

Minutes for September 11, 1958

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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 22 Approval of a discount rate of
2 per cent for the Federal Reserve
Banks of New York, Cleveland,
Richmond, and St. Louis

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.

	A	B
Chm. Martin	<u> </u>	<u>x</u> <u> </u>
Gov. Szymczak	<u>x</u> <u> </u>	<u> </u>
Gov. Vardaman	<u>x</u> <u> </u>	<u> </u>
Gov. Mills	<u>x</u> <u> </u>	<u> </u>
Gov. Robertson	<u>x</u> <u> </u>	<u> </u>
Gov. Balderston	<u>x</u> <u> </u>	<u> </u>
Gov. Shepardson	<u>x</u> <u> </u>	<u> </u>

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, September 11, 1958. The Board met in the Special Library
at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research
and Statistics
Mr. Hackley, General Counsel
Mr. Farrell, Associate Director, Division
of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division
of Examinations
Mr. Smith, Assistant Director, Division of
Examinations

Letter to the Council of Economic Advisers (Item No. 1). Prior
to the meeting of the Board there had been distributed copies of a
proposed reply to a letter dated August 25, 1958, to Chairman Martin
from the Chairman of the Council of Economic Advisers. This letter
requested a summary of laws within the area of responsibility of the
Federal Reserve enacted at the last session of Congress or to be proposed
by the Board for enactment in the forthcoming session of Congress which
might have an effect on the growth or stability of the economy. This
information was requested for use in connection with the preparation of
the annual Economic Report of the President.

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In discussing the proposed reply, Governor Balderston pointed out that it did not include any reference to the possibility of suggesting legislation designed to regulate or control speculation in the Government securities market. He said that at his suggestion Mr. Hackley had drafted such a paragraph and asked that copies thereof be distributed. Mr. Hackley's suggestion would have added the following paragraph to the proposed reply:

"In addition to the above, the Board may wish to consider proposing to Congress other measures relating to credit policy including appropriate provisions to prevent recurrence of undue speculative activity in Government securities."

Governor Mills expressed the view that the Board would be better advised to let nature take its course, so to speak, and to see whether this subject comes up for consideration. To intimate in the current reply that the Federal Reserve System was considering such a suggestion would necessitate a thorough investigation and study so as to be in a position to be able to distinguish between legitimate trading and speculative activities. He expressed considerable doubt that such a distinction could be established with certainty. He expressed the view that the Government securities market had experienced an abnormal occurrence during the past summer which was unlikely to recur.

Governor Vardaman joined Mr. Mills in this view and said that if Governor Mills had not made the point, he had intended to do so. So far as he could see, there was no concrete evidence before the Board as

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of the moment, nor was there likely to be any, of sufficient substance to put the matter before Congress. He doubted that it would be possible to substantiate a broad statement that there had been "undue speculation." Therefore, he also thought it inadvisable to put the additional paragraph into the letter.

When Mr. Riefler referred to the 2-5/8 per cent Treasury bonds of 1965 and said that it seemed clear that there had been undue speculation in this particular issue, Governor Vardaman replied that before the Board made any statement such as proposed by the suggested paragraph, it should be in a position to back up the statement. If it was the view of the Board that there had been undue speculation in the 2-5/8s, then it was incumbent upon the Board to make a special investigation and to get the necessary evidence.

Mr. Young reminded the Board that the Open Market Committee had approved the appointment by the Federal Reserve Bank of New York of a technical committee of the money market and that Mr. Rouse, Manager of the Open Market Account, was undertaking a factual study of the situation, with particular reference to the 2-5/8 per cent bonds, for the use of the technical committee.

Governor Robertson commented that this was still further reason for not including the paragraph at this time but waiting for the Rouse report, which might afford a better basis for consideration of appropriate action. Failure to mention the subject in the current letter

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to the Council of Economic Advisers would in no way preclude the Board, he thought, from a subsequent position on speculative activity if the evidence accumulated should warrant it.

