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 December 16, 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 WM	
Gov. Szymczak	x MS	
Gov. Mills	x	
Gov. Robertson	x R.	
Gov. Balderston		x CCB
Gov. Shepardson	x CCS	

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 Tuesday, December 16, 1958, at 12:20 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak 1/
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary

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

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

Before this meeting the Presidents had submitted a memorandum listing topics that they would like to discuss with the Board. The topics, the statement of the Presidents with respect to each, and the discussion at this meeting were as follows:

1. Retail trade statistics program. The Conference had before it report of the Subcommittee on Census Proposals of the System Research Advisory Committee covering the possible alternatives available to the Federal Reserve System in connection with possible mutual arrangements with the Bureau of the Census for data collection in the retail trade area. The report lists the following alternatives:

   1. Continue to collect data on department store trade and perhaps improve them to some extent. This, it is agreed, would be unsatisfactory.

1/ Withdrew from meeting at point indicated in minutes.

2. Withdraw from the field without making any alternative arrangements for data collection on retail trade. While this is attractive from some viewpoints, it is probably not a realistic alternative in light of the System's own needs for current information on consumers final takings.

3. Continue a program of retail trade statistics, but expand its scope to cover other retail outlets that compete with department stores. This would require considerable expansion of the System's data collection and processing efforts.

4. Transfer the System's responsibility for retail trade statistics to the Bureau of the Census, which already carries a major responsibility for such data. Such a transfer would presume, on the one hand, that the program to be carried out by Census would fill the System's needs considerably better, in some ways at least, than the present department store program and would require, on the other, a transfer of funds to the Census. The cost, in the short run, would be a little more than the present program but it has the promise of costing less in the long run. In any event, the cost would be considerably less than the development of an expanded, and competing, retail trade series by the System as contemplated in alternative 3 above.

The report also presents the following program, approved by a majority of the participants from research staffs of the Board and the Federal Reserve Banks, designed to implement alternative 4 above:

A.	At the National Level	Cost
	1. Total U. S. retail sales and GAAFF component weekly	$160,000
	2. Supplementary information to permit a rough breakdown monthly of retail sales by specified commodity groupings	50,000
	3. Total U. S. monthly department store sales, inventories, credit, and outstanding orders	25,000

B. Regional Level	Cost
1. Total retail sales and GAAFF component, monthly, for Federal Reserve Districts	$ 50,000
2. Total retail and total GAAFF component, monthly, for about 20 major standard metropolitan areas	305,000
Total Cost of Program	$590,000

Mr. Bryan stated that the Conference Committee on Research and Statistics felt the Subcommittee (on the retail trade statistics program) had performed a long, arduous, and extremely able job, and the Conference indicated its appreciation of such performance. Mr. Bryan then presented the views and recommendations of the Conference Committee on Research and Statistics concerning the above program. He emphasized that the first question to be decided was the desirability of the Federal Reserve underwriting a retail trade statistics program by the Bureau of the Census costing $590,000 per year. After considerable discussion of various aspects of the program and the alternatives the Conference took the following actions:

(1) (By vote of 9 to 3) Adopted the following statement: The Conference feels it would be unwise to underwrite even to 1960 Bureau of the Census expenditures to institute a data collection program for total U. S. retail sales and GAAFF component weekly and a rough breakdown monthly of retail sales by specified commodity groupings on a national basis.

(2) (Unanimously) Adopted the following statement: The Conference believes the efforts of the Bureau of the Census to obtain appropriations for an expanded retail trade statistics program should be pursued vigorously and the System should support actively such efforts.

(3) (By vote of 10 to 2) Adopted the recommendation of its Committee on Research and Statistics that the System work further to see what can be accomplished in the area between alternatives (1) and (3) without major additional expense. In order to implement this recommendation the Conference Committee is to refer the matter to the Subcommittee on

Census Proposals, is to confer with such Subcommittee and is to submit specific recommendations to the Conference.

Also, it was the understanding of the Conference that when, and if, the Bureau of the Census obtains appropriations, the whole matter should be reviewed again.

In reviewing the discussion of this subject by the Presidents' Conference, Mr. Bryan said that in the view of the majority of the Presidents an underwriting of the Census Bureau proposal would involve unwarranted risks, for it could result in the Federal Reserve System being burdened with the cost of the program indefinitely and any rejection by the Congress of a request for appropriated funds would leave the System in the embarrassing position of having to decide whether to continue to support a program for which appropriated funds had been refused. If, on the other hand, the Congress should make appropriated funds available to the Census Bureau, it was the view of the Presidents that the System should retire from the field of collecting retail trade statistics, despite some reservations arising from the general delay in the availability of Census data. In the area of retail trade statistics, Mr. Bryan noted, timeliness is of the essence.

