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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on November 16, 1959, which you have previously initialed, has been amended at the request of Governor Shepardson to revise the last sentence of the first full paragraph on page 13 of the minutes as originally drafted.

Chairman Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Minutes of the Board of Governors of the Federal Reserve System

On Monday, November 16, 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. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant 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. Solomon, Director, Division of Examinations
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Koch, Associate Adviser, Division of Research and Statistics
Mr. Dembitz, Research Associate, Division of Research and Statistics
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Chase, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Landry, Assistant to the Secretary
Mr. Collier, Chief, Current Series Section, Division of Bank Operations

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on November 13, 1959, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.
Further consideration of possible methods of including member banks' vault cash in reserves (Items 1 and 2). The following memoranda had been distributed in preparation for further consideration by the Board of possible methods of including member banks' vault cash in reserves:

Memoranda from Mr. Thomas, dated November 13, 1959, presenting alternative plans for effecting the release of vault cash along with a schedule of action for such release.

Memoranda from the Legal Division dated November 6 and November 13, 1959, relating to possible amendments to Regulation D resulting from the inclusion of vault cash in reserves.

Excerpt from Board minutes of November 2, 1959, dealing with inclusion of vault cash in reserves.

Memorandum from the Division of Bank Operations dated November 12, 1959, regarding reporting requirements associated with vault cash release.

The Chairman opened the discussion of the question by recalling that at the October 14, 1959, meeting of the Board he questioned the advisability of taking any action on vault cash in the absence of clear agreement as to exactly what ought to be done. He indicated that he was still inclined toward that view. In discussing the background against which the question must be considered, he reviewed the record of the System thus far in 1959, recalled the nature of the interest rate debate this past summer, and expressed apprehension that the same sort of treatment would be accorded the balance of payments question. In this connection, he referred to the current proposal by a member bank economist that the statutory gold backing for Federal Reserve notes and
deposits of Federal Reserve Banks be abandoned, as well as the statement by a prominent university research group discounting concern about the present balance of payments position of the United States.

With more specific reference to the vault cash problem, the Chairman observed that the logical time for including vault cash in reserves would be when the economic situation called for lowering reserve requirements. However, the legislation was enacted when the economy was moving into a boom period, and he doubted whether the reserve requirement instrument was an effective tool for the implementation of monetary policy in such a period. After referring to the element of flexibility of timing provided in the legislation, he reiterated a view that he had expressed during the October 14 meeting of the Board; namely, that the Board should not be jockeyed into including vault cash in reserves simply because late November and early December was a convenient time for supplying reserves on a seasonal basis. After referring to the traditional end-of-year money market problems and the economic uncertainties of the moment, including those associated with the steel strike and the balance of payments, he urged careful consideration before taking action that might introduce further complications in the market. While he would not suggest a process of indefinite delay, he felt that the vault cash matter was of such a nature as to set it apart from the bulk of the matters coming before the Board. He then indicated that if he were handling the problem
on his own he would do nothing until January or February 1960, after year-end developments in the money market were out of the way. He was skeptical of approaching implementation of Public Law 86-114, enacted July 28, 1959, on a purely mathematical basis. So far as the process of supplying reserves to the banking system was concerned, he doubted whether the effects on the money market of supplying them through release of vault cash would be the same as supplying an equivalent amount of reserves through open market operations. As between doing the job piecemeal or all at once, he favored the latter approach.

Referring to the minutes of the Board meeting on November 2, 1959, Chairman Martin noted that they did not indicate a crystallized viewpoint with respect to any of the alternatives that were discussed. As he had just indicated, it would be his own preference to defer action in connection with the vault cash proposal until around January 15, 1960, with advance notice in the Federal Register to get the reactions of the banking community. With reference to Governor Robertson's suggestion that the deferment schedule be put back to a maximum of three days from its present two-day maximum, he noted that such a change undoubtedly would cause quite a stir. He recalled that the Reserve Bank Presidents had been almost evenly split when this proposal was discussed several months ago. While it may have been a mistake to change to a two-day maximum, he was not sure that it would not also be a mistake to revert to a three-day maximum at this time.
After making additional comments on the delicate and complicated nature of money market operations and on the balance of payments problem, Chairman Martin noted parenthetically that he was not sure whether he had ever put himself on record as favoring the principle of uniform reserve requirements. If he had not, he wished to do so at this time.

