

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 November 10, 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.

	A	B
Chm. Martin	x <u>MM</u>	_____
Gov. Szymczak	x _____	_____
<del>Gov. Vandaman</del>	_____	_____
Gov. Mills	x _____	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>SS</u>	_____

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 Federal Reserve Building in Washington, D. C., on Monday, November 10, 1958, at 2:00 p.m.

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

Mr. Sherman, Secretary  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Farrell, Associate Director, Division of Bank Operations

Messrs. Erickson, Hayes, Bopp, Fulton, Leach, Bryan, Allen, Johns, Deming, Leedy, Irons, 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

At Chairman Martin's request, Governor Balderston commented on the purpose of this meeting. He referred to the Board's letter of October 20, 1958, to the Presidents of all Federal Reserve Banks informing them that the Board had approved the recommendation of the Committee on Collections and of the Presidents' Conference to change the time schedules so as to provide for a 3-day maximum rather than the present 2-day maximum for deferment of credit for cash items collected through the Federal Reserve check collection system. Governor Balderston went on to say that the Board's vote to approve the recommendation of the Presidents' Conference was a vote on the principle involved and that the question

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of implementation of that action was left for further consideration at a time when Chairman Martin had returned from the meetings of the Fund and the Bank and when there was an opportunity to discuss the question with the Reserve Bank Presidents. The problems involved included the technical questions on the one hand and the public relations problem on the other. The purpose of this meeting today was to discuss these problems, particularly the problem of the timing that might be suitable for carrying out the proposal.

Chairman Martin then called upon Mr. Mangels as Chairman of the Committee on Collections.

Mr. Mangels recalled that when the time schedule was reduced from a 3-day to a 2-day maximum several years ago, that followed a long period of consideration and consultation as to the practicability of the move. Ultimately it had been agreed that the action should be made effective in January 1951 with the hope that eventually the collection of most items would be effected within the 2-day period. This, of course, had not taken place.

Mr. Mangels then referred to the Board's letter of October 20, noting that, while it indicated the Board had approved the recommendation of the Presidents' Conference, it did not contain any reference to an important point that had entered into the Presidents' discussion, namely coupling with a change in the maximum time schedule a reduction in reserve requirements that would have an offsetting effect as far as member banks were concerned. Such an offsetting action would tend to

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ease the problem for the banks concerned and could also be worked out so as to tend to equalize reserve requirements between reserve and central reserve city banks.

Mr. Mangels said that, while he was not uneasy regarding the reaction that would come from Twelfth District member banks, in some Federal Reserve districts there was a feeling that an increase in the availability schedule would have a definite effect on the Reserve Bank's relations with its member banks. The suggestion the Presidents had made for coupling a reduction of, say, 1/2 per cent in reserve requirements of reserve city banks and 1 per cent for central reserve city banks deserved serious consideration as a means of taking care of the situation some of the Presidents anticipated. The total volume of reserves could, of course, be adjusted through open market operations in the usual way just as though there had been no change in the deferment schedules.

Chairman Martin commented that in his opinion there would be a major public relations problem in explaining an increase in the maximum time schedule to member banks and the public.

Governor Robertson stated that Mr. Mangels' suggestion for an offsetting action on reserve requirements was one action that might be taken at the time the maximum schedules were increased. There was also the use of open market operations, and there might be several other alternatives. His feeling would be that the way that would cause the least friction would be the best. He saw no reason to move too fast in

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making the change and saw no reason to push for action within the next month or so. It might be that some time after the first of the year would be more appropriate than immediately after the year end when there would be the usual year-end problems and adjustments taking place. He hoped that there would be no decision today on the particular method to be used in offsetting the increase in time schedules. His understanding of the purpose of today's meeting was to make certain that everyone was thinking in terms of the most appropriate timing for the action in the light of the situation that prevailed.

Mr. Erickson stated that he was one of those who voted against an increase in the time schedules. He felt that a terrific public relations problem was involved and that none of the schemes suggested for offsetting the reserves in the market would take care of that problem. He wished to raise the question whether the advantages to be gained from an increase in the time schedule were sufficient to outweigh the disadvantage that existed from the public relations standpoint. When Governor Robertson commented that he thought this question had been decided, Mr. Erickson said that he was raising the question again as to whether there could not be a rehearing on the decision.

Mr. Allen said that his views were similar to those of Mr. Erickson, and he would like to discuss the question on that basis unless the Board did not wish to have this point raised. However, his feeling about the decision was so strong that he hoped there could be full reconsideration of the fundamental decision. In his opinion a return to a 3-day maximum would do little to help the System.