Mr. Bryan also stated that the Committee on Research and Statistics--and generally speaking the Conference of Presidents--felt that some of the items included in the proposed Census Bureau program were of doubtful value to the System if considered from the standpoint of the System's primary responsibility for monetary policy. There was a strong feeling, however, that if the Census Bureau could obtain appropriations, or if the System could undertake such a program without substantial additional expense, all of the items in part A of the Census Bureau proposal (as set forth in the Presidents' Conference memorandum of topics quoted above) along with the first item in part B would be of considerable value. As to possible courses of action, the Conference felt that it would be undesirable for the System to withdraw from the field without making any alternative arrangements for collection of data on retail trade. The majority of the Presidents therefore felt that the most feasible course might lie somewhere between continuation of the collection of data on department store trade and a program of retail trade statistics expanded in scope to cover retail outlets that compete with department stores. It was believed that within this area a workable program could be developed without any major addition to expense. Accordingly, it was voted to try to find some compromise, with the understanding that the Committee on Research and Statistics would meet with the technical staff and express value judgments. In this connection, Mr. Bryan said that the Committee was acutely aware of the expense of the present department store statistical program and felt that technically it lacked a great deal of being perfect. On the other hand, the Committee did not quite agree that the program was as deficient as sometimes alleged. It was believed that some departmental breakdowns might be simplified, with resulting savings that would permit other phases of the program to be improved. In conclusion, Mr. Bryan repeated that the position of the Presidents' Conference did not contemplate continuation of a System program if appropriated funds should become available to the Bureau of the Census.

Mr. Hayes, one of the minority who favored acceptance of the Census Bureau proposal, said it was the feeling at the New York Bank that the present System series was unsatisfactory and that the program worked out with the Census Bureau offered real promise of a major improvement in statistics for use in System activities. It was felt that as a practical matter probably the only way to get the program started was to extend some financial backing, with the strong hope that System assistance might be supplemented by appropriated funds as soon as possible. While some parts of the Census Bureau program might be deleted, he would be willing to go along with the entire proposal. It would not only provide the System with much better statistical weapons but free System research personnel for other work more closely related to monetary policy. On the other hand, an indication of unwillingness to support the program financially might kill the whole project.

Mr. Leach indicated that he had voted with the minority for approximately the same reasons as mentioned by Mr. Hayes. He noted that the System had already contracted for various work to be performed by the Census Bureau and said that he saw no great risk in entering into an agreement for the collection of retail trade data.

In response to a question by Chairman Martin, Mr. Bryan said that he had been in touch with Mr. Young, Director of the Board's Division of Research and Statistics, and that he would inform Mr. Young in detail concerning the Conference discussion.

2. <u>Federal funds study</u>. Chairman Erickson presented for consideration the Board's letter of December 6, 1958, requesting clarification of the views of the Presidents' Conference regarding the proposed collection of certain statistics as an additional phase of the Federal funds study, as set forth in memorandum dated November 17, 1958. The memorandum recommends approval by the Board of the following:

(1) Publication of the initial Federal funds study as a special research study in the form of a separate pamphlet.

(2) Institution of the collection of Federal funds statistics in line with the recommendations of the ad hoc System Committee on Federal Funds, endorsed by the System Research Advisory Committee.

(3) If undertaken, the proposed program of statistics collection would be supervised and effected through established organizational and committee channels.

(4) The new statistics, by covering a three-year period, would provide a basis for important studies of the functioning Federal funds market and the banks' use of it over a period of time. Such studies could not be made on the basis of existing data which pertain to one month only. When adequate data become available, these analytical studies would be conducted under the direction of the Director of the Division of Research and Statistics to assure coordination with other research efforts in the financial area. Assignment of individual studies might be to the Board's research personnel or to Reserve Bank research personnel through the established mechanism of the Research Advisory Committee.

Following discussion of this matter the Conference concurred in the recommendation of its Committee on Research and Statistics that the proposed collection and study of Federal funds statistics be approved subject to the following qualifications:

(1) The program of statistics collection should be limited to a period of approximately 18 months (to June 30, 1960) in lieu of the three-year period proposed;

(2) Institution of the statistics collection should await publication and distribution of the initial Federal funds study in order to promote favorable public relations; and

(3) Dealers in Government securities should not be omitted from the data collection program.