Following reference to the prospects for year-end shifts in the international flow of funds of more than normal proportions, Chairman Martin said that he would want to talk to the Treasury before any action was taken on vault cash, since what the Board did in this regard would affect the Treasury fundamentally.

Governor Mills said that his preference would be to do nothing at the moment rather than to adopt either of the two-phase proposals that had been suggested or the proposal to do the whole job at once at a later date. In his opinion, the shock to member banks involved in releasing a large amount of reserves through inclusion of vault cash and then offsetting the release by a raising of reserve requirements would be difficult for the banking community to understand, as would changing the deferment schedule to a three-day maximum, and such a course would serve to weaken further the bonds of loyalty of member banks to the System. It was his instinctive feeling to guard against developing a problem out of its proper context. To avoid that, he would determine the amount of reserves that it would seem desirable to release into the banking structure at this time, and then release from vault cash a small amount of reserves.
consistent with that determination. This would provide an opportunity
to study the effects of such a release of reserves from vault cash, and
the action would serve as a token of the System's good faith to the
banking community in implementing the law. He emphasized that his
preference would be to do nothing for an indefinite period if the
alternative was to take action that he would consider violent in its
effect.

Governor Robertson said there seemed little point in pursuing
at this time his proposal that the deferment schedule be changed from
a maximum of two to a maximum of three days as a partial offset to the
inclusion of vault cash in reserves. He endorsed the Chairman's view
that the Board's decision on the vault cash question should be unanimous,
if possible, because of the importance of the subject. He said that he
anticipated there would be occasions over the next few years when, for
various reasons, the System would want to put reserves into the banking
system and could use releases of vault cash to meet such needs. However,
in light of the legislative history of Public Law 86-114, he felt that
the Federal Reserve would run the risk of justifiable criticism if it
took no action towards implementing the law. He sensed that the Board
was not ready to include as much as $500 million of vault cash in reserves
and offset this release of reserves by changing the deferment schedule.
In any event, he agreed that a change in the deferment schedule should
be discussed with the Reserve Bank Presidents and the Treasury, and that
any action taken should be on a firm and unanimous basis. In these circumstances, he expressed willingness to alter his original proposal to count all vault cash in excess of 3 per cent at country banks and in excess of 1-1/2 per cent at other banks by making these percentages 4 per cent and 2 per cent, respectively. This would benefit about half of all member banks, yet would release only between $250 and $300 million of reserves during December, leaving only a small amount of reserves to mop up at the beginning of the year. In his estimation, such a move would indicate that the System was prepared to make a start at implementing the law and would create no serious problems. It would not create inequities, and it would stimulate individual banks to build up vault cash holdings. He concluded by observing that this compromise proposal was of such a nature as perhaps to gain unanimous support.

Governor Shepardson commented that, because of the uncertainty as to the impact that a move on vault cash would have, he continued to see some merit in approaching the problem on a piecemeal basis. This would permit observing the effects of the gradual release of vault cash to reserves and would keep the magnitude of the operations within manageable limits. If there were adverse effects, it should be possible to correct the situation without too much difficulty. To his way of thinking there was some advantage in using the "natural flows" of funds out of and into the money market at the year end. The developments which the Chairman had described as being in the picture at the present time,
notably the uncertainties associated with the steel strike, must be weighed against the possibility of criticism of the System for not acting to implement the law. Although he therefore would not press strongly for immediate action to implement the law, he felt that an exploratory start was desirable. There should be discussion with the Treasury, and probably with the Reserve Bank Presidents.

In response to a question from the Chairman, Mr. Thomas commented that practically all of the supplying of additional reserves to the market at this season should be accomplished by mid-December. After that point, there might even be some grounds for starting moderate sales of securities from the System Account.

A brief discussion followed concerning the timing of the Treasury's announcement of its impending cash borrowing during which the Chairman suggested that it would seem wise to wait until after the books on the borrowing had been closed before making an announcement of any release of vault cash, which would probably mean waiting until after November 24.

Governor King stated that he continued to feel that a "one operation" approach to the problem of releasing vault cash to reserves would be the preferable solution. The amounts involved did not appear to him to be too large to handle successfully. He said he had not given thought fully to all of the complexities, as referred to by Chairman Martin, that were inherent in implementing the law. In view of these factors, he would be agreeable to a decision to do nothing at the present time if
action on vault cash might appear to complicate unduly the critical period ahead. He took this position not because he believed the amount of money involved would cause any crises in the financial world, but because of his interest in having the Federal Reserve and its actions at least understood, if not popular.