Governor Szymczak concurred in this approach and suggested that Mr. Riefler be asked to find out as much as he could about the technical committee and particularly about the suggested study of speculative activity. He pointed out that the letter to the Council of Economic Advisers was not a public document but merely an intra-Government communication. For this reason also, he felt the Board would not be precluded from later action on this subject if the current reply made no mention of it.

At Governor Balderston's request, Mr. Riefler then reviewed briefly for the Board the history of the technical committee.

Returning to discussion of the proposed letter, Governor Shepardson pointed out that the last paragraph indicated that Mr. Hackley would serve as the Board's liaison with the Council of Economic Advisers on the subject of a legislative program. This language, he felt, provided all the opening that would be needed for including a legislative proposal covering speculative activity in Government securities if the study now under way and other evidence later brought before the Board would justify such a proposal.

Thereupon the Board unanimously agreed to the sending of the letter to the Chairman of the Council of Economic Advisers in the form

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attached to these minutes as Item No. 1. It was also understood that Mr. Riefler would provide the Board with a report on the organization and anticipated functions of the technical committee of the money market.

Boundaries of Federal Reserve districts. Prior to the meeting there had been distributed to the members of the Board a memorandum from Mr. Farrell dated July 31 relating to a proposal for study of the boundaries of Federal Reserve districts. The preparation of this memorandum had resulted from discussion at the Board meeting on July 11 when the view was expressed that there was need for an objective study of all district lines by the Board which might provide justification for various territorial adjustments and possibly a basis for recommendations for changes in the law which would permit the creation of one or more additional districts. Subsequent to this discussion, the passage by Congress of legislation admitting Alaska as a State had raised the specific question of the creation of a thirteenth district and certain bills to this end had been introduced in the Congress.

The memorandum pointed out that a comprehensive study of Reserve districts would be an undertaking generally similar to the task of the original Organization Committee. It also expressed the view that a current undertaking of this nature would have even more complexities than had the original determination of Federal Reserve districts because a current study would be faced at the outset with

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the fact that, right or wrong, the present alignment was firmly entrenched.

The memorandum pointed out that if the Board were to undertake a comprehensive study of the alignment of Federal Reserve districts, there would be little or no possibility of keeping the study from wide public attention. In fact, it might even be desirable to give publicity to the study in order that data obtained would be more complete. Banks, bankers associations, and other trade groups would have a vital interest in any redistricting study. To some extent, the memorandum indicated, this attention would be desirable. However, the interests in many cases would be conflicting, and it seemed quite likely that the final decisions, whatever they might be, would result in antagonizing more of these interests than they would satisfy.

Should it be decided to proceed with a study, the memorandum suggested three procedural alternatives which the Board might want to consider: first, whether the entire project would be handled by the Board's staff; second, whether outside help would be employed to do specified research and field work, with the Board's staff being responsible for the analysis and recommendations resulting therefrom; or, third, whether the Board would employ a qualified outside research organization to do the entire job--that is, make appropriate recommendations in the light of whatever study such an organization felt necessary.

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In the view of the Division, the first of these alternatives would have the advantage of close direction and control by the Board, but a study of this magnitude would present too great a burden for the Board's staff to carry along with its regular work. The second alternative, which was a compromise between the first and third possibilities, would be particularly appropriate if the Board took any predetermined positions; that is, if the Board were to determine in advance, for example, the number of Federal Reserve districts it wanted. The third alternative, the memorandum stated, would have the advantage of bringing an outside and presumably unbiased point of view to bear upon the whole problem. However, it would have the potential danger of producing results that might be more theoretical than practical.

Mr. Farrell stated that there was little he could add to the contents of the memorandum. He reiterated, however, the strong feeling of the staff that there would be substantial repercussions from the mere making of such a study.

Governor Balderston opened the discussion by indicating that he had been wondering whether the most appropriate approach might be to employ the Stanford Research Institute, Arthur D. Little, or some other well-known research organization that would undertake the factual study for the Board and could assume the burden of responsibility connected therewith. This, he pointed out, would be somewhat analogous to the approach used by the Board in connection with the consumer credit study

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where outside organizations were used and where Mr. George Bailey was employed as consultant to obtain the views of those who would have been affected by regulation. It also would be somewhat similar to the approach followed in the bank holding company cases where a hearing examiner accumulates the evidence and makes recommendations for decision. Such arrangements have the advantage of keeping the Board at an arm's length from the turmoil involved.