The Conference expressed the desire that the Federal Reserve Bank of New York proceed expeditiously to develop dealer report forms in order to permit collection of data as soon as possible.

Finally, the Conference recommended that the study be a joint project of both the Board and the Federal Reserve Banks.

After Chairman Erickson had reviewed the recommendations of the Presidents' Conference, he stated, in response to questions raised by Governor Robertson, reasons why it was believed that the benefits derived from issuance of the initial Federal funds study in pamphlet form would be sufficient to warrant the cost of publication.

It was then indicated that the Board would take under consideration the recommendations of the Conference.

3. Review of check collection operating policies and practices. Supplementing the report of the Subcommittee on Collections dated August 11, 1958, containing recommendations for reducing the level of and fluctuations in float (considered at the Conference meeting of September 8-9, 1958), the supplemental report of the Subcommittee dated November 25, 1958, and report of its *ad hoc* Committee on the above topic were considered by the Conference. The *ad hoc* Committee report, approved by the Subcommittee on Collections, contains numerous recommendations pertaining to immediate credit items, deferred credit items, and miscellaneous practices, which are directed at policies and practices now resulting in float or causing fluctuations in float as well as directed at obtaining more uniform operating policies and practices.

After considerable discussion of the report recommendations, the Committee on Collections and Accounting moved and the Conference voted (10 to 1 with 1 abstention) to approve in principle the recommendations of the *ad hoc* Committee subject to the suggestion that each Reserve Bank is to study the feasibility of putting the recommendations into practice and is to report to the Subcommittee by June 1, 1959.

Following comments by Mr. Mangels on the nature of the ad hoc Committee report for reducing the level of and fluctuations in float and the action with respect thereto taken by the Presidents' Conference, Governor Mills said he had gained a rather indefinable impression that implementation of some of the recommendations might have the effect of retarding the check collection process instead of expediting it. He inquired whether the Conference had appraised System check collection procedures in the light of practices followed by the more aggressive commercial banks and whether the Conference was satisfied that the System was keeping up with the parade. If there was any substance to his impression, and since the creation of the Federal Reserve System had as one of its fundamental purposes the improvement of check collection services, he wondered whether there might not be a responsibility, irrespective of expense, to accelerate the study of electronic processes and move ahead.

Mr. Allen stated that Governor Mills had touched in part upon the reasons why he voted against approving the recommendations contained in the ad hoc Committee report. It was his feeling that the authors of the report showed a lack of understanding of commercial bank practices.

Mr. Deming said he had not gained from reading the recommendations any suggestion that the Federal Reserve Banks permit themselves to relax in the prosecution of the check collection function. He noted that only one or two of the recommendations actually were related to closing hours, the others being related to more mechanical aspects of check collection procedures. In some of them, he said, something of a public relations problem seemed to be involved.

Mr. Leach supplemented Mr. Deming's comments by pointing out that the instructions to the Committee were not in terms of developing new methods of check collection but rather of summarizing methods by which float could be reduced. That, as he saw it, was what the recommendations would accomplish, without in any way impairing efficiency. The Committee was entirely familiar with what the commercial banks were doing.

Mr. Mangels expressed the view that the Federal Reserve Banks could hold their heads up as far as operating efficiency was concerned. No organization, he said, could handle such a large volume of items more efficiently. At the same time, it must be recognized that the Banks receive large concentrations of items that they cannot always process and get out the same day.

4. Use of Federal Reserve Banks as depositories and fiscal agents, and use of the advisory services of the Federal Reserve System, under the Small Business Investment Act of 1958. This topic had been referred to the Committee on Fiscal Agency Operations for review prior to consideration by the full Conference. Mr. Leach presented the Committee's report, pointing out that the Small Business Administration has never directed a Federal Reserve Bank to act as depository or fiscal agent for that agency as it is empowered to do under the Small Business Administration Act of 1953. The Committee recommended that until the fiscal agency and depository needs and plans of small business investment companies are known, the Federal Reserve can only adopt a policy of requesting reimbursement if called on to perform such functions.

With respect to advisory services the Committee suggested that the Federal Reserve Banks should be willing to provide the same data and reports to small business investment companies as they now make available to other companies. It recommended that the Reserve Banks wait until the advisory service question actually comes up before formulating any specific plans.