Governor Szymczak counseled a policy of caution, since the reserve structure of the banking system generally would be affected by whatever action the System took on this question. In view of present uncertainties affecting the economy and the Government securities market, he expressed preference for deferring action on vault cash and making a statement which would describe the situation and indicate what the System proposed to do with respect to the vault cash question eventually, thereby giving banks and others time to make adjustments.

Governor Balderston expressed concurrence with two points made by the Chairman in his opening statement: (1) Majority vote does not necessarily give the right answer to a question, and (2) the System might have erred in changing the deferment schedule but, having taken that action, should go slowly in reversing it. With respect to the vault cash proposal he had two thoughts. First, he believed the major portion of the job should be done as an antidote to recession, hence should be delayed. Secondly, he felt that token action at this time was indicated to demonstrate that the System was not "glued to one spot" and
to forestall pressure being exerted from other quarters. The suggestion made by Governor Robertson during this morning's meeting would be agreeable to him. Such a move would accomplish what Governor Mills had suggested, and the Board would be in position to state, in the event of further questions, why only moderate action was deemed prudent at this time. He noted that a move such as suggested would release somewhat less than $300 million in reserves.

A discussion then ensued as to the practical effect of a release of vault cash such as envisaged by Governor Robertson's suggestion, following which it was decided to hold the question over until the meeting of the Board on Wednesday, November 18, and that the Chairman meantime would try to discuss the question with the Treasury.

In this connection, the following letters, which had been distributed to the Board and the sending of which would not prejudice the consideration of questions under the reserve requirement legislation yet to be decided, were approved unanimously:

<table>
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<tr>
<th>Item No.</th>
<th>Letter</th>
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<tr>
<td>1</td>
<td>Letter to the Presidents of all Federal Reserve Banks advising of suspension until further notice of paragraph (4), section (b), of the Board's Rule for Classification of Central Reserve and Reserve Cities.</td>
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<tr>
<td>2</td>
<td>Letter to the Presidents of all Federal Reserve Banks regarding daily data on deposits and related items.</td>
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Messrs. Thomas, Fauver, Shay, Solomon, Koch, Dembitz, Conkling, and Collier then withdrew from the meeting.
Proposed changes in the Board's health insurance program (Item No. 3). There had been distributed a memorandum dated November 12, 1959, from the Division of Personnel Administration, concerning proposed changes in the health insurance program for the Board's active and retired employees.

Mr. Johnson noted that at its meeting of June 2, 1959, when the Board approved the major medical plan proposed by the Federal Reserve Banks, it was the understanding that Governor Shepardson and the Personnel Division would develop recommendations for liberalizing the Board's major medical program, including changes which would bring the Board plan more closely into conformity with the Bank plan. He went on to say that there were two additional factors that had arisen since the preceding understanding was reached: (1) Blue Cross-Blue Shield had recently made effective an increase in rates which would affect the Board on the anniversary date of its contract (January 1, 1960); and (2) a medical insurance program for Government employees was recently enacted by Congress. He explained that the recommendations contained in the memorandum were submitted in view of the preceding factors.

With respect to the major medical program, the recommendations were as follows: (1) increase the benefits in the Board's major medical plan to bring it more closely into conformity with the Bank plan, as follows: (a) increase coinsurance from 75%-25% to 80%-20%; (b) increase
the maximum lifetime benefit per illness for each individual from $5,000 to $10,000 (except for retirees, whose maximum would remain at $2,000); (c) change the private room allowance of $20 daily maximum to the basic plan allowance for a hospital room plus $4; (2) approve an amendment to the Board's policy, as worked out with the Prudential Insurance Company, enabling the Board to obtain a 15 per cent volume discount in rates; (3) the preceding changes to become effective for major medical coverage beginning November 17, 1959, for which deductions will be made from the salaries of the Board's employees on the payday of December 2, 1959, resulting in a revised rate for individual employees of $1.19 and for family coverage of $2.67 per month.

With respect to Blue Cross-Blue Shield, he recommended that the Board's contract with Group Hospitalization, Inc., for basic hospital-surgical insurance be continued at increased rates set by that organization for this area, the changes to be effective on January 1, 1960, with deductions at the new rates to be made from payroll checks issued December 2, 1959. The new monthly rates as of January 1, 1960, would be $4 for an individual contract and $11.08 for a family contract.