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Mr. Bryan said that as one of those who was strongly opposed to the majority recommendation of the Presidents' Conference, he had not argued his point of view at the time the Presidents met with the Board to discuss the matter. He would like, however, to be permitted to put before the Board a written argument on the whole subject urging reconsideration of the decision that had been arrived at. In addition to submitting such an argument for reconsideration, he would like to have the opportunity to make a record as to why he was opposed to the decision that had been reached. He felt this decision was of extraordinary importance not only to the Federal Reserve System but to the entire commercial banking system. For this reason he requested the privilege of laying before the Board and the Reserve Bank Presidents a statement in opposition to an increase in the time schedules.

Governor Robertson said that as one of those who favored the increase in the time schedule, he would dislike very much to see reconsideration if it were not for the fact that he believed this to be an extremely important matter. He had no doubt but that the decision was right and he doubted that any additional reasons could be advanced that would change the conclusion that a majority had reached. Nevertheless, because he did not think that the Board or the System should ever take a position where there were strong feelings opposed to the action without giving full opportunity for the other side to reargue its position, he would second Mr. Bryan's suggestion that he be granted the time to lay before the Board and before the Presidents his views and to have a full debate on the entire issue.

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Governor Balderston said that he felt much as Governor Robertson had indicated. The question in his view was neither black nor white. He happened to have voted as Governor Robertson had for a return to the 3-day maximum time schedule, but like so many matters that were of fundamental importance additional consideration might throw further enlightenment on the problem. While he had voted for the change, he had not been clear as to the timing, and in any case he would be glad to have a further discussion of the whole question.

Governor Mills said that personally he would be delighted to have a rehearing on this proposal. He was very much of the view that the report of the Presidents' Conference essentially gave the majority opinion because that was a decision that they had reached without any great record of dissension from the five Presidents who opposed the proposal. He had great concern, as did the five dissenting Presidents, about the public relations problem and the repercussions that an increase in the maximum deferment could bring.

Mr. Hayes stated that, while he had no objection to a reconsideration of the matter, he thought that the minutes of the Presidents' Conference and of the joint discussion with the Board reflected what went on during these meetings and that, in his opinion, there had been full opportunity for discussion of the question.

Mr. Allen said that so far as he was concerned he had only a short time between receipt of the report of the Committee on Collections

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and the meeting of the Presidents' Conference at which the Presidents voted 7 to 5 to return to the 3-day maximum. The nature of this decision was such that he felt a longer period for consideration and discussion of the proposal would have been desirable.

Governor Shepardson said that when the Board considered this matter in October he raised the question whether there should be further consideration before taking any action. It had finally been agreed in the Board meeting that a vote would be taken, and the vote was taken with the understanding that the decision would be subject to further discussion at a meeting with the Presidents. While this vote indicated that the timing was the question to be considered further, his own view was that the whole question should be opened up for further consideration, and his vote to send out the letter that had gone to the Presidents under date of October 20 had been with that thought in mind.

Chairman Martin said that he gathered there was complete agreement that there should be a further opportunity for discussion of this question and that whatever time was needed should be taken for this purpose.

Mr. Leach said that some of those who had voted to return to the 3-day maximum did so with the expectation that there would be a great deal of dissension regarding the action. So far as he was concerned, while he had voted in favor of the change, he still anticipated that there would be that dissension.



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Governor Robertson then raised the question whether this matter might be discussed following the meeting of the Open Market Committee scheduled for December 2, 1958.

Mr. Mangels commented that it would be necessary for him to get away by 2:30 p.m. that day, and Chairman Martin suggested that the discussion could start as soon as the Open Market meeting was concluded.

Mr. Erickson stated that the Conference of Presidents planned to have a meeting on December 15 and that, if the Board concurred, they would plan a joint meeting with the Board on the afternoon of December 16 following the meeting of the Federal Open Market Committee, at which time this question could be further discussed.

There was no indication of disagreement with these suggested arrangements.

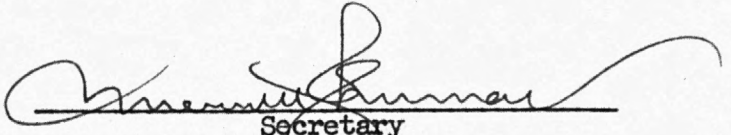
Governor Balderston then suggested that the Board and the Presidents might be interested in having Mr. Bryan report an incident that occurred at the Jacksonville Branch of the Atlanta Bank concerning the use of currency obtained at the branch by an employee who used the currency in connection with a television program on which a prize was offered for the presentation of bills containing specified numbers. While there had been no dishonest act connected with the incident, the employee had been able to exchange currency of his own for bills with winning numbers. Mr. Bryan stated that the prize money was never received by the employee who had not endorsed or cashed the check but had returned it to the sponsor of the program.

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Several other Presidents reported actual or potential instances of currency exchanges, and in all cases it appeared that steps had been taken to preclude a Reserve System employee from using his position to obtain currency containing numbers that might win prizes on the programs discussed.

Thereupon the meeting adjourned.

  
Secretary