The report of the Committee on Fiscal Agency Operations was accepted and Mr. Erickson suggested that this topic be placed on the agenda of subsequent meetings of the Conference to insure prompt consideration of any further developments.

With respect to fiscal agency and depository services, Mr. Leach outlined why it seemed unnecessary to enter into discussion with the Small Business Administration at this time and said it had been agreed that if any Reserve Bank should be approached in this regard the request would be referred to the Committee on Fiscal Agency Operations in order that it might be taken up as a System matter. It was the current view, he said, that the Banks should be reimbursed for any such services they might be called upon to perform.

With respect to advisory services, Mr. Leach explained that it was felt preferable, at least for the present, to have each Federal Reserve Bank provide services, including publications, of the kind normally made available to companies in the respective districts rather than to attempt to set up any special rules. As indicated, however, it was the intention of the Presidents' Conference to give prompt consideration to any further developments.

5. Hospital surgical-medical benefits for retired employees. Pursuant to the Board's letter of May 23, 1958, and the request of the Conference at the June 16, 1958, meeting, the Committee on Personnel presented for consideration by the Presidents the report of its Subcommittee dated November 6, 1958, containing specific recommendations for providing hospital surgical-medical benefits for retired employees and their families. The report recommends that the Reserve Banks provide coverage for (a) service-retired employees, (b) special-service-retired employees after age 60 and with 25 years or more of service, and (c) disability-retired employees; and that the Reserve Banks pay two-thirds of the cost of such

coverage. The report contains data as to estimated annual cost to the Reserve Banks of such coverage and presents specific recommendations for implementing the coverage for several special categories of retirees. The Conference accepted the report and recommendations and is prepared to discuss the proposals at the joint meeting with the Board.

In reviewing the background of the subject and the recommendations contained in the Subcommittee report that was accepted by the Presidents' Conference, Mr. Johns discussed the categories of retired employees to whom hospital surgical-medical benefits would be made available under the proposal and the reasons for establishing limitations. With respect to the cost of the program, he said that on the basis of statistics as at the end of last August it was estimated that the annual cost to the Federal Reserve Banks would be approximately $95,000. Because of likely future developments which he mentioned, it was recognized that the cost might increase somewhat with the passage of time, but it was not anticipated that the increase would be great.

It was then indicated that the Board would consider the matter and that the Presidents would be advised.

The meeting then recessed and reconvened at 2:10 p.m. with the same attendance.

6. Uniform treatment of employees entering military service. At its September 8 meeting the Conference had before it the Board's letter dated February 19, 1958, requesting the Presidents to consider the matter of bringing up to date the "Policy for Uniform Treatment of Employees of the Federal Reserve Banks Entering Service in the Armed Forces of the United States Under the Selective Service Act of 1948." At that meeting Mr. Johns, Chairman of the Committee on Personnel, expressed the opinion that the report of the Subcommittee on Personnel on this topic dated September 1958, was lacking in sufficient background facts bearing upon the questions raised by the Board to

enable the Committee on Personnel to accomplish a comprehensive review of the matter and to submit recommendations to the Conference. The Conference concurred in the suggestion that this topic be resubmitted to the Subcommittee on Personnel for a more complete and comprehensive report.

The report of the Subcommittee dated November 6, 1958, which was mailed to the Presidents prior to the Conference meeting, contains recommendations on (1) re-employment rights, (2) unearned pay, (3) reimbursement for National Service Life Insurance premiums, (4) hospital-surgical-medical coverage for families of employees, (5) retirement benefits, and (6) pay and vacation policy specifically regarding annual field training of members of the Armed Forces Reserves. The Conference approved the report and recommendations of the Subcommittee except that with respect to item (5) above it was agreed that the present practice of placing all employees entering military service on the current military schedule should be continued, rather than removing from such schedule noncontributing members as recommended by the Subcommittee.

Mr. Johns described the circumstances suggesting a review of current policy regarding employees entering military service, the recommendations of the Subcommittee on Personnel, and the reason why the Presidents' Conference decided against accepting one of those recommendations.

With respect to the sixth recommendation, which contemplated that the individual Reserve Banks would be left free to decide whether full salary or only the portion of salary exceeding military pay would be paid to an employee undergoing annual field training as a member of the Armed Forces Reserves, Governor Shepardson inquired whether uniformity of practice on the part of all of the Banks would not be desirable. The response was in terms of consideration being given to local community practices. It was also stated that there was not believed to be enough inter-Bank communication staffwise to present any personnel problem from the standpoint of not following a uniform practice.