So far as the Board's contribution for health insurance was concerned, it was proposed that there be an increase from one-third to one-half of the premium cost to be effective with payroll deductions from pay checks issued December 2, 1959, since The Federal Employees
Health Benefits Act of 1959, Public Law 86-382, provided for employer contribution of one-half, latest trends in private industry continued in the direction of increased percentage of employer contributions, and the Federal Reserve Banks were contributing two-thirds of the cost of health insurance for Bank employees. In this connection, Mr. Johnson recommended that any increase in the Board's contribution toward the cost of health insurance to those employees covered by Group Health, Inc., be extended under the same conditions that now govern partial payments for these employees, also effective January 1960.

On request from the Chairman, Governor Shepardson commented that the details of the coverage to be provided by Public Law 86-382 had to be worked out by the Civil Service Commission and were not expected to be available until May 1, 1960. The proposal contained in the Personnel Division memorandum was as close to the Government plan as it was felt the Board could properly go at present; although the Board might wish to institute further changes in its program later on, there would be no reversals in any event. Since payroll deduction for the January 1960 premium would be made on December 2, 1959, the increase to 50 per cent in the Board's share would cost about $1,000 that had not been allowed in the 1959 budget.

Governor Mills suggested that if the proposals were approved, it should be on a basis providing for careful review when the Government plan was finally decided upon, with a view to determining whether the Board should go under the Government program.
Mr. Johnson commented that the Board's major medical policy with The Prudential Insurance Company carries a 30-day cancellation clause, and that this policy would be reviewed when the Government announced the details of its plan.

Unanimous approval was then given to the proposed changes in the Board's health insurance program for active and retired employees, as set forth in the memorandum from the Division of Personnel Administration dated November 12, 1959.

Secretary's Note: Pursuant to this action a letter dated November 16, 1959, in the form attached as Item No. 3, was sent to The Prudential Insurance Company of America.

All of the members of the staff excepting Messrs. Sherman, Riefler, Johnson, and Sprecher then withdrew from the meeting.

Retirement allowances for Reserve Bank Presidents. Before this meeting there had been distributed a memorandum from the Division of Personnel Administration dated November 5, 1959, with respect to providing a guaranteed minimum retirement allowance for Presidents of the Federal Reserve Banks. The memorandum noted that the Chairmen of the Federal Reserve Banks of Boston, New York, Cleveland, and Chicago had raised the question of guaranteed minimum retirement allowances for Presidents or prospective Presidents whose term of service must necessarily be short. As a result, there was submitted for the Board's consideration a proposal that would permit individual Federal Reserve Banks to enter into arrangements that would (1) guarantee a minimum retirement allowance of 40 per cent
of final salary at age 65 provided the President has a minimum of 10 years service, such percentage to be adjusted downward for retirement at any age earlier than 65 by the reduction formula of the Retirement System of the Federal Reserve Banks; (2) provide that the difference between this guaranteed minimum retirement allowance and the Retirement System's pension-annuity payment would be paid by the individual Federal Reserve Bank directly to the retiree, such additional payment by the Bank to cease at the death of the retiree with no provision for payments to beneficiaries. This proposal would not contemplate any change in retirement allowance of any Reserve Bank President who had already retired.

With respect to the basis for the proposed 40 per cent minimum guarantee, the memorandum noted that in 1949 the Conference of Chairmen of the Federal Reserve Banks expressed the view that minimum retirement allowances for Reserve Bank Presidents then receiving salaries of $25,000 should be $10,000; that a 1955 report of Industrial Relations Counselors Service stated that pension payments were generally regarded as adequate if they provided allowances in the range from 60 per cent for lower-paid employees to 40 per cent for higher-paid employees having about 30 years of service; and that the 40 per cent concept was apparently considered by the board of directors of the Federal Reserve Bank of Boston when, in its letter of October 23, 1959, it recommended revision of the retirement agreement with the President of that Bank to increase his retirement
allowance to 40 per cent of present salary. In illustrating the application of the proposal, the memorandum gave figures showing that a President who had completed 10 years service with a Reserve Bank and who retired at age 65 with a salary of $35,000 per year would receive a guaranteed retirement allowance of $14,000. This total in the case of a President employed at age 52 would be made up of pension-annuity payment of about $8,364 from the Retirement System and a direct payment by the Federal Reserve Bank under the supplemental contract agreement of about $5,636. In the case of a President employed at age 48 who retired after 17 years service, the Retirement System payment would be about $10,329 and the direct Bank payment about $3,671.

