

The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on June 2, 1959, which you have previously initialed, has been amended at the request of Governor Mills to insert the paragraph beginning at the bottom of page 13.

If you approve these minutes as amended, please initial below.

Chm. Martin

Gov. Szymczak

Gov. Robertson

Gov. Shepardson

Gov. King

The image shows five sets of handwritten initials, each written on a horizontal line. From top to bottom: 1. A circled 'M' above a line, with 'MS' written below it. 2. 'RS' written above a line. 3. 'R' written above a line. 4. 'CS' written above a line. 5. 'MK' written above a line.

Minutes for June 2, 1959


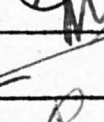
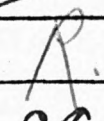
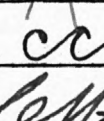
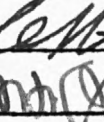
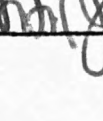
To: Members of the Board

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 <u></u>	_____
Gov. Szymczak	x <u></u>	_____
Gov. Mills	x <u></u>	_____
Gov. Robertson	x <u></u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u></u>	_____
Gov. King	x <u></u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, June 2, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
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. Johnson, Director, Division of Personnel
Administration
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Noyes, Adviser, Division of Research and
Statistics
Mr. Sprecher, Assistant Director, Division of
Personnel Administration
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Kiley, Assistant Director, Division of
Bank Operations
Mr. McIntosh, Analyst, Division of Bank Operations

Correspondence with Congressman Reuss (Item No. 1). In a
letter dated May 28, 1959, Congressman Reuss of Wisconsin referred to
previous correspondence with the Board concerning pending reserve
requirement legislation and noted that the bill passed by the Senate
and the bill reported by the House Banking and Currency Committee
both would abolish the central reserve city classification. After

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expressing the view that there was reason for continuation of that classification, Mr. Reuss reviewed his proposed amendment pursuant to which member banks in New York and Chicago would remain subject to a maximum reserve requirement against demand deposits of 26 per cent even though the two cities would be classified as reserve cities rather than as central reserve cities. Mr. Reuss inquired whether the Federal Reserve supported or opposed such an amendment and stated that he felt this question had not been answered in the previous correspondence.

There had been distributed to the members of the Board a draft of reply to Congressman Reuss which suggested that the proposed amendment would fail of its purpose because of conflict with other provisions of the law. After spelling out these conflicts, the draft indicated that even if they were not present the amendment would create problems of interpretation and administration and that the Board could not approve its enactment. The draft concluded by bringing out that the Board was in agreement with the apparent objective of the amendment insofar as it would reestablish a third category of cities for reserve purposes, an objective that could be accomplished by elimination of the provisions of the pending bill that would abolish the central reserve city classification.

In discussion, Governor Robertson suggested consideration of a more affirmative response to Congressman Reuss which would call to his

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attention the possibility of amending the pending bill so as to conform it to existing law except for provisions relating to vault cash and broadened power in the Board to deal with the classification of individual banks. Governor Robertson indicated that he was not making this suggestion with a view to influencing the Board to change its position on reserve requirement legislation, but rather with a view to advising Mr. Reuss how he might accomplish his apparent objective.

Following consideration of these and other possible changes in the proposed reply to Mr. Reuss, it was the majority view that a letter along the lines of the draft submitted by the staff would constitute an appropriate response, and one consistent with the position taken by the Board from the time it first requested the introduction of a bill on reserve requirements. A different type of reply, it was suggested, might run the risk of creating the impression that the Board was attempting to use Mr. Reuss as a channel for obtaining amendment of the pending bill.

Accordingly, after minor changes in the draft had been agreed upon, approval was given to a reply to Congressman Reuss in the form attached as Item No. 1, with the understanding that copies would be sent to Chairman Spence of the House Banking and Currency Committee and to Chairman Brown of Subcommittee No. 2 of the Banking and Currency Committee.

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Mr. Shay then withdrew from the meeting.

Major medical insurance (Item No. 2). At the joint meeting on May 26, 1959, the Reserve Bank Presidents presented for the Board's consideration a proposed major medical insurance program for the Federal Reserve Banks. Under date of May 29 there had been distributed to the Board copies of a memorandum from the Division of Personnel Administration submitting a summary of the recommendations of the Presidents' Conference for which Board approval was requested. It had been verified with Mr. Erickson, Chairman of the Conference, that it was the intention of the Presidents to have the Board base its consideration on a program reflecting modifications of the proposal of the Subcommittee on Personnel which were supported by a majority of the Presidents who attended the special session of the Presidents' Conference on February 10, 1959. The first year premium cost of such a program was estimated to be approximately \$478,000, of which the Reserve Banks' share, based upon absorption of two-thirds of the cost by the Banks, would be approximately \$318,000. The Division of Personnel Administration recommended that this program and the expenditures by the Reserve Banks in connection therewith be approved by the Board. There was submitted with the memorandum a draft of letter to Mr. Erickson granting such approval, and similar letters would be sent to each of the other Presidents.