It was understood that the recommendations would be considered by the Board and that the Presidents would be advised.

7. Effect on the Retirement System of the Social Security Amendments of 1958. Under date of August 25, 1958, the Board of Trustees of the Retirement System of the Federal Reserve Banks requested the Retirement Committee to develop information about the effect on the Retirement System of the proposed changes in the Social Security Act, as a result of the Social Security Amendments of 1958, for the use of the Board of Trustees, the Conference of Presidents of the Federal Reserve Banks, and the Board of Governors. It was understood that after its review the Retirement Committee should recommend any changes it deemed desirable in the Rules and Regulations. The Retirement Committee's report on this topic dated October 30, 1958, recommends that no change be made in the Rules and Regulations of the Retirement System as a result of the Social Security Amendments of 1958.

Following a brief review and discussion the Conference approved the report and recommendation.

Following a statement by Mr. Fulton concerning the action taken by the Presidents' Conference regarding the Social Security Amendments of 1958, Governor Robertson referred to the recommendations contained in the report of Industrial Relations Counselors Service with respect to integration of Social Security and Retirement System features, and to the integration already effected. He inquired what was contemplated in the event of further amendments to the Social Security Act and whether a decision against integrating in the light of the recent amendments would not tend to make the problem more difficult of solution at some future time.

Mr. Fulton's reply was to the effect that in the view of the Conference the best plan would be to study possible further integration of Social Security and the Retirement System on an ad hoc basis each time there were amendments to the Social Security Act. He pointed out that the effect of raising the dollar limit of salary or wages subject to Social Security coverage, and integration of Retirement System benefits at those levels, was to make the Retirement System less and less a factor in providing retirement benefits for Reserve Bank personnel. Also, an increasingly wider group of employees would be on a noncontributory basis as far as the Retirement System of the Federal Reserve Banks was concerned. Consideration of the matter on an ad hoc basis upon the occasion of each change in Social Security coverage would, he felt, be consistent with the recommendations of Industrial Relations Counselors Service.

Mr. Johns commented that automatic integration with Social Security on all occasions would superficially have some attractive characteristics. However, it was not felt last year that it would be desirable to commit in favor of automatic integration at all levels but rather that the situation should be reviewed when necessary in the light of all relevant facts, and the Rules and Regulations of the Retirement System therefore were not amended to provide for automatic integration. That decision was prompted by a desire to keep the Retirement System in line with the prevailing practices of other concerns having private retirement plans, and at present it appeared that the most recent amendments to the Social Security Act were not being reflected in changes in the integration level of most private retirement systems.

At the conclusion of the discussion, during which Governor Szymczak withdrew from the meeting, it was understood that the Board would consider the matter further and that the Presidents would be advised.

8. Additional items of information arising out of current Conference meeting. In addition to the foregoing matters, the following items of possible interest to the Board were considered by the Conference. They are reported herein as a matter of information.

a. On the basis of data presented in the letter report of the Subcommittee on Collections dated November 12, 1958, the Committee on Collections and Accounting recommended, and the Conference approved, a reimbursement rate of $2.22 per thousand money orders handled during the period January 1, 1959, through June 30, 1959, with the Reserve Banks reserving the right to review and redetermine the rate at any time. This increase in rate from $2.05 per thousand is occasioned by a $25 increase in the monthly rental rate charged by IBM for Model 808 Card Punching Proof Machines effective January 1, 1959.

b. The Conference accepted the report of the Subcommittee of Counsel on Collections dated October 31, 1958, which concluded that there is not any substantial legal reason for modifying or discontinuing the program of the Federal Reserve Banks for developing electronic equipment for use in processing checks for collection. The report also suggests that, when timely, the Subcommittee on Electronics consider with the appropriate committee of the ABA four legal questions reviewed by the Subcommittee of Counsel on Collections.

c. The Presidents accepted the report of the Subcommittee on Cash, Leased Wire and Sundry Operations dated December 9, 1958, dealing with certain aspects of the leased wire system and approved the recommendations of the Subcommittee with respect to (1) submission of volume reports by all Reserve Banks and the Board, (2) submission of monthly reports to the switching center covering material delays in the system's pickup of outgoing messages, (3) revision of present instructions for manual counting to the same basis as that used by the mechanical counter attachment wherein six characters including spaces are counted as one word (subject to further review of the mechanical counter attachment), and (4) assignment of a "T" number to the cancellation message by the originating Federal Reserve Bank (provided that a request for cancellation first be approved).