At the Chairman's request, Mr. Sprecher summarized the memorandum dated November 5, 1959. In his comments he referred to the origin of the arrangement that had been made with four Reserve Bank Presidents as an outgrowth of discussions with the Conference of Chairmen of the Federal Reserve Banks in 1948 and 1949, under which the Board authorized agreements by those four Banks to supplement pension-annuity payments from the Retirement System so as to provide for each President a total retirement income from the Federal Reserve of $10,000 per year. (Salaries of the four were then $25,000 per annum.) Mr. Sprecher noted that the supplemental payments were provided for in contracts entirely independent of the Retirement System of the Federal Reserve Banks. He also noted the
request now before the Board for upward revision of the contract between the Boston Reserve Bank and President Erickson, adding that, if use of the 40 per cent formula was approved by the Board, such contracts could be stated in percentage terms and would not have to be revised each time a President's salary was changed. Mr. Sprecher also referred to discussions and correspondence with Chairman Van Buskirk of the Federal Reserve Bank of Cleveland, and particularly to his letter of November 2, 1959, regarding the retirement allowance that might be provided for Mr. W. Braddock Hickman in the event he were brought into the Bank as a senior officer with a view to his becoming President upon Mr. Fulton's retirement. A draft of reply to Mr. Van Buskirk, prepared on the basis of the proposed formula, had been distributed before this meeting.

Chairman Martin stated that this represented another approach to a problem that the Board had been struggling with for a long time. He recently had received a new letter from Chairman Bierwirth of the Federal Reserve Bank of New York reporting action by the directors of that Bank to fix the salary for the President at the rate of $75,000 per annum and that of the First Vice President at the rate of $45,000 per annum. He recalled that when Mr. Bierwirth met with the Board on September 18, 1959, regarding the salary and retirement allowance for President Hayes, Governor King had made the point that an increase in salary did not mean an increase in take-home pay of anything like the same amount because of income tax. The proposal for an increased retirement allowance might be more effective in dealing with this
problem, the Chairman said, and it might be helpful in attracting to the System some of the people who were needed in top level positions. It might relieve some of the constant pressure on the Board in connection with salary levels for the Reserve Bank Presidents. He then inquired as to the views of the members of the Board.

Governor Shepardson stated that the proposal contained in the November 5 memorandum seemed to him to offer a constructive way of dealing with a problem that was difficult both for the Board and for the Federal Reserve Banks. While it would not answer all the requests, he thought it merited consideration as an equitable plan that would help in dealing with some of the problems that were facing the System. As Governor King had indicated, there was a question whether a straight increase in salary would be the best way of dealing with this problem because of the tax brackets for Reserve Bank Presidents. For these reasons, he would be inclined to favor a program such as that outlined in the memorandum of November 5.

Governor Mills said that the plan presented in the November 5 memorandum appeared acceptable to him as a formula, but he did not think it should have System-wide circulation. He would prefer that each case be handled on an individual basis rather than to have all of the Federal Reserve Banks tendered a plan where it would appear that the Board felt that they should apply it to any man who came into the Presidency. In his opinion, such a uniform plan might tend to downgrade persons already
in the service and to discourage them from aspiring to rise to the peak of authority within the individual Banks. Governor Mills also had some doubt as to applying this as a formula only to the Presidents. For example, it it were used, should it not also apply to the First Vice Presidents? In his opinion, this was another reason for handling each case on an ad hoc basis, but within a general pattern such as that proposed in the formula.

Governor Mills also referred to the rulings of the Bureau of Internal Revenue with respect to the Retirement System, stating that nothing should be done in a way that could invalidate the present status of the Retirement System of the Federal Reserve Banks. Therefore, in any application of the proposed formula, the records should be clear that the supplemental payments were entirely outside the Retirement System. Governor Mills also mentioned that there might be a problem in that an existing Board of Governors or board of directors could contract for a retirement allowance with an individual President, but it could not bind another Board to apply such a plan in any future case.

In a brief discussion of the Bureau of Internal Revenue rulings, Mr. Sprecher noted that the tax status of the individual payments to Reserve Bank Presidents under the supplemental agreements had never been clarified and that when the first such agreement was executed some concern was expressed by the Presidents as to whether taxes would be applied only to the income payments as received. With respect to binding future Boards,
Mr. Sprecher noted that the agreements in existence and those proposed would represent contracts between the Federal Reserve Banks concerned and the individual Presidents, and in the view of the Legal Division would be binding only as regards the terms of the particular contract.