At the joint meeting on May 26, President Hayes had stated that he hoped any Reserve Bank desiring to offer a program

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incorporating certain modifications of the basic plan would be free to come to the Board and request consideration of such modifications. The draft of letter to Chairman Erickson would state that the Board concurred in the proposal that if any Reserve Bank should desire coverage in addition to that provided in the uniform contract, the Bank concerned would request Board approval for the supplementary coverage.

In commenting on the matter, Mr. Johnson mentioned certain minor changes that should be made, in the interest of accuracy, in the summary of the major medical insurance plan submitted with the memorandum from the Personnel Division. Copies of the summary, he noted, would be sent to the Reserve Bank Presidents if the Board should approve the plan. Mr. Johnson also referred to the last paragraph of the proposed letter to Chairman Erickson and raised for consideration the question whether it should be retained, modified, or eliminated. Its incorporation in the letter, he noted, would clarify the procedure that should be followed by a Reserve Bank desiring to make modifications in its program. However, the inclusion of the paragraph might seem to suggest that the door was open to additions by individual Reserve Banks to the basic program.

In response to questions by the Board, Mr. Johnson commented on a number of the features of the proposed program, particularly the differences between the Subcommittee plan and that urged by a majority

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of the Presidents in attendance at the meeting of the Conference on February 10, 1959. He also summarized the latest available information concerning legislation to provide a major medical program for Federal employees, making special reference to the indication that any program sponsored by the Administration was likely to provide for approximately an equal sharing of the cost between the Government and the employee. At the same time, he brought out that the trend among major medical plans seemed definitely to be in the direction of more liberal benefits and absorption of a larger proportion of the cost by the employer. The Reserve Bank Presidents, he indicated, may have been influenced considerably by the fact that the proportion of cost absorbed would be the same as in connection with the Blue Cross-Blue Shield program and by the thought that a less liberal contribution might make it difficult to sell the program to employees, particularly in the lower salary brackets.

Comments by the members of the Board revealed a unanimity of opinion in favor of a major medical program for the Federal Reserve Banks. While it was recognized that the package proposed by the Presidents might be considered somewhat ahead of the trend, both in terms of benefits and in the suggested proration of cost, the Board members, with one exception, did not indicate that they would find the plan objectionable on that score. Governor Robertson expressed certain reservations, both from the standpoint of the liberality of

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some of the benefit features and because he felt that an equal sharing of the cost between the Reserve Banks and the employees would be reasonable. He noted that it would always be possible to liberalize over the course of time and that this probably would be the trend. His major objection, however, stemmed from the view that the plan provided for employees of the Federal Reserve Banks should be on no more than a parity with the plan provided for employees of the Board of Governors. Accordingly, he indicated that, despite some reservations such as he had mentioned, he would be willing to vote for a Reserve Bank plan which was no more liberal in benefits or as to cost-sharing than the plan applicable to Board employees.

Governor Robertson's comments led to discussion regarding the possibility of liberalizing the Board program during which Governor Shepardson and Mr. Johnson indicated that it had been the thought, if dividends should accrue, to develop recommendations for additional benefits. Mr. Johnson also stated that consideration was being given to the possibility of linking the Board program with the Reserve Bank program, if that could be done and if it would prove advantageous.

The sense of the meeting was that the approach to the Reserve Bank major medical insurance program should be uniform and that it would not be desirable to have deviations at individual Banks. Accordingly, it was felt desirable that the Board's letter approving the Reserve Bank program indicate in positive terms that the Board favored a

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uniform approach and that all Reserve Banks would be expected to keep their programs within the maximum benefits provided under the approved plan.

It was also the sense of the meeting that studies should be pursued looking toward the presentation to the Board of recommendations that would tend to bring the Board's major medical plan more closely into conformity with the Reserve Bank plan.

With reference to the reversion of accrued dividends to the Reserve Banks, Governor King pointed out that question might be raised whether such reversion would be appropriate unless the Reserve Banks contributed substantially to the cost of the program. This consideration, he said, influenced him in favor of approving a contribution of two-thirds of the cost by the Reserve Banks.