Governor Vardaman suggested that obtaining the services of some person like Mr. Bailey would be an excellent means of providing a liaison between the Board and whatever research organization might be employed. He expressed the belief that if the System did not undertake such a study the Congress would undertake it.

Governor Shepardson raised the question whether there was any evidence at hand of serious misalignment of district boundaries at the present time. To this Mr. Farrell responded by saying that no serious charges of misalignment had been raised in the past 20 years. The only possible exception to this statement, he said, might be a relatively minor incident which arose out of the survey made recently in connection with the program for mechanization of check handling. This did develop some differences between the Federal Reserve Banks of Chicago and Minneapolis over a few counties, but the matter was not of major importance.

Governor Shepardson said he could remember the battle over the original establishment of district boundaries and recognized that the

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settlements were primarily on the basis of expediency at that time. He said he personally did not see any evidence of misalignment of district boundaries and expressed concern that if the subject were opened it would amount to starting the battle of local interests all over again. Furthermore, he did not feel that the end result would be likely to produce any material improvement in the functioning of the System.

In agreeing with the comment, Governor Vardaman said he also saw little evidence of any misalignment. The reason for his urging that a study be made, he said, was to confirm that fact and to minimize the possibilities of a Congressional inquiry on this subject. It would be his preference that, if a study was to be made, the System should make it on its own initiative. He thought such a study would help to minimize the pressure for branches as well. On the other hand, if the System took no action in the direction of a survey, he felt it would be like a "sitting duck" in the line of Congressional fire. He thought it was not realistic to assume that it would be possible to sit on the lid of the barrel forever.

Governor Shepardson said that he felt it would be difficult to produce negative answers to all of the charges that might be raised in connection with the alignment of district boundaries. He thought it would be quite difficult to try to negate the various proposals which might be offered. To this Governor Vardaman responded by saying he

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definitely did not favor the taking of a negative approach. It would be his view that the study should have a positive approach and that it should start with the premise of trying to find the most desirable arrangements, considering all of the circumstances involved.

Governor Mills said that he was perhaps somewhat more sanguine than Governor Vardaman and that his views were somewhat closer to Governor Shepardson's. Essentially, he said, the Federal Reserve System is a service organization and the district boundaries are relatively unimportant in so far as they affect the ability of the System to perform the functions for which it was intended. In fact, he said, the district lines are almost a fiction. A bank in one district can route directly to another district and therefore does not have to use the facilities of its own Federal Reserve Bank. He said that Mr. Farrell's memorandum had pointed out that while there might be some minor inconsistencies that could be corrected, these would not materially affect or improve the services which the Federal Reserve Banks render.

The difficulty in the present situation, he said, is that the matter has been allowed to drift into the political arena, but he thought there was a possibility that in time interest in the matter might wane. He saw no real difficulty in "treading water" until the System had an opportunity to appraise its experience in servicing both Alaska and Hawaii after they had been incorporated in the System pattern. He felt Mr. Farrell had pointed up all the facts that are necessary at

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the present time and that these could be put at the disposal of Congress if one of the Congressional committees should inquire. He recalled that President Deming had reported that in the Minneapolis Reserve District interest at the moment was intense regarding the possibility of changes which might affect that district's boundaries. Governor Mills said it was difficult for him to see how individual Congressmen would have any great concern in this matter other than from the standpoint of local pride.

At this point Governor Shepardson asked Governor Vardaman if he would explain a little more in detail what he had in mind concerning the making of a study which would have a positive approach. In reply, Governor Vardaman stated, first, that he agreed completely with Governor Mills' point as to the fictional character of the Federal Reserve district and branch boundary lines. Far more important, in his view, was the existence of expeditious facilities for the transportation of cash and checks. It was to prove the point that he thought the study should be made. He said he would not attempt to outline the nature of the study but felt that it should be as confidential as possible. He did not contemplate that it would be necessary to hold hearings, but he did think that an analysis should be made of the complete functioning of the System to determine whether there were any areas that were not now being served as efficiently as possible. He pointed out that, in a sense, there had already been a pilot study of this type when it was decided to abandon

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the idea of additional branches within the district served by the Federal Reserve Bank of Chicago. One approach might be, he said, to multiply the type of study made in the Chicago case, making one for each of the twelve districts.