d. The Conference accepted the report of the Committee on Electronics dated November 25, 1958, with respect to the development of an electronic currency sorting and counting machine, including recommendations of the Subcommittee that (1) no further steps be taken at this time toward the development of a currency sorting machine, and (2) no approach be made now to the Treasury Department in the matter of introducing special elements into the manufacture of paper currency in order to facilitate detection of paper counterfeits.

e. Mr. Hayes reviewed, and the Conference accepted, the report of the Special Committee on Emergency Operations dated December 5, 1958, relating to (1) participation in the emergency readiness activities at the OCDM classified location, (2) Federal Reserve Bank representation on OCDM boards, (3) "promotion" of emergency planning. He also reported that the availability of special vaults at Fort Riley, Kansas, for purposes of storing currency in connection with emergency operations has been approved, with the cost to be assumed by the Treasury and reimbursed by the Federal Reserve Banks.

Discussion of the foregoing items consisted solely of explanatory comments by the appropriate members of the Presidents' Conference. With reference to the last item, Mr. Hayes remarked that although agreement had been reached between the Treasury and the Board on draft legislation providing for the construction of emergency vault facilities, with the cost to be assumed by the Treasury and reimbursed by the Federal Reserve Banks, no legislation had as yet been enacted.

This concluded the discussion of the topics included in the statement submitted by the Presidents' Conference.

Emblem of System membership. Chairman Martin referred to the Board's request earlier this year, in the light of a question raised by an advertising firm, that the Presidents consider the desirability of adopting an official System membership emblem, and to the views expressed by the Conference. He said that thereafter the Board had discussed the matter further on the basis of study by its legal staff, that it had decided tentatively on a letter to the Presidents, but that the Board wished to have the proposed letter read at this meeting to ascertain whether the Presidents desired any further discussion. At his request, the Secretary of the Board then read the following letter:

> At its meeting in June 1958, the Conference of Presidents of the Federal Reserve Banks expressed the view that it would be desirable for the Federal Reserve System to adopt an official emblem signifying membership in the System and that the "diamond-on-rectangle" emblem that has traditionally been used since the early days of the System would be most appropriate for this purpose.
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> Unlike the Federal Deposit Insurance Corporation which has specific statutory authority to prescribe signs used by insured banks indicating deposit insurance, the Board of Governors has no clear authority to require the use of any symbol or emblem of membership by banks that are members of the Federal Reserve System. It is also questionable whether, in the absence of a copyright, the Board could take any effective steps to prevent use of a similar emblem by banks or firms that are not members of the System, and there may be some question whether such a copyright could be obtained.
>
> The Board concurs in the views of the Presidents that the most appropriate emblem of membership is that which has traditionally been used for this purpose, and that emblem has the Board's approval. However, the Board believes that little would be gained by the formal adoption of an emblem of membership in the Federal Reserve System, particularly in view of the length of time during which the traditional emblem of membership has been recognized and the lack of clear authority to require its use by member banks.

At the same time, the Board is cognizant of the desirability of avoiding confusion that might result from the use of different signs or symbols signifying membership in the System. Consequently, your Bank may wish to impress upon member banks in your district, by circular letter or otherwise, the desirability of uniform use of the traditional diamond-on-rectangle emblem of membership for display, advertising, or other purposes. If you do not believe such a letter is necessary, it still would seem desirable, in any case where the Reserve Bank learns that use of a symbol is being considered by a member bank, to urge that it use this specific emblem without deviation from the traditional design.

The Presidents expressed agreement with the position taken in the letter, and it was understood that the letter would be sent in the form in which it was read. (Secretary's Note: The letter was sent under date of December 17, 1958.)

Check collection time schedule. In accordance with the understanding reached following the meeting of the Federal Open Market Committee on December 2, 1958, Chairman Martin called for further discussion of the majority recommendation of the Presidents' Conference for an increase from two to three days in the maximum period of deferment under the check collection time schedules of the Federal Reserve Banks. In introducing the subject, the Chairman noted that all of the Presidents and members of the Board had now had an opportunity to study the letters prepared by Messrs. Bryan and Fulton in support of their dissenting views and also the rebuttal prepared by Mr. Mangels under date of November 28, 1958. Copies of these documents have been placed in the Board's files.