At the conclusion of the discussion, unanimous approval was given to a letter to Chairman Erickson of the Presidents' Conference in the form attached as Item No. 2. This action was taken with the understanding that the Division of Personnel Administration, in consultation with Governor Shepardson, would proceed to develop recommendations for the Board's consideration relating to liberalization of the major medical insurance program in effect for Board employees.

During the foregoing discussion Mr. Thomas withdrew from the meeting. At its conclusion Messrs. Dembitz, Research Associate, and Thompson, Economist, Division of Research and Statistics, entered the room.

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Federal Reserve district boundaries. In pursuance of the Board's request, most recently at the meeting on April 8, 1959, there had been distributed to the Board, with a covering memorandum from Messrs. Noyes and Farrell dated April 23, 1959, three documents bearing on the question of Federal Reserve district boundaries. The first document, prepared by Mr. Thompson, was an assembly of basic economic information with respect to the area covered by the Twelfth Federal Reserve District, as constituted prior to January 1959, and also with respect to Alaska and Hawaii. The second document, prepared by Mr. Dembitz, discussed the regional structure of the Federal Reserve System and possible criteria for changes. The third document, prepared by the Division of Bank Operations, comprised a set of tables and charts comparing land area, total bank deposits, and population in each of various arrangements of Federal Reserve districts. Both the tables and the charts compared on a percentage basis the present arrangement of districts with examples of alternative arrangements. The alternative arrangements were not intended to represent recommendations or even suggestions; rather, they were intended to serve as a basis for discussion and as an aid in the development of more meaningful criteria.

Using the tables and charts, along with a series of display maps of the United States, the staff presented possible alternative arrangements of Federal Reserve districts based on the factors of land area, bank deposits, and population, and a blending of those

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factors. While the presentation did not include recommendations, Mr. Farrell commented that in the light of the results, which he said had been developed without any advance bias, it was his feeling that perhaps the present arrangement of Federal Reserve districts distributed land area, deposits, and population about as well as could be accomplished by any alternative arrangement. To put it another way, it appeared to him that the cost of rearrangement would be greater than any advantages that might be derived.

Consideration then was given to how the study of Federal Reserve district boundaries might proceed from this point, and Governor Robertson noted that factors such as transportation, communication, and topography had thus far not been taken into account. It was agreed that such factors, considered from the standpoint of their bearing upon the most effective performance of Federal Reserve services, were matters that should be considered in the next phase of the study. As a means of approach, the staff suggested the preparation of a questionnaire which would be sent to the respective Federal Reserve Banks.

There was agreement that the inquiry might well proceed along such lines and that for the time being it should be handled within the Federal Reserve System. In this connection, Chairman Martin mentioned various reasons which led him to conclude that utilization of the

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services of System personnel would be preferable to the retention of outside consultants. He also stated, and there was agreement with his view, that continuation of the study was important from the standpoint of enabling the Board to answer questions that might arise with respect to the composition of the Reserve districts.

At the conclusion of the discussion, the staff was requested to proceed with the preparation of a questionnaire that might be distributed among the Reserve Banks with a view to providing information pertinent to appraising how Federal Reserve services might be affected by the arrangement of Federal Reserve district boundaries.

Messrs. Dembitz, Thompson, and McIntosh then withdrew from the meeting.

Price Waterhouse suggestions (Item No. 3). Following up on the meeting of the Board on February 18, 1959, at which representatives of Price Waterhouse & Co. discussed the proposals contained in the accounting firm's report dated December 15, 1958, concerning its study of techniques and procedures used in making examinations of Federal Reserve Banks, there had been distributed to the Board copies of a memorandum from the Division of Examinations dated April 6, 1959, reflecting further consideration by that Division of the Price Waterhouse suggestions. The memorandum was devoted for the most part to a presentation of reasons believed to militate against adoption of

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the suggestion that the Board substitute for the present annual over-all examination of each Reserve Bank a program of more frequent visits at which teams of examiners would review or survey segments of a Reserve Bank's operations, with emphasis on internal auditing activity and other types of internal controls.

Mr. Smith stated that the Board's examining staff was currently engaged in an examination of the Federal Reserve Bank of Richmond and that Price Waterhouse representatives were making the 1959 study of techniques and procedures in connection with that examination.

