors or their wives or the wives of Reserve Bank officers in
connection with attendance at conventions; and (b) whether any of the mishaps in the currency verification and destruction work had ever resulted in a loss to the Treasury or the Reserve Bank, i.e., whether any Bank had "had to redeem partially destroyed (or cancelled) currency," as stated by Mr. Patman.

The memorandum expressed the hope that if the statements prepared by the Banks and the Board were released, they would be released by the Banking and Currency Committee and that, if it was advisable to have other releases, any such releases would be made simultaneously. It was requested that each Bank furnish the Board 60 copies of the statement it prepared, and that this material be placed in the mail in time to reach the Board by Monday, March 17.

In reviewing the draft memorandum, Governor Shepardson stated that it was intended as a basis for discussion, that the Board had not yet discussed it, and that any comments would be appreciated with respect to the procedures envisaged by it.

At Governor Shepardson's request, Mr. Farrell then reviewed the list of topics and the suggested approach to the handling of them, and his comments led to various questions. Where Mr. Patman's statement referred to an expenditure at only one Bank but other Banks had made similar expenditures, the view was expressed that it would be satisfactory for only the one Bank to comment on that item. It was also stated that it would be satisfactory for the Banks to limit their comments to the period of time covered by Mr. Patman's statement,
except for the travel expense item mentioned in the draft memorandum and perhaps a few other cases where the Bank, in its judgment, felt that a review of its records over a longer time period would be advisable. In instances involving general System expenditures, such as insurance, the statement was made that it would be helpful to the Board if the chairmen of appropriate System committees wished to submit comments.

Question was raised whether the comments sent to the Banking and Currency Committee should not take a positive approach on the authority and responsibility for System expenditures, and it was indicated that this would be done in the Board's over-all statement.

The discussion then turned to the amount of detail in which it would seem desirable to report to the Committee on specific expenditures mentioned by Mr. Patman, and this led to the question whether it would be advisable to send to the Committee the actual reports to be submitted by the respective Banks. The conclusion was that the Board should have available as a matter of record and for possible use in the light of any developments a complete report from each Bank covering each item of expenditure by that Bank referred to in Mr. Patman's statement, or at least a statement on groups of items of a closely related nature. Therefore, although a decision would not be made by the Board until all of the Bank replies were available as to whether the actual reports would be transmitted to the Banking and Currency Committee, it would seem advisable to prepare the statements in such a way that they could easily be put in form for transmittal if that should be the decision.
Secretary’s Note: Subsequent to the meeting, the following telegram was sent to the Presidents relating to the form of the Reserve Bank statements:

Inquiries subsequent to discussion at meeting yesterday indicate some confusion as to form of Bank comments on Patman statement. Intention was that each Bank would submit for Board’s use in preparing System reply a detailed, fully documented report on specific references to its operations including actions taken on examiners’ criticisms. If it later seems advisable to append individual Bank replies to System report, you will be informed and afforded opportunity to submit such revised statement as you may deem desirable for that purpose.

Along these lines, question was raised whether the Board also would like to have from the Reserve Banks statements dealing in broader terms with the subject of Reserve Bank expenditures and the responsibility for them. The response was in terms that the Board would be glad to have any comments or views of the Banks that would be helpful in preparing the over-all System statement referred to in the draft memorandum.

Mr. Hayes said he presumed that, in so far as Mr. Patman’s statement referred to open market operations, the New York Bank should submit information, and the reply was in the affirmative.

With respect to the question that had been raised about statements to the press in connection with Mr. Patman’s criticisms, the thought was expressed that it would be desirable, except possibly in extraordinary circumstances, to withhold any release of information at least until the comments were sent to the Banking and Currency Committee, and that in any event coordination would be desirable.

The discussion concluded with the comment that it would be helpful to have 60 copies of the statements submitted by the Reserve Banks to
provide for working requirements and whatever decision might be reached on sending material to the Banking and Currency Committee.

Messrs. Thurston, Masters, Farrell, and Hostrup then withdrew from the meeting.

Discount rates. Chairman Martin summarized the discussion at the meeting of the Federal Open Market Committee yesterday regarding discount rate policy and procedure, and it was agreed that his statement reflected the consensus of the meeting.

Senate Finance Committee hearings. Reference was made to the questionnaires sent by the Senate Finance Committee recently to about 100 persons, including the President of each Federal Reserve Bank, in connection with the Committee's hearings on fiscal and monetary policy, scheduled to resume in the near future, and Chairman Martin stated that, since the questions had been sent by the Committee direct to the Presidents, he felt that the replies also should be made direct without reference of the matter to the Board. The Board, of course, would be glad to have for its information copies of the replies that were submitted.

At the Chairman's request, Mr. Shay commented on the reasons which apparently lay behind the Committee's decision to distribute the questionnaires to various parties. Since the principal reason appeared to be that the Committee wished to have expressions on a regional basis, this suggested the desirability of replies direct from the respective Presidents to the Committee.
Reserve requirements. Chairman Martin stated that since the discussion of possible reserve requirement legislation at the joint meeting of the Board and the Presidents on February 11, 1958, communications had been received from several of the Presidents commenting further on the subject. In general, the responses reflected a continued favorable attitude toward the approach embodied in the Board's legislative proposal but question was raised in several instances about whether any revision of the reserve requirement structure should not have uniformity of requirements as an announced ultimate objective.

At the Chairman's request, Mr. Thomas summarized the meeting of the Board and the Committee on Legal Reserve Requirements of the American Bankers Association which was held on February 21, as well as a meeting in which he participated subsequently with the Chairman of the Committee and other representatives of the Association. Mr. Thomas noted some of the specific objections which the Committee had to the Board's legislative proposal. The Committee was understood to favor at this point the introduction of legislation along the lines envisaged by the proposal of the Economic Policy Commission, and the Board had granted the Committee's request for another meeting tomorrow.

Chairman Martin said that the Board was now faced with the possibility that a bill might be introduced very shortly on the basis of the ABA plan and that the Board must be prepared to comment on such a bill if necessary. He then stated that the Board would appreciate having any additional comments from the Presidents.
In response, a statement was made by each of the Presidents, the views stated by most of them being in amplification of comments previously submitted to the Board in writing. While it appeared that all of the Presidents were sympathetic, though in varying degree, to the general outline of the approach contemplated by the Board's legislative proposal, a number of reservations were mentioned. For example, although there was a division of opinion among the Presidents, several of them suggested the desirability of uniformity of reserve requirements as an ultimate objective, with the understanding that this did not mean that they favored any commitment to a timetable for the achievement of this objective. Some of the Presidents also envisaged difficult administrative problems under the Board's proposal, which they felt might be reduced if action on the classification of banks could be made on the basis of a formula or categorical approach rather than through action in individual cases. In addition, there was some opinion to the effect that, although technically the Board might have the authority to terminate the designations of the existing central reserve and reserve cities as such, it would appear to have been the intent of the Congress, as expressed in existing legislation, that there should be three classifications of cities for reserve purposes. It also was felt by these Presidents that it would be desirable to make clear in proposing legislation what the intentions of the Board would be, not in terms of making a commitment for the attainment of stated objectives within a designated period of time but in terms of clarifying the need for reserve requirement legislation and indicating how the Board's proposal would permit moving toward
desired objectives. Two of the Presidents expressed themselves as continuing to be favorably disposed toward a proposal such as submitted by the Conference Subcommittee on Legislation and one of them expressed doubt whether substantial progress could be made in revising the structure of reserve requirements without adhering to a philosophy of fitting considerations of monetary policy into structural changes rather than the reverse. There was a division of opinion among the Presidents as to the weight which should be given to the liquidity and safety factor in fixing reserve requirements, with some suggestion that what was necessary from this standpoint could be accomplished through other methods, perhaps through the bank supervisory function.

Such member bank comment as was reported by the Presidents emphasized opposition, particularly on the part of the large banks, to any formula which would include activity of accounts as a factor in establishing the basis of reserve requirements. Some of the Presidents indicated agreement with the member banks on this point. Some of the Presidents suggested that banker attitude in general appeared to reflect basically a desire for lower reserve requirements, that the bankers perhaps had not thought a great deal about the theory of uniformity of reserve requirements, and that they might not be prepared to accept such an objective fully if it were not tied in with a move in the direction of lower levels of reserve requirements.

This led to a discussion of the extent to which geographical classifications of banks could be defended during which historical,
theoretical, and practical bases of such defense were outlined. In this connection, representatives of the Board suggested that the Board's current proposal, while perhaps not fully defensible from a theoretical standpoint in all respects, represented a compromise between divergent points of view.

The discussion concluded with a summary of the principal points in the ABA plan which the Board found objectionable and a statement by Chairman Martin that the Board appreciated having the Presidents' views today and would appreciate their giving continued consideration to this difficult problem.

The meeting then adjourned.

[Signature]
Secretary