Minutes for April 10, 1959

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 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
Gov. Szymczak	x	
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x	
Gov. Shepardson	x	
Gov. King	x	

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Minutes of the Board of Governors of the Federal Reserve System on Friday, April 10, 1959. The Board met in the Board Room at 9:15 a.m.

PRESENT: Mr. Balderston, Vice Chairman 1/
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Noyes, Adviser, Division of Research and Statistics

Reserve requirement legislation. The Senate Committee on Banking and Currency had ordered favorably reported bill S. 1120, relating to reserve requirements of member banks of the Federal Reserve System, with an amendment which would reclassify New York and Chicago as reserve cities and terminate the central reserve city category. If the bill were passed with this amendment, the abolition of the central reserve city classification would become effective immediately. Unless the Board at the same time permitted banks to count some portion of their vault cash as reserves, the effective reserve requirements for reserve city banks (required reserves plus vault cash) would be higher than the effective requirements for the principal central reserve city banks because reserve city banks on the average hold vault cash amounting to about 1.6 per cent of net demand deposits while cash holdings of central

1/ Withdrew from meeting at point indicated in minutes.

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reserve city banks average only .6 per cent. Such an inequity could be reduced to some extent by permitting banks to count a substantial portion of their vault cash holdings as reserves, but to prevent such changes from adding excessive amounts to reserve availability it would be necessary to raise reserve requirements for member banks, including both country banks and reserve city banks. Accordingly, passage of the bill as amended would require quicker and more drastic adjustments than had been contemplated by the Board.

There were distributed at this meeting alternative drafts of a letter, prepared by Governor Balderston and Mr. Thomas, respectively, which might be sent to Chairman Robertson of the Senate Banking and Currency Committee and Chairman Brown of Subcommittee No. 2 of the House Banking and Currency Committee to call attention to the consequences that would result from enactment of legislation in the form of the bill that the Senate Committee had ordered to be reported favorably.

After discussion of the reasons for preparation of the alternative drafts for the Board's consideration, question was raised as to the procedure that might most appropriately be followed. The suggestion was made that no action be taken by the Board today, that any suggestions with respect to the draft letters be transmitted to Mr. Thomas, and that the matter then be considered further by the Board next Monday. It was further suggested that Governor Balderston might then arrange

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for discussion with Chairman Robertson, Chairman Spence of the House Banking and Currency Committee, and Chairman Brown of the House Subcommittee. This procedure contemplated that Governor Balderston would have with him a draft of letter in such form as might be considered suitable by the Board, but that no letter would actually be transmitted until the Board had been advised by Governor Balderston concerning the results of his conversations.

At the conclusion of the discussion, it was agreed unanimously to proceed in the manner suggested. In this connection, Governor Szymczak suggested that it would be advisable for the Board to begin studying the program of actions that might be appropriate to implement legislation on reserve requirements.

Governor Balderston then withdrew from the meeting to keep an appointment at the Treasury.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas on April 9, 1959, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to the respective Banks.

The meeting then adjourned.

Secretary

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