Mr. Smith then referred to the 1958 suggestions of Price Waterhouse and said it was the desire of the Division of Examinations to have a directive from the Board as to how to proceed in the light of those suggestions. The Division, he said, was not persuaded that it would be desirable to discard current examining procedures in favor of the suggested program of surveys, for it did not appear to the Division that such a program was altogether feasible or that the advantages would be sufficient to warrant the experiment. In further comments, Mr. Smith raised the question whether the fragmented survey approach would fulfill the mandate contained in the law relating to examinations of Federal Reserve Banks, suggested that decentralization of the field staff would present a difficult recruitment problem, and expressed the view that a greater degree of dependency upon internal

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controls might give credence to charges that the System was self-auditing. He indicated that the results of a complete examination were believed to be more satisfactory than those achievable through piecemeal examination procedures and said that it was felt that the Price Waterhouse conclusions might have been based on certain misconceptions. For example, the point had not yet been reached where complete examinations were impracticable and the examinations did not duplicate the work of the Reserve Bank auditing staffs. Further, he did not agree that surprise had ceased to be an important element in the present scheme of examinations.

Comments by the members of the Board reflected appreciation of the study that had been devoted to the Price Waterhouse recommendations by the Division of Examinations and suggested no strong disagreement with the position of that Division. At the same time, it was the view of the Board that the Price Waterhouse suggestions should not be dismissed from further consideration at this point. With this thought in mind, it was suggested that the Division's memorandum of January 16, 1959, be transmitted to Price Waterhouse for review and to provide a background for comments that the firm might deem appropriate at the conclusion of its current survey.

Governor Mills said that he was apprehensive about abandoning positions recklessly and going out into uncharted seas, but that he thought a middle ground was available for further exploration of the Price Waterhouse suggestions. Although he would consider it a mistake

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to have groups of Board examiners stationed in different parts of the country, he was impressed by the Price Waterhouse comments about the duplication between some parts of the work done by the Board's examining staff and work performed by the Reserve Bank auditors. Accordingly, he felt that it would be advisable to study further the possibility of placing reliance to a greater extent than at present on the Federal Reserve Bank auditors, who were in effect responsible to the Board of Governors through the Chairmen of the respective Reserve Banks. This might include a study of the feasibility of periodic spot examinations of various functions of a Federal Reserve Bank rather than the comprehensive examinations undertaken at the present time. In essence, Governor Mills felt that the Price Waterhouse suggestions should not be dropped at this time for he was impressed by many of the statements and ideas the firm had presented, seemingly in a polite and sincere fashion. Instead, he believed that those ideas should be explored more completely and that the Board should take advantage of the Price Waterhouse offer to make available the services of its personnel in helping to reach a judgment as to whether the tentative ideas offered by the firm actually had substantive merit.

There was unanimous agreement that the aforementioned procedural suggestion should be followed, and a copy of the letter sent later in the day to Price Waterhouse & Co. is attached as Item No. 3.

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In this connection, Governor Shepardson referred to a question that had been raised as to whether there was sufficient reason to warrant the cost incident to a review of field staff techniques and procedures once each calendar year by an independent accounting firm. In the light of the discussion and procedure agreed upon at this meeting, he expressed the opinion, with which there was agreement, that it would be desirable to await the results of the current survey by Price Waterhouse before considering further the question to which he had referred.

Approval of appointment of research officers. There had been circulated to the members of the Board a draft of letter to the Federal Reserve Bank of New York which would approve the appointment of Mr. Robert V. Roosa as Vice President in charge of the research function at that Bank. The Bank had not requested approval of Mr. Roosa's appointment in this capacity, and the proposed letter had been prepared by the Division of Personnel Administration following receipt of a revised organization chart from the Reserve Bank. It had been assumed by the Personnel Division that the Board would wish to indicate such approval in the light of its letter to the Chairmen of all Federal Reserve Banks of March 25, 1936, (as supplemented by the Board's letter to the New York Bank dated September 14, 1936, and similar letters to the other Banks sent around that time), which stated among other things

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that appointments of officers in charge of the research and examination functions at the respective Reserve Banks would be subject to the approval of the Board of Governors.

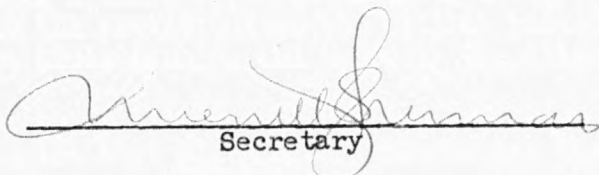
During a brief discussion of the matter, Chairman Martin inquired as to the Board's authority to require that appointments of officers in charge of the research function be approved by the Board.

Mr. Hackley commented that, as contrasted with the appointment of an officer in charge of the examining function, there might be a legal question as to whether the Board actually had authority to require such approval. The law, he pointed out, specifically authorizes approval by the Board of appointments, as distinguished from compensation, only in the case of the President, First Vice President, and examiners of a Reserve Bank.