Governor Shepardson asked if Governor Vardaman felt that the type of study made for the Chicago District would meet the Congressional interest in this matter. In response, Governor Vardaman stated that he could not be certain of this, but that the mere initiation of an appropriate study would prevent the System from being caught in an embarrassing position.

In the discussion it was recalled that there was some feeling on the part of commercial bankers in the respective areas that consideration should be given to the establishment of branches at various points, including South Carolina, Mississippi, and Miami, Florida. With respect to this, Mr. Farrell observed that in many respects it is much easier to prepare studies related to the matter of additional branches than with respect to district boundaries.

At this point Governor Robertson commented that there was no way of overlooking the fact that population centers and transportation facilities are considerably different today than they were when the System was created. It might well be that some districts of the country are overbanked so far as Federal Reserve facilities are concerned and that other areas of the country are underbanked. It was perfectly understandable to him that there had been no widespread pressure

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or complaint with regard to existing district boundaries because all of the Reserve Banks had been rendering good service to the banking system. Now that Alaska and Hawaii were in the picture, however, he felt that the System was going to have need for an up-to-date study and that it must be prepared to present a picture to Congress that will fully justify a particular form of organizational structure. It would not be enough of an answer, he said, simply to point out to the Congress that the existing structure is "working well." An outside study was needed that would take into account the changed economic factors and it was important that that study be made on as impartial a basis as possible. With such a study before it, he felt that the Board could decide what course of action it wanted to follow.

In expressing his views, Governor Szymczak said he found himself somewhat in between the positions already stated. He agreed that there should be a study and that the matter should be kept as confidential as possible. There were actually three matters to be studied: the location of branches, district boundaries, and the appropriate number of Federal Reserve districts. The last matter was possibly not the responsibility of the Board but one more properly within the province of Congress, although he agreed that the System should be prepared to answer any Congressional inquiries with respect to the Board's views concerning the appropriate number of districts. He felt the System should be prepared to justify its position with regard either to the

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number and location of branches or the district boundaries. He said he felt that the problems encountered by the Organization Committee at the time the System was created were nothing compared to what would be encountered at the present time if the subject were to be reopened. There were not only the political aspects to be considered but intense matters of local pride on the part of Chambers of Commerce, local clearing houses, and other groups of business organizations.

Governor Mills said he felt Governor Szymczak had summarized the situation quite completely. In his view, however, those within the Federal Reserve System should be the best informed on the matters to be considered in arriving at answers to questions concerning branches, boundary lines, and the number of districts.

Mr. Farrell pointed out that there was some question as to whether the Board could reasonably expect to get impartial and objective answers from the Federal Reserve Banks. Much as they might try to be impartial and objective, it was inevitable that pressures for the maintenance of existing relationships would be present. Governor Robertson concurred in this thought and said that was why he felt the study could not be made within the facilities of the System. In order to get the kind of data that would be needed, Governor Robertson thought it might be necessary to set up three different groups: one which would concentrate on transportation facilities, one on banking arrangements, and the third on population and business concentrations and trends. He doubted whether

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there were experts within the System in each of these fields. Hence the desirability of seeking outside consultation.

Mr. Young suggested that perhaps the problem could be broken down into several parts. It was his view that data on population, economic factors, and transportation facilities could be assembled either within or outside the System. Several of the Reserve Banks, he pointed out, had done impressive work on the economies of their districts which would be invaluable in the development of basic information required for such a study. With the basic regional and district information at hand, he thought the study might proceed at a second level which would try to knit together the over-all pattern for the System structure, and it was this second level of analysis which might very well be sublet to an independent research organization. Then he suggested that consultants be used who might be in contact with the study at the two levels--that which was going on within the System and that which would be carried on outside the System. These consultants would also have contact with the Board in the development of the program.

