

Minutes for March 10, 1960.

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

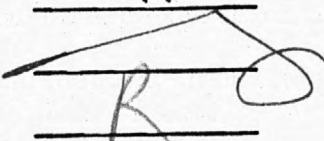
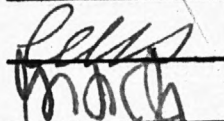
Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King


Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, March 10, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/  
Mr. Balderston, Vice Chairman  
Mr. Szymczak  
Mr. Mills

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Miss Carmichael, Assistant Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Chase, Assistant General Counsel  
Mr. Conkling, Assistant Director, Division of  
Bank Operations  
Mr. Collier, Chief, Current Series Section,  
Division of Bank Operations

Collecting branch reports of condition. There had been distributed a memorandum dated March 7, 1960, from the Division of Bank Operations, presenting views of members of the Board's staff and of other agencies on a proposal to expand the regular biennial collection of deposits by counties reports scheduled for the June 1960 call to: (1) require a report of individual branches; (2) ask for detail in addition to the usual county totals of demand and time deposits of individuals, partnerships, and corporations, and total deposits; and (3) require publication of individual branch data, or in some other way, make it legally available for use in administrative hearings. The memorandum pointed out that reports of condition had not been collected from all branches

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1/ Entered meeting at point indicated in minutes.

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since June 1949; the results of that survey were published in the July 1950 Federal Reserve Bulletin. It had been suggested that if reports were to be collected again from branches, this should be done soon as a longer lapse would limit the usefulness of comparative statistics. Since 1949 the Board has made biennial collections of total demand and time deposits of individuals, partnerships, and corporations and total deposits for all branches located outside the head office county. County totals for all branches, rather than individual branch figures, have been collected in these surveys. These data have been the basis for the Board's biennial pamphlet, Distribution of Bank Deposits by Counties and Standard Metropolitan Areas.

In the early stages of discussion of this matter, memoranda were circulated to interested members of the Board's staff, other bank supervisory agencies, the Department of Agriculture, and the Bureau of the Budget. Subsequently, representatives of the interested Board Divisions had discussed these proposals in an attempt to reach a consensus.

After considering varying views and needs, the Division of Bank Operations recommended that the collection of branch figures at the June 1960 call be limited to the usual deposits by counties totals that have been collected biennially.

Commenting on the memorandum, Mr. Conkling noted that, if the recommendation of the Division of Bank Operations were adopted, the Board's Legal, Examinations, and Research and Statistics Divisions

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would not have the information in which they had expressed an interest. However, his feeling was that there would be difficulty in collecting all of the various types of figures that these Divisions thought would be helpful.

Chairman Martin entered the meeting at this point.

Governor Mills said he took a little more friendly view of the proposal than was indicated in the memorandum from the Division of Bank Operations. The collection of branch reports probably would not recur for several years. He felt that it might be desirable to collect the statistics and use them as a benchmark, since otherwise there was a risk of having a void in statistics that might be needed at some future date. He recognized, however, that there might be a problem in asking banks to furnish branch data for public release since many States do not require their publication and, if the Board were to make public these figures, it would in a sense be overriding State laws. Also, this procedure would be contrary to the feeling of some banks operating branches that data for individual branches should not be given public attention. Governor Mills was of the opinion that banks were wrong in taking this attitude, but there was a strong sentiment in that direction. Governor Mills was aware of the burden which would fall on the Division of Bank Operations if it was decided to compile the statistics under consideration, but he did not believe that their collection would impose a critical problem for the commercial banks that might be requested to furnish them.



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Mr. Conkling noted that most of the requests for branch information with which he was familiar were for number and types of branches, and the Division of Bank Operations has this information readily available. He felt the most pressing need for the other branch data was in the Legal and Examinations Divisions.

Mr. Farrell was of the opinion that asking banks for branch data would impose a burden on them because of the centralized bookkeeping trend. He observed that banks having centralized bookkeeping systems might not have figures on deposits of branches readily available; it would be necessary in at least some cases for these data to be specially tabulated or estimated. He also felt the bank relations activities of the Federal Reserve Banks might be hampered if banks were asked to furnish branch data. One suggestion by Mr. Crosse, Vice President at the New York Reserve Bank, was that if banks were to be asked for these figures, perhaps an announcement to that effect should be made two or three months in advance so that banks could make some arrangements for branch data or estimates. Mr. Farrell added the comment that careful consideration should be given to requiring bank officers to certify figures which they knew were estimated.

Mr. Solomon said that his interest in the proposal under consideration was supplemental to and concurrent with the interest expressed by others. It would be helpful to have information on deposits and loans of branches in analyzing particular situations such as those arising in bank holding company cases and applications to establish branches.

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Governor Balderston inquired whether the Comptroller of the Currency and the Federal Deposit Insurance Corporation were interested in obtaining branch figures, and Mr. Conkling replied that the Federal Deposit Insurance Corporation was only mildly interested in individual branch figures; their chief interest was in the county totals included in the Board's biennial publication on Distribution of Bank Deposits by Counties and Metropolitan Areas. He had the impression the the Comptroller of the Currency was not interested in branch figures.

Mr. Thomas stated that at its meeting last week the System Research Advisory Committee discussed the proposal being considered. Some in the group were enthusiastic about securing branch figures, especially the San Francisco Reserve Bank. The Committee voted unanimously in favor of securing the branch data on a one-time basis. After these figures had been obtained, the Committee favored a review in order to determine whether they should be compiled periodically and, if so, how frequently. Mr. Thomas said further that since no figures had been compiled since 1949, it would be desirable to have something available as to distribution of banking resources and concentrations. He suggested that if there was to be a loan schedule, it would be important to know what business loans had been made in order to get some idea of the local lending activity.

Mr. Hackley said it would be helpful to have the branch figures for use in passing on applications under the Bank Holding Company Act

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or on mergers or branch applications. Without them, it was almost impossible to determine the true competitive effect. He noted that deposit figures should be obtained for both national and State member banks and that the three Federal supervisory agencies should follow the same practice if the figures were to be used in litigation. He thought it would be desirable from a legal standpoint if the Board were to require that reports of branch deposits be published perhaps every two or three years.

After some further discussion, including the question whether banks should be required to publish data for individual branches, Chairman Martin suggested and it was agreed that further discussion of the collection of branch statistics be postponed until a later meeting when all members of the Board were present.

Messrs. Molony and Fauver, Assistants to the Board, Noyes, Director, Koch, Adviser, and Dembitz, Associate Adviser, Division of Research and Statistics, entered the room during the foregoing discussion.

Tax remittances to Federal Reserve Banks. There had been distributed to the Board a memorandum dated March 7, 1960, from Mr. Farrell concerning a proposal made in June 1959 by the Treasury Department that the Federal Reserve Banks extend their depository activities as fiscal agents of the Treasury to include receipt of payments made by individuals on estimated income taxes.

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The memorandum pointed out that for the last ten years the Federal Reserve Banks have been acting as fiscal agents for the Treasury in the receipt of deposits from employers representing withheld income taxes, Social Security taxes, Railroad Retirement taxes, and also certain excise tax remittances. The remittances received by the Federal Reserve Bank are credited to the Treasurer's General Account, and for each remittance two copies of a punch card receipt form are prepared. One copy of this receipt is "validated" by a special stamp and returned to the employer who made the deposit, for submission to the Director of Internal Revenue with the depositor's report. The other copy of the receipt form is retained by the Federal Reserve Bank. Both copies bear the depositor's account number. When the Director of Internal Revenue receives the report and the validated receipt forms, he forwards the latter to the Federal Reserve Bank, where they are matched with the copy retained by the Reserve Bank in order to make sure that the amounts claimed on the report have actually been deposited in the Reserve Bank.

Under the Treasury Department proposal, the procedure would be the same as outlined in the above paragraph except that (a) remittances would be made by the taxpayers themselves, either directly or through a commercial bank, rather than by employers who have withheld part of the taxpayer's salary, and (b) Directors of Internal Revenue would deposit receipts on separate certificates for matching on an annual basis. The Treasury Department originally expected no opposition by the Federal



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Reserve Banks to the proposed procedure because of a belief that the proposal was merely a logical extension of the work that the Federal Reserve Banks were already performing. This position was based in part on the fact that the Federal Reserve Banks are now receiving deposits of payments for Social Security taxes, which are payments from the taxpayers.

At a joint meeting of the Board of Governors and the Federal Reserve Bank Presidents on July 7, 1959, it was reported that the Presidents were unanimous in their view that the Treasury proposal was not in the best interests of the System and not in the public interest, and Chairman Martin said it was understood that Federal Reserve representatives should be firm that the Federal Reserve System was a central banking organization and not a tax-collecting agency. The Joint meeting authorized Governor Mills and Presidents Leach, Fulton, and Mangels to present the Board's views to Mr. Heffelfinger, Fiscal Assistant Secretary of the Treasury Department. A copy of Governor Mills' report of the conference, dated July 7, 1959, was attached to the March 7, 1960, memorandum of Mr. Farrell. In his report, Governor Mills indicated that Mr. Leach had pointed out that the Federal Reserve Banks were bankers' banks and were not intended to deal with the public at large and that the request of Treasury and Internal Revenue Service would shift administrative income tax accounting functions to the Federal Reserve Banks where they did not belong. However, Mr. Heffelfinger was adamant in his position that

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the Treasury could legally and properly demand that the Federal Reserve Banks comply with the Treasury's request in line with their fiscal agency relationship to the Treasury. He acknowledged that the Federal Reserve Banks would have to carry an additional workload, especially where estimated income tax payments as low as \$12.50 each would be involved. He said, however, that the Internal Revenue Service planned to ask Congress for legislation that would not require the verification of individual income tax returns for amounts due on estimated income tax payments below \$40 per year.

In the July 7 conference, Mr. Heffelfinger reported that the Treasury Department was under insistent pressure from the Internal Revenue Service to have the Federal Reserve Banks function in the manner requested, on the basis that the work could be more efficiently handled in that manner and at less cost than is now the case. He had no question but that costs of this type incurred by the Federal Reserve Banks would be reimbursable in character and that initially