Governor Robertson said that he would object to the adoption of a plan such as that proposed in the November 5 memorandum. He did not think the argument for a 40 per cent minimum retirement allowance after 10 years of service was supported by citing the report of Industrial Relations Counselors, which had suggested a minimum retirement allowance for higher-salaried persons of approximately 40 per cent after 30 years of service, not after only 10 years of service. Although he recognized the recruitment problem, he did not favor any procedure that would provide for one individual in a Reserve Bank much more favorable terms than another. If a plan such as that proposed were to be adopted, his inclination would be to apply it throughout the System and without regard to the level of the position of the individual. If it seemed desirable to guarantee a 40 per cent retirement allowance for the President after only 10 years of service, then the Retirement System should be changed to guarantee a similar allowance for every individual in the service after completion of that term. He could see no justification for such a guarantee unless it was considered essential as an incentive for bringing people into the System. If that were the case, he would question the 40 per cent figure. On the whole, Governor Robertson said that he
felt the Board would be making a mistake to adopt such a plan and to apply it only to Reserve Bank Presidents.

Governor King said that he was generally sympathetic to providing as good incentives as possible for securing employees in the System. As he had indicated at the meeting on November 10, he was strongly inclined to get a good man at the top of an organization, to give him a large amount of freedom in running the organization, and to hold him responsible. He favored, therefore, doing what was necessary and what could be done to get strong men to head the Federal Reserve Banks. As to the proposal in the memorandum, he wondered whether its adoption might cause some letdown in morale among senior persons with relatively long service whose retirement allowances might equal or even exceed those of the short-term Presidents, but who would nevertheless feel that another with only 10 years service would receive about the same retirement allowance that he was receiving after devoting a lifetime to the System. Governor King said he was interested in making service in the Federal Reserve System as attractive as possible within limits that could be defended and he did not believe that either the salary or the retirement allowances were at levels that could be criticized as unreasonable. He wanted, however, to be sure that those who had devoted their lives to the System would not feel that the System was breaking faith with them.

Governor Balderston then suggested that the Personnel Division provide figures showing the retirement allowances for all of the Reserve
Bank Presidents, and it was understood that such information would be furnished following this meeting.

Governor Szymczak stated that there had been a number of cases where the Federal Reserve Banks did not have the right man for the top job and where it was necessary for the good of the System to bring those men in from outside. It was necessary in those cases to make the position attractive, and the retirement allowance was one of the factors that had come up. After recalling the discussions that led to adoption of agreements with four Presidents in 1949 and 1950 for supplementing their retirement incomes outside the Retirement System, Governor Szymczak said that in retrospect he felt that the Board and the System probably had made a mistake ever to get into that kind of an arrangement. That having been done, it was perhaps natural for new men coming in, as in the cases of President Hayes at New York and President Allen at Chicago, to want to have something similar done for them. There was a distinction, however, in that the arrangements in 1949 and 1950 had been made with men who were already in the System and who were faced with retirement on relatively modest allowances. Benefits under the Retirement System had been greatly increased since the 1949-1950 period and the allowances that would be payable to men coming in now as well as the salaries they were receiving were much better than in the earlier period. Messrs. Hayes and Allen had come into the System knowing exactly what the conditions were and therefore had no valid claim for something more in the form of
retirement allowances. Repeating that he was sorry the System had ever made the exceptions in supplementing retirement allowances for certain shorter-service Reserve Bank Presidents, Governor Szymczak said that having done so the Board could expect that there would be pressure from any new Presidents coming in to do something similar for them.

Governor Balderston said that under present circumstances he did not believe it feasible to increase the basic salary levels for Federal Reserve Bank Presidents and First Vice Presidents. He was concerned, however, about the caliber of the key men in the System now and in the future. When the present members of the Board left the System, one of the tests of the kind of service they had rendered would be the kind of leadership that had been provided in the System. Specifically, Governor Balderston referred to the present situation at the Federal Reserve Bank of Cleveland and to the proposal that had been submitted to the Board for the employment of Mr. W. Braddock Hickman as a Vice President with a view to his succeeding to the Presidency of that Bank at the time Mr. Fulton retired. Governor Balderston said he felt it important the Cleveland directors be encouraged to bring the current negotiations to a conclusion, since it would be a disservice to the System if the Cleveland Bank were to end up with a mediocre man succeeding to the Presidency two or three years hence. The directors of the Cleveland Bank were anxious to deal with the problem, and in his view it was important to the System that the Board do something to make it possible for
them to deal with their problem properly. Governor Balderston then referred to the general problem as to how to deal with the few other cases that might come up without being unfair to those who had spent their lives in the System on a career basis. In his view, the plan that the Personnel Division had come up with represented a solution that would be defensible and that would meet the needs. Therefore, he favored adoption of the proposal and suitable notification to the Federal Reserve Banks.

After considerable discussion of the detailed application of a plan such as that presented, Chairman Martin suggested that further consideration be given to the proposal at the meeting on November 18. In the meantime, the Division of Personnel Administration would supply figures showing the estimated allowances of individual Reserve Bank Presidents. For himself, whether something were done on an ad hoc basis or whether something like this proposal was approved for general use throughout the System was not too important: anything done for one man would soon become fairly well known to the other Presidents. He had sympathy with Governor Robertson's point of view, but there was the danger that undue emphasis on "fairness" and equal treatment might tend toward mediocrity. It was essential to have men who would be a credit to the Federal Reserve Banks, and in some cases these men were not now in the System. He had pressed for higher individual salaries for men in these positions, believing that they could be justified on the grounds
that the right men must be attracted to remain in or come to the System and that salary was one of the elements. He realized the political difficulty in this, however, and there was the factor of take-home pay that Governor King had brought out. The President was the man on whom the System depended for dynamic leadership at his Reserve Bank, and the Board fairly held him responsible for that. The System had to do something to get and hold the right men, and this retirement proposal struck him as a possible alternative to the constant pressure for higher salaries.

It was then agreed that further consideration would be given to this matter at the meeting on November 18.

Thereupon the meeting adjourned.

Secretary's Notes: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions affecting the Board's staff:

Appointment

Irene Butter as Economist in the Division of Research and Statistics, with basic annual salary at the rate of $5,985, effective the date she assumes her duties.

Salary increase and title change

Helen L. Hulen, from $5,880 to $6,070 per annum, with change in title from Publications Assistant to Chief, Publications Services, in the Division of Administrative Services, effective November 16, 1959.

Harriet D. Berger, from the position of Clerk-Stenographer in the Division of Research and Statistics to the position of Secretary in the Division of International Finance, with an increase in her basic annual salary from $3,945 to $4,040, effective the date she assumes her new duties.
Acceptance of resignation

Marian M. Schleunes, Substitute Nurse, Division of Personnel Administration, effective November 13, 1959.

Governor Shepardson also approved today on behalf of the Board a letter to the Federal Reserve Bank of Chicago (attached Item No. 4) approving the designation of 14 persons as special assistant examiners.

On the basis of information contained in memoranda from the Division of Research and Statistics and the Secretary's Office dated November 10 and 16, 1959, Governor Shepardson approved on behalf of the Board the recommendation that a microfilm copy of an unpublished manuscript on branch banking in the United States, prepared as part of a Federal Reserve study of the banking structure which was conducted in 1936 and 1937, be made available to the National Bureau of Economic Research on a complimentary basis.

[Signature]
Secretary
Dear Sir:

In its letter of July 31, 1959, the Board requested comments and suggestions regarding the standards that should be used in classifying reserve cities, in view of the recent changes in the provisions of the law with respect to bank reserves. Consideration has been given to the comments received, but no final determination of this matter has yet been made. Pending that determination, the Board believes it would be desirable to omit the triennial review and designation of reserve cities that would otherwise be made effective March 1, 1960.

Accordingly, this is to inform you that, at an appropriate time, the Board plans to take action, notice of which will be published in the Federal Register, suspending until further notice paragraph (4) of section (b) of the Board's Rule for Classification of Central Reserve and Reserve Cities (1948 F. R. Bulletin 40; F.R.L.S. #4220).

Very truly yours,

Merritt Sherman,
Secretary.
November 24, 1959.

Dear Sir:

In order to provide a better basis for making current estimates of required reserves and the money supply, all Reserve Banks are requested to tabulate daily opening of business figures for items on member bank reports of deposits for reserve purposes, plus vault cash and U.S. Government demand deposits, as set forth in the attachment. Tabulations of daily totals of each of these items for each reserve class for the month of October 1959 and for each reserve period thereafter should be sent to the Board's Division of Bank Operations when completed.