Governor Szymczak then raised the question whether, if the information desired was related primarily to the services of the Federal Reserve Banks, it would be possible to develop a questionnaire which would simply get at facts related to such services, thus minimizing the opportunity for expression of opinion which might tend to be prejudiced.

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Along this line Governor Mills suggested that perhaps the appropriate mechanism could take the form of a task force comprised of representatives of the Division of Research and Statistics and the Division of Bank Operations, drawn together at the Board level, to plan such a study and see that it was carried to a successful conclusion.

Governor Vardaman said that he would be opposed to the creation of any System-wide committee for the conduct of the study. If a survey were to be made solely within the System, it would be subject to accusations that it was merely an effort to preserve the present structure of the System and he was inclined to believe that there might be some substance to such allegations. It was difficult for him to imagine, he said, any System committee that would come to conclusions other than that the present structure was a satisfactory one. Instead, he would suggest that the Board use an impartial corporate body as the procurer of the information. This would remove the System completely from the collection of the data required.

At this point Governor Balderston raised the question whether it would not be desirable, before this issue was resolved, to have further discussion when the Chairman was able to be present. He suggested that, before further discussion took place, the Divisions of Bank Operations and Research and Statistics prepare a memorandum for the Board's consideration which would incorporate their combined views as to how the study might most appropriately be made.

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Governor Vardaman said he would like to add a word of caution to be kept in mind in the development of the study. He pointed out that the System organization and structure could not be considered solely from the standpoint of efficiency. Efficiency, he said, is seldom the foremost characteristic of Government organizations and the Federal Reserve System would probably never be materially different from other Government organizations in this respect. For example, he said, it could probably be demonstrated that it would be possible to eliminate half of the post offices in the country and the mail would be handled as efficiently as it is at the present time. It was generally recognized that this would never be done, he said. Dollar and cents efficiency alone could not be the criterion and might have to be sacrificed to some extent for other considerations.

At the conclusion of the discussion it was understood that, as suggested, the Divisions of Bank Operations and Research and Statistics would prepare a memorandum on the subject of a study of the Federal Reserve System organizational structure which would form the basis for further consideration of the matter by the Board.

During the foregoing discussion Mr. Thomas withdrew from the meeting.

Report on bill to establish thirteen Federal Reserve districts (Item No. 2). On August 19 the Board had received a request from the Chairman of the Committee on Banking and Currency of the House of

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Representatives for a report on bill H. R. 13784, "to amend the Federal Reserve Act to authorize the establishment of thirteen Federal Reserve districts." Prior to the meeting there had been distributed to the members of the Board a proposed reply which followed the general pattern of recent replies on this same subject to various members of Congressional delegations from States in the northwestern part of the country.

Governor Robertson suggested that the last paragraph be revised slightly to indicate that the Board was giving this subject careful consideration in addition to pointing out that the Board was not in a position at this time to express a definite opinion as to the necessity or desirability of legislation which would authorize the creation of a thirteenth district.

Governor Robertson's suggestion was accepted, and it was unanimously agreed to send the letter to the Chairman of the Committee on Banking and Currency in the form attached to these minutes as Item No. 2.

Nonofficial entertainment of persons not employed by Reserve Banks. Prior to the meeting there had been distributed to the members of the Board copies of a memorandum dated June 17 from Mr. Erickson, Chairman of the Conference of Presidents, relating to the question of the use of Federal Reserve funds for the purpose of nonofficial entertainment of persons not employed by the Federal Reserve Banks. It

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was recalled that this subject had been discussed at the meeting on August 6 but that action had been deferred until additional members of the Board could be present.

Governor Shepardson reviewed developments in Kansas City where the question arose last spring because of a proposal to entertain at dinner the wives of Reserve Bank delegates to the annual convention of the American Institute of Banking. Inquiry of Mr. Leedy, he explained, indicated that plans had developed to such a stage before the question was raised that it had not been feasible to cancel the dinner arrangements.

Governor Shepardson said he understood the Board's position to be that it did not frown on the inclusion of certain groups of persons not employed by the Reserve Banks at affairs of a purely local character, such as picnics, Christmas parties, and other similar functions, especially members of the employee's immediate family. He said Mr. Erickson's memorandum pointed out how closely the Presidents felt the activities of the American Institute of Banking were related to the operations of the Reserve Banks. Governor Shepardson recognized that this was a difficult question. He pointed out that it would be one thing if it was the intention to be "simon-pure" in this matter and have no such expenditures. So long as some expenditures of this nature were to be considered appropriate, there was always the problem of where to draw the line. Perhaps the best test, he said, was whether

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the expenses were reasonable and whether they were limited to immediate families. If such expenditures met these two tests, then perhaps they should be considered as proper personnel expenditures. He reminded the Board that considerable progress had been made in restricting large-scale entertainments for persons outside the System and that the subject under current discussion was clearly not in this same category.

Mr. Farrell pointed out that there might be some difficulty in using the phrase "immediate families" inasmuch as a usual practice had been to allow each employee to bring one guest to Reserve Bank social functions to recognize the fact that a substantial portion of the employees are not married.

Governor Robertson said he was impressed with the position taken by the Presidents and recognized that there was a very real justification for such expenditures from the point of view of employee morale. He cited an example of an employee holding a responsible position with one of the Reserve Banks whose original contact with the Bank had been as a guest at a social affair, so it was possible that they also served a function in recruiting. So long as the attendance was restricted to employees and a limited number of guests, he had now come to the conclusion that reasonable expenditures were appropriate.

Governor Vardaman said his concern had never been so much a matter of the purpose for which the money was spent as that there be full disclosure of the expenditures. He suggested that the Board's

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Annual Report show that consideration had been given to the question of such expenditures and that they were regarded as justified on the basis of maintaining an adequate personnel program. He recognized, however, that there was a question whether such expenditures would be considered suspect by members of Congress or Congressional committees. From that standpoint, it was a matter of weighing whether the factors of recruitment and morale were sufficient to offset the risk entailed in contrary Congressional views.

Governor Mills said he believed firmly that within their own organization Federal Reserve Banks should cultivate family relationships from the standpoint of employee morale. He felt, however, that the line should be drawn at that point and he was not inclined to favor the inclusion of wives of employees at functions held at other Federal Reserve Bank locations. The AIB convention dinner, over which this matter arose, was an example of this kind of function, and there were others that could be cited. He expressed the opinion that expenditures which redound to the benefit of an individual, as opposed to those having a clearly discernible benefit to the System, may be considered suspect.

It was mentioned by Governor Balderston that at some of the meetings of the Board's Committee on Reserve Bank Budgets it had been brought out that on some occasions the Chairman or the President of a Reserve Bank may assume personally certain expenses incident to

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entertainment. He questioned whether this constituted a workable approach to the problem.

At the conclusion of further discussion it was understood that the Division of Bank Operations would prepare for the Board's consideration a proposed letter to the Presidents of the Reserve Banks in reply to the memorandum of June 17 submitted by Mr. Erickson which would incorporate the points of view expressed during the discussion.

The meeting then recessed and reconvened in the Special Library at 3:35 p.m. with all of the members of the Board except Chairman Martin present. From the staff Messrs. Kenyon, Riefler, Hackley, and Molony were present.

Discount rates. Governor Balderston reported that he had just received a telephone call from President Hayes of the Federal Reserve Bank of New York who advised that the directors of that Bank had voted to establish a discount rate of 2 per cent, subject to the approval of the Board of Governors. Governor Balderston also reported that telegrams had been received today from the Federal Reserve Banks of Cleveland, Richmond, and St. Louis indicating that the directors of those Banks likewise had voted to establish a 2 per cent discount rate, subject to the Board's approval.

Reporting further on his conversation with President Hayes, Governor Balderston said that the New York Bank would like to announce the discount rate change at 4:00 p.m. today, the time of the Bank's

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usual weekly press conference. According to Mr. Hayes, the directors voted to increase the discount rate only with the understanding that the Bank's officers would let it be known that the directors had voted with reluctance for the sake of stability, despite their reservations about the degree of improvement in the economic situation.

Governor Balderston said he expressed to Mr. Hayes the view that the stability angle might well be stressed, but that he would be inclined to play down the matter of reluctance, particularly in view of the fact that a Board press release tomorrow would reveal the index of industrial production to have been 137 for August, higher than anyone had expected. Eyebrows might be raised if, at the same time, the New York directors stressed their reluctance to increase the discount rate to 2 per cent because of reservations about improvement in the economic situation.

Mr. Hayes stated, Governor Balderston said, that he could not have gotten the action through without the aforementioned understanding, that it had been one of his hardest selling jobs, and that the directors contemplated in taking the action that the Bank's officers would inform the press along the lines indicated.

Governor Balderston stated that Mr. Hayes had requested that Mr. Molony call Vice President Roelse of the New York Bank if a press release at 4:00 p.m. today would be agreeable to the Board of Governors.

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Comments in the discussion that ensued indicated a unanimous view in favor of a press release by the Board in the usual form at 4:00 p.m. which would relate to the change in the discount rate at all of the four Banks whose directors had acted today to move to 2 per cent. Accordingly, Mr. Molony advised Mr. Roelse by phone that a simultaneous release at that hour was intended, and it was understood that Mr. Kenyon would so advise the Presidents of the Cleveland, Richmond, and St. Louis Banks.

Governor Balderston stated that Chairman Martin had indicated by telephone that he would have no objection to a release at 4:00 p.m. if that should be the Board's decision.

Thereupon, the Board approved unanimously, effective September 12, 1958, for the Federal Reserve Banks of New York, Cleveland, Richmond, and St. Louis the following rates:

On discounts for and advances to member banks under Sections 13 and 13a--2 per cent;

On advances to member banks under Section 10(b)--2-1/2 per cent;

On advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13--for New York 3-1/2 per cent; for Cleveland and Richmond 3-3/4 per cent; and for St. Louis 3 per cent.

On advances under Section 13b direct to industrial or commercial businesses, including advances made in participation with financing institutions--for New York a range of 4 to 6 per cent.

Other rates in the respective Banks' existing schedules without change.

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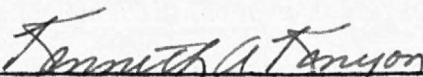
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This action was taken with the understanding that advice would be sent by telegram to all Federal Reserve Banks and branches and that arrangements would be made for publication of a notice in the Federal Register.

Unanimous approval was given to telegrams to the following Federal Reserve Banks approving the establishment without change by those Banks on the dates indicated of the rates on discounts and advances in their existing schedules:

Boston	September 8, 1958
San Francisco	September 10, 1958
Atlanta	September 11, 1958
Kansas City	September 11, 1958
Dallas	September 11, 1958

The meeting then adjourned.


Assistant Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
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OFFICE OF THE VICE CHAIRMAN

September 12, 1958.



Dr. Raymond J. Saulnier, Chairman,
Council of Economic Advisers,
Executive Office Building,
Washington 25, D. C.

Dear Steve:

This is in response to your letter of August 25, 1958, requesting certain information for use by the Council of Economic Advisers in connection with the assistance the Council provides in the preparation of the annual Economic Report of the President.

During the past session of Congress several laws were enacted within the area of the responsibilities of the Federal Reserve System, although there may be some question as to how significantly any of these laws may affect the growth or stability of the economy. The Defense Production Act of 1950, which is the basis for guarantees of loans for defense production, was continued in force until June 30, 1960 (Public Law 471). The authority of the Federal Reserve Banks under section 14(b) of the Federal Reserve Act to purchase and sell direct or fully guaranteed obligations of the United States directly from or to the United States was also extended until June 30, 1960 (Public Law 476). In connection with the Alaskan statehood bill (Public Law 508), provision was made for readjustment of Federal Reserve districts to include Alaska. The Small Business Investment Act of 1958 (Public Law 689), to make equity capital and long term credit more readily available for small business concerns, provided for repeal of section 13(b) of the Federal Reserve Act.

None of the laws mentioned above was specifically proposed by the Administration in the Economic Report of the President transmitted to the Congress on January 20, 1958, although it would appear that all of them were generally consistent with the program of the President.