Chairman Martin turned first to Mr. Mangels, who reviewed the points made in his rebuttal memorandum. Among other things, he stated that (1) the recommendations of the Subcommittee on Collections were not made to facilitate open market operations or for the convenience of the Desk, (2) the recommendation for three-day maximum deferment was limited to country checks payable outside own zone which could not be collected in two days, (3) even the use of electronic equipment or fast transportation facilities would not permit collection of such items in two days, (4) the suggested change in maximum deferment would not lessen interest in maintaining the efficiency of the check collection system, (5) the check collection facilities would not appear to be the most attractive feature of System membership, and (6) many country banks send their cash letters direct to commercial bank correspondents in order to get the equivalent of immediate credit and restore balances in their active accounts, and also because they can send unsorted cash letters to correspondent banks.

Mr. Bryan said he thought the procedure of rebuttal had gone about as far as it could usefully be taken and that he simply disagreed with some of the views held by Mr. Mangels. He felt, for example, that Mr. Mangels gravely underestimated the effect of the proposed change from the standpoint of System membership. He suggested that it would be helpful to begin drafting a statement which would convince the banking system that the proposed change was in the public interest, for he believed that the drafting would run into difficulties that would be of significance to System thinking on the subject.

Chairman Martin noted that the Presidents by a 7 to 5 majority had voted to recommend adoption of a three-day maximum deferment for certain classes of items, and he then asked whether the letters prepared by Messrs. Bryan and Fulton had caused anyone to change his position.

Mr. Johns made a statement in which he recalled the circumstances that had led him to suggest a study of float at the meeting of the Federal Open Market Committee on August 7, 1956. Although he continued to feel that the Federal Reserve Banks, as the ultimate suppliers of reserves to the commercial banking system, should not provide reserves in a haphazard fashion incident to operation of the check collection function, he said he had often expressed the view at Open Market meetings that the Desk need not be too diligent in attempting to offset short-run fluctuations attributable to float on the basis of reserve projections that frequently were not borne out. As the study of float progressed and it was learned that reduction of the level of float would not necessarily mean reduction in the amplitude of fluctuations, he had come to the view that, although check collection operations ought to be efficient and businesslike, nevertheless short-run fluctuations in float were not very important policywise. Mr. Johns said he could hardly take such a position and then for some other purpose argue that extreme measures should be taken to reduce float. Accordingly, while his vote with the majority favoring the proposed change in the deferment schedule had not changed, it was a rather weak vote.

Continuing, Mr. Johns referred to the apprehension expressed by Mr. Bryan and others about the reaction of bankers to a change in the deferment schedule and said that he would like to talk to bankers to ascertain their views. An opportunity would be presented early in January on the occasion of a meeting in St. Louis of representatives of all banks in the Eighth District holding membership in the Association of Reserve City Bankers and, while he expected that the reactions would be adverse, he felt that it was desirable to know whether they would be as critical as had been suggested. If they were, he would like to take another look at his own position.

Mr. Hayes agreed that the System in recent years might have been too meticulous in trying to offset the effect of float fluctuations in open market operations. Nevertheless, he said, the magnitude was so great that even if fluctuations were not fully offset, measures would have to be taken in order to prevent an undue effect from the standpoint of the atmosphere of the market. There was a serious problem for the Desk, and there would continue to be, if float remained of its present magnitude, even though the Desk was exploring possible modification of its reaction to fluctuations. Therefore, it was desirable from the open market standpoint to reduce float fluctuations.

Mr. Hayes went on to say that he believed containing the level of float would reduce fluctuations. Although this got into a difficult statistical area, he had the impression from rereading the float study and from talking with his own staff that an attack on float from all angles would probably have the effect of cutting down fluctuations; in other words, the change to a three-day maximum deferment combined with all other attacks was likely to be effective. As to the merits of the proposal, he had not altered his view that the change was desirable, realistic, and justified on many counts. At the same time, he was impressed by the fact that a number of Presidents with broad experience were very much concerned, and the suggestion made by Mr. Johns seemed to him to be a sound one. Thus, although he felt that the change should be made unless very cogent reasons were developed against doing so, the serious doubts in the minds of several Presidents indicated that it should not be rushed and that it would be well to obtain bankers' reactions. In the meantime it would be possible to observe the results of other attacks on float.

Mr. Leach said that to him it was not sound to create a $400 million daily average of fictitious reserves, or unsecured free loans, through establishing a clearly unattainable time schedule. While a maximum three-day deferment for inter-office country items would not wholly eliminate time schedule float, it would reduce the volume by about two-thirds and would produce a schedule close enough to reality to be justified on the grounds of convenience and economy. He noted that in 1951 it was estimated that the volume of float created by moving from a three-day to the present two-day maximum would be in the area of $180 million, daily average, but that it was now estimated that a reversal of that action would result in a reduction of about $400 million. This was a sizable figure in itself, and it was sure to grow as the volume of checks handled increased further. He continued to favor the three-day maximum proposal because he felt that the reasons given for it were sound, and in casting his vote he had no idea that there would not be unfavorable reactions. As far as the Fifth District was concerned, he doubted that there would be any withdrawals of members from the System, but one could not be sure. However, he was impressed by the strong feeling on the part of at least five Presidents regarding the strength of banker reaction to the change and felt that this was important enough to cause the System to pause before going ahead. Accordingly, he would not favor pressing for adoption of the three-day maximum at this time without ascertaining the banks' reaction. In this connection, he observed that the five dissenting Presidents represented Reserve districts having about 48 per cent of all member banks.

Mr. Erickson stated that he felt certain there would be losses of membership in the First District.

Governor Mills suggested, as an area worthy of consideration, the fact that going to a three-day maximum deferment schedule would have an effect on operations of larger correspondent banks by way of reducing their earning assets. The recourse of such a bank then might be to go to its correspondent banks and demand the maintenance of higher balances, and this in turn might make it increasingly onerous for those correspondents to maintain their reserve balances at the Federal Reserve Bank. Accordingly, those correspondent banks would have less incentive to retain membership in the System.

Mr. Allen suggested that although he thought it was a good idea to obtain banker reactions, the advice received was not likely to be completely unbiased. In his opinion, losses of membership were likely to be mostly in the category of country banks, and the reserve city banks, thinking of this possibility, might state their views accordingly. Thus, the Presidents making inquiries must weigh the views received in the light of the source and the effects of the change from the standpoint of the respondents.

There followed some discussion of the effects of the proposed change in reducing dollar fluctuations, as contrasted with percentage fluctuations, in float. In this connection, Mr. Deming commented that there was obviously not a complete certainty that a reduction in the dollar amount of float from any one cause would reduce the amplitude of float fluctuations.

However, tests had indicated rather conclusively that an attack on all sides would reduce both the dollar magnitude and the amplitude of fluctuations. Mr. Deming concluded with the comment that he had no objection to checking with banker groups regarding the matter and in his opinion the only serious aspect of the three-day maximum deferment proposal was the public relations aspect.

Chairman Martin then inquired whether any of those opposed to the proposed change in the original vote had weakened in their position, and there was no indication to that effect.

Governor Robertson expressed the view that unreasonable postponement of a decision would be inadvisable from the standpoint of the System as a whole. He suggested the fixing of a date for decision, prior to which any President who so desired could obtain the reaction of bankers in his district.

Mr. Leedy commented that his own position was not influenced altogether by the bank or public relations aspects of the matter. He felt that in principle the System would stigmatize itself by reversing the direction in which it had been moving for many years by returning to a three-day maximum deferment. It was his view that the subject could not be decided on the same basis as though the System had a clean slate upon which to write and that adoption of the proposal would greatly embarrass the System.

Governor Robertson then remarked that considerations such as those referred to by Mr. Leedy were factors affecting individual judgment, while the unknown factor was the public relations aspect.

Chairman Martin expressed agreement that the matter should be resolved within a reasonable time. After suggesting that the question whether to explore banker reactions should be a matter of individual judgment, he inquired what timing would be reasonable for those Presidents desiring to make inquiries.

After Mr. Johns stated that he would be ready to report shortly after the meeting in early January to which he had referred, Mr. Leedy inquired whether the possibility of a reduction of reserve requirements coincident with a change to three-day maximum deferment might be mentioned in any discussion with bankers, and the response indicated that conversations should be limited to obtaining reactions to an increase in maximum deferment.

Following comments regarding the probable views of bankers in the respective districts, Mr. Bryan suggested as an alternative that the Board of Governors might wish to call in a relatively small group of bankers who would be asked for opinions regarding the effects of the proposed change and its objective merits. However, the tenor of the meeting appeared to favor the original approach and Chairman Martin repeated his earlier suggestion that the question of whether to obtain banker reactions be left in the hands of the individual Presidents. He also suggested that a meeting of the Board and the Presidents be scheduled for January 27, 1959, to consider further the proposed change in maximum deferment.

After additional discussion of various aspects of the problem, it was understood that the procedure outlined by Chairman Martin would be followed.

The meeting then adjourned.

Secretary