These daily tabulations should not take priority over the present tabulations of weekly and semimonthly averages now being made for forms F.R. 422 and 413, which will continue to be used in adjusting levels of daily estimates of required reserves and in the Board's semimonthly statement of deposits, reserves, and borrowings (J.1). However, it is suggested that each Reserve Bank examine its procedure for tabulating and reporting these data and endeavor to expedite their dispatch to the Board as much as practicable. If reliable preliminary estimates can be supplied much more promptly than final reports, they would be preferable.

This request is being forwarded at this time in order that a study may be made of daily fluctuations of deposits, vault cash, and related items, for use when vault cash is treated as reserves, and because such studies will be helpful in making more reliable estimates of customary variations in required reserves and the money supply, which are needed for current open market policy determination and operations.

A format for punching one card a day for each member bank is attached for use at those Reserve Banks that choose this method; uniformity would be desirable in any subsequent studies to be made of the data. However, only the daily totals by class of bank are to be forwarded. If punch cards are used, they should be held at the Reserve Banks until further tabulations or stratified samples are requested; if punch cards are not used, the individual reports received since November 1958 should not be destroyed until further notice. When telegrams are used in forwarding
daily totals, the code words shown on page 5-7 of the Code Book for form F.R. 413 may be used with the class of bank shown in the columnar headings.

Eventually it is desired to have all of these daily data tabulated back to November 1958, when vault cash was first reported daily. It will be appreciated if each Reserve Bank would look into its workload and suggest a time schedule for tabulating prior data. On receipt of these estimated schedules, the Reserve Banks will be informed of the consensus for forwarding these back data, starting with September 1959 and working backwards.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
The Prudential Insurance Company of America,
Calvert & Redwood Streets,
Baltimore 2, Maryland.

Attention: Mr. Anthony E. Forziati, Group Sales Representative.

Gentlemen:

It is requested that the Board's Group Major Medical Expense Insurance Policy No. GZ 30051 be amended as follows:

1. Increase coinsurance factor from 75%-25% to 80%-20%.

2. Increase maximum lifetime benefits per illness from $5,000 to $10,000 for active employees and dependents. (Maximum of $2,000 still applicable to retired employees and dependents.)

3. Change private room allowance from $20 daily maximum to the standard semi-private hospital room rate allowed by the Board's basic plan plus 1/4.

4. Extend to the Board a 15 per cent premium volume discount by considering the Board plan as a part of the Federal Reserve System plan for premium volume discount purposes. (The determination of benefits of the Board plan will remain separate from those of the System plan, and the Board's rates will still be determined by Board "experience" separate from the experience of the Federal Reserve System plan.)

It is requested that the above amendments be made effective on November 17, 1959. Assuming that there have been no significant changes in the "population characteristics" of the Board's insurance group, it is understood that the monthly premium rates for this coverage will be those quoted in Mr. Forziati's letter of July 10, 1959,
The Prudential Insurance Company of America

which were $1.190 for the individual employee and $2.671 for the employee plus eligible dependents.

It is understood that appropriate riders regarding the amendments, for attachment to employees' present insurance certificates, will be furnished as soon as feasible.

The question as to the authority which the Board of Governors has for requesting the above amendments to the Group Major Medical Expense Insurance Policy that it carries with your company has been examined by the Board's Legal Division and an opinion has been rendered to the effect that such authority exists within Section 10 of the Federal Reserve Act as amended by the Banking Act of 1933.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. W. R. Diercks, Vice President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Diercks:

In accordance with the request contained in your letter of October 28, 1959, the Board approves the designation of the following individuals as special assistant examiners for the Federal Reserve Bank of Chicago to assist in examinations of State member banks only:

Robert J. Adams  
Edwin J. Bara  
Don R. Conlan  
John Follmer  
Thomas F. Gibson  
Ronald R. Gossett  
Dale W. Larkin  
Donald E. Mahs  
Eugene L. Ulatowski  
Ronald L. Zile

The Board also approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Chicago for the purpose of participating in the examination of State member banks except the institutions indicated immediately above their names:

The Detroit Bank and Trust Company  
Detroit, Michigan  

William M. Hauser

Bank of the Commonwealth  
Detroit, Michigan  

Frederick A. Pearson
The Commercial and Savings Bank of St. Clair
St. Clair, Michigan
and
The Michigan Bank
Detroit, Michigan

Patrick J. Garvey
City Bank
Detroit, Michigan

Lyle F. Nelson

The authorizations heretofore given your Bank to
designate Patrick J. Garvey and Lyle F. Nelson as special
assistant examiners are hereby canceled. As requested, the
names of Walter Mack and Glave Peters have been deleted from
the list of special assistant examiners.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.