During the forthcoming session of Congress the Board probably will support, as it has in the past, certain proposals relating to the Federal Reserve System although, here again, there may be some question as to how significantly or immediately some of the proposals would affect the growth or stability of the economy. The Board favors enactment of the Financial Institutions Act, particularly certain provisions requiring advance approval by the appropriate Federal supervisory agency for proposed bank mergers. Legislation on this subject was specifically recommended by the President in his last Economic Report.

Dr. Raymond J. Saulnier

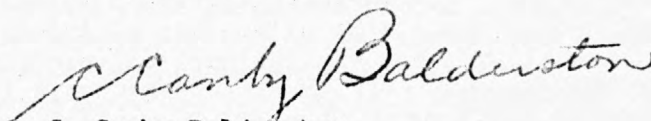
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The Board has already submitted to the Congress, as required by the Bank Holding Company Act of 1956, a report as to the results of the administration of that Act and has made recommendations as to changes in the law which, in the opinion of the Board, would be desirable. The Board probably will continue to support those changes.

The Board probably will wish to support, as it did in the last session of Congress, an amendment to section 19 of the Federal Reserve Act which would make three changes in the present law respecting the reserve requirements of member banks. The proposed changes were reflected in S. 3603 and H. R. 11871. Under the proposal, member banks could be permitted by the Board to include in their required reserves all or part of their vault cash holdings in addition to balances with Federal Reserve Banks. The reserve requirements for demand deposits of central reserve city banks would be set within a range of 10 to 20 per cent instead of the present authorized range of 13 to 26 per cent. Finally, individual member banks in any part of a reserve or central reserve city could be permitted by the Board to carry reserves at the lower requirement level prescribed for country or for reserve city banks, where reasonable and appropriate in view of the character of business transacted by the individual banks concerned.

The Board has designated its General Counsel, Mr. Howard H. Hackley, to serve as the Board's liaison with the Council of Economic Advisers on the subject of a legislative program.

Sincerely yours,



C. Canby Balderston,
Vice Chairman.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
9/11/58

OFFICE OF THE VICE CHAIRMAN

September 12, 1958.

The Honorable Brent Spence, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your letter of August 19, 1958, in which you request a report on bill H. R. 13784, "to amend the Federal Reserve Act to authorize the establishment of thirteen Federal Reserve districts."

Section 2 of the Federal Reserve Act, which relates among other things to the establishment of Federal Reserve districts, states that "the districts thus created may be re-adjusted and new districts may from time to time be created by the Board of Governors of the Federal Reserve System, not to exceed twelve in all." Twelve districts are now in existence and H. R. 13784 would, in effect, provide permissively for the creation of an additional district.

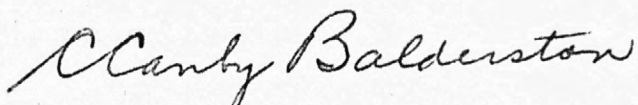
Section 19 of the recently enacted Alaska Statehood Law amended section 2 of the Federal Reserve Act to provide that "when the State of Alaska is hereafter admitted to the Union the Federal Reserve districts shall be readjusted by the Board of Governors of the Federal Reserve System in such manner as to include such State."

The Board has received suggestions, which are currently under study, that an additional Federal Reserve district be established to serve the Pacific Northwest and Alaska. However, the Board probably will defer any final decision with respect to the need for a new district until it becomes clearer what action the Congress may take regarding the question of Statehood for Hawaii. In the meantime, and without prejudice to the ultimate conclusion, it is the Board's intention to include Alaska in the Twelfth Federal Reserve District when Alaskan statehood becomes effective.



Therefore, although the Board is giving this whole subject careful consideration, it feels that it is not in a position at this time to express a definite opinion as to the necessity or desirability of legislation which would authorize the creation of a thirteenth Federal Reserve district.

Sincerely yours,

A handwritten signature in cursive script, reading "C. Canby Balderston". The signature is written in dark ink and is positioned above the printed name.

C. Canby Balderston,
Vice Chairman