The Chairman then stated that the subject would be placed on the agenda for further consideration at the meeting of the Board tomorrow. ✓

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated May 28, 1959, from Mr. Marget, Director, Division of International Finance, Governor Shepardson, acting on behalf of the Board, today granted permission to Robert L. Sammons, Associate Adviser in that Division, to teach a course on Economic Problems of Latin America at George Washington University during the academic year beginning September 1959.


Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
6/2/59

OFFICE OF THE CHAIRMAN

June 2, 1959.

The Honorable Henry S. Reuss,
House of Representatives,
Washington 25, D. C.

Dear Mr. Reuss:

This is in response to your letter of May 28 to Vice Chairman Balderston with further reference to your suggestion for an amendment to the pending reserve requirements bill.

Under the language of the amendment suggested in your letter, the Board would be authorized to set higher requirements, up to 26 per cent, for demand deposits at member banks in New York City and Chicago than for member banks in other reserve cities. By thus fixing a maximum for these two cities higher than the 20 per cent maximum prescribed for reserve cities generally, the amendment would in effect reestablish a third classification of cities although not designated as such.

It appears to us, however, that the amendment would fail in its purpose because of conflict with other provisions of the law. The Board's present statutory authority to change reserve percentages must be exercised uniformly for (1) member banks in central reserve cities, or (2) member banks in reserve cities, or (3) "country" member banks, or (4) all member banks. The pending bill would eliminate the central reserve city category; but it would still be necessary for the Board to make any change in requirements for reserve city banks applicable alike to all banks in such cities, except as the Board may permit individual banks to carry lower reserves. Since New York and Chicago would be reserve cities, the Board could not fix a particular percentage for member banks in those cities without fixing the same percentage for member banks in other reserve cities; and, since the maximum fixed for reserve cities would be 20 per cent, the Board could not fix a higher percentage for member banks in New York and Chicago. Any further amendment for the purpose of resolving this conflict would necessarily mean the restoration of a third classification to cover New York and Chicago, contrary to the provisions of the bill as passed by the Senate and reported by the House Banking and Currency Committee.

Even if it were not for the conflict just mentioned, your proposed amendment would seem to require that all member banks in New York

The Honorable Henry S. Reuss

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and Chicago be subject to the same requirement and thus nullify the Board's authority to permit individual banks in reserve cities to carry reserves lower than those prescribed for such cities generally. At present, only some of the banks in New York and Chicago are classified as central reserve city banks, the others having been authorized to maintain the lower reserves prescribed for reserve city or country banks. As you know, one of the provisions of the pending bill would make more flexible the Board's authority to permit individual banks to carry reduced reserves.

For the reasons above indicated, the Board believes that the suggested amendment would not be effective to accomplish its purpose because of conflict with other provisions and that, even if this were not the case, it would create problems of interpretation and administration. The Board could not, therefore, approve its enactment. The Board is in agreement with the apparent objective of the amendment in so far as it would reestablish a third category of cities for reserve purposes; this objective could of course be accomplished by elimination of the provisions of the pending bill that would abolish the central reserve city classification.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

1959

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
6/2/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 2, 1959.



Mr. J. A. Erickson, Chairman,
Conference of Presidents,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Erickson:

The Board of Governors approves the major medical plan for the Federal Reserve Banks as presented by the Presidents' Conference on May 26, 1959, including the payment of two-thirds of the premium cost for their officers and employees, effective as soon as necessary arrangements are completed. Enclosed is a summary of the principal features of the plan for which Board approval is given.

In the interests of maintaining a uniform approach, it is understood that all Federal Reserve Banks will keep their programs within the maximum benefits provided under the approved plan.

Advice of this action is being sent to the President of each Federal Reserve Bank today.

Very truly yours,

A large, stylized handwritten signature in dark ink, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosure.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 3
6/2/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 2, 1959.

Mr. Theodore Herz,
Price Waterhouse & Co.,
1000 Vermont Avenue,
Washington, D. C.

Dear Mr. Herz:

The report submitted by your firm under date of December 15, 1958, covering your study of the techniques and procedures used by the Board's Division of Examinations in making examinations of Federal Reserve Banks was again discussed at a meeting of the Board today. During the course of the discussion, it was suggested that there be made available to you the commentary of the Board's Division of Examinations as contained in its memorandum dated January 16, 1959. It was felt that the material in this memorandum might be helpful to you in the study you are now making in connection with the examination of the Federal Reserve Bank of Richmond and provide a background for comments you may think appropriate at the conclusion of your current study.

Accordingly, there are transmitted with this letter five copies of the memorandum referred to. It is assumed you will restrict the circularization of the memorandum to interested persons within your firm.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosures