

The attached set of minutes covering the meeting of the Board of Governors and the Presidents of the Federal Reserve Banks on July 7, 1959, which you have previously initialed, has been amended at the suggestion of the Chairman of the Presidents' Conference to delete a comment attributed to him on page 2.

If you were present at the meeting and approve the minutes as amended, please initial in column A. If you were not present, please initial in column B to indicate that you have seen the amended minutes.

	A	B
Chm. Martin	x <u>mm</u>	_____
Gov. Szymczak	x <u>mm</u>	_____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	_____	x <u>R</u>
Gov. Balderston	x <u>ccB</u>	_____
Gov. Shepardson	x <u>[Signature]</u>	_____
Gov. King	x <u>[Signature]</u>	_____

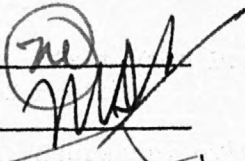
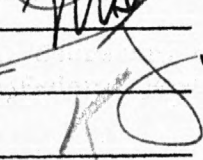
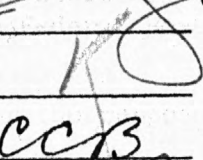
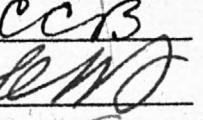
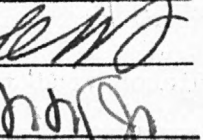
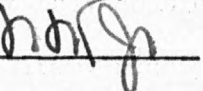
To: Members of the Board

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 July 7, 1959.

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 	_____

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the Board Room of the Federal Reserve Building in Washington, D. C., on Tuesday, July 7, 1959, at 1:45 p.m.

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

Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Farrell, Director, Division of Bank  
 Operations

Messrs. Hayes, Bopp, Fulton, Leach, Bryan, Allen, Johns, Deming, Leedy, Irons, and Mangels, Presidents of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Mr. Latham, First Vice President, Federal Reserve Bank of Boston

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

This meeting was held for the purpose of discussing a request addressed by the Treasury Department to the Federal Reserve Banks in letters dated June 11, 1959, that they consider the effect on their operations of extending the depositary receipt system to encompass the handling of remittances of estimated income taxes by individuals.

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Subsequently, communications between the Board and the Presidents' Conference had resulted in arrangements by which representatives of the Board and the Conference were to discuss the proposal at a meeting with Mr. Heffelfinger, Fiscal Assistant Secretary of the Treasury, to be held this afternoon at 3:00 p.m. The members of the Committee on Fiscal Agency Operations (Messrs. Leach, Fulton, and Mangels) had been designated to represent the Presidents' Conference and Governor Mills had been designated to represent the Board.

In introductory comments, Chairman Johns noted that the Treasury proposal had been the subject of discussion at a meeting of the Presidents' Conference held this morning at 9:00 a.m. It was the unanimous view of the Presidents, he said, that the extension of so-called fiscal agency operations of this character was not in the best interests of the System and not in the public interest. For more detailed comments on the Treasury proposal and the Presidents' views, Chairman Johns then turned to Mr. Leach, Chairman of the Committee on Fiscal Agency Operations.

Mr. Leach first reviewed the functions currently performed by the Federal Reserve Banks as fiscal agents in respect to the handling of withheld taxes, after which he described rather fully the functions now proposed by the Treasury to be undertaken by the Reserve Banks. In this connection he drew particular attention to distinctions that might

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be drawn between the withheld tax functions and the operations contemplated by the recent Treasury request.

Mr. Leach then summarized certain questions that the Treasury proposal had raised in the minds of the Presidents. First, it was noted that the Reserve Banks deal principally with financial institutions and large corporations familiar with business procedures rather than with individuals, and it was the opinion of the Presidents that retention of this distinction would be advisable. Second, it was not thought by the Presidents that the Federal Reserve Banks were set up to be tax-collecting institutions. Although they were now dealing with employers in carrying out the withheld tax function, the Reserve Banks had never undertaken to collect income taxes from those on whom such taxes were assessed. It was estimated that the current proposal might involve transactions with some 4-1/2 or 5 million individual taxpayers, which suggested the distinct possibility of public relations problems. A substantial amount of correspondence with individual taxpayers apparently would be involved, and some individuals might elect to come to the Reserve Banks in order to make their payments in cash. Third, the Presidents believed there should be a limit on the extent to which detailed Governmental operations were transferred to the Reserve Banks, even on a reimbursable basis. The Reserve Banks were not established as administrative divisions of Government, and it was felt that they

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should not be overwhelmed with work characteristically performed by such administrative divisions, for this could change the whole character of the Federal Reserve System.

Governor Mills expressed agreement with Mr. Leach's analysis but pointed out that the distinctions to be drawn between various types of operations were rather fine, which suggested that the Treasury, if aggressive with respect to the current request, might take a firm position that would prove rather difficult to resist. It was his opinion, nevertheless, that implementation of the proposal would involve the shifting of an administrative burden that did not properly belong in the Federal Reserve System.

Question was raised at this point as to the reasons underlying the Treasury request, and Mr. Leach said he understood from Mr. Heffelfinger that the primary reason was to develop a check on statements made by individuals with regard to the payment of estimated taxes in connection with the filing of their final income tax returns. After some discussion of this point, it was suggested that another reason might be a desire on the part of the Treasury to have the funds paid against estimated taxes available to it more promptly than under current procedures.

Certain suggestions were made by Mr. Hayes with regard to possible avenues of compromise if it developed, after discussion with

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the Treasury, that the proposal could not be resisted successfully, following which Mr. Leach stated that the System representatives who were going to talk with Mr. Heffelfinger later this afternoon would like guidance as to how strongly they should resist the proposition.

Chairman Martin said he understood it to be the sentiment that the Federal Reserve representatives should be quite firm, on the basis that the Federal Reserve System was a central banking organization and not a tax-collecting agency. He inquired whether there was any dissent from this summarization and no dissent was heard.

Chairman Johns said that the Presidents were happy to have the Board join them in this view, and Governor Szymczak commented that it seemed important for the Federal Reserve representatives not to enter the meeting later this afternoon with the thought of compromise. Chairman Martin commented that a presentation by President Leach of the points he had covered at this meeting should prove effective, and Governor Balderston remarked that the distinctions between functions now being performed by the Federal Reserve Banks and those currently proposed by the Treasury should be spelled out as clearly as possible.

In further discussion it was noted that savings under the proposed procedures apparently would come about mostly through staff

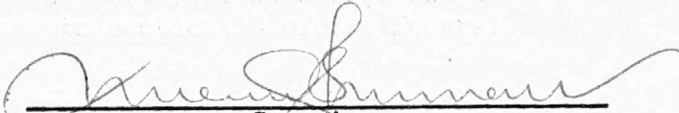
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reductions at offices of the Internal Revenue Service and that the proposed plan seemed to involve the possibility of a charge of circumvention of the appropriations procedures.

The meeting concluded with a comment by Chairman Martin that the Board and the Presidents would stand united in their position with respect to the Treasury request.

The meeting then adjourned.

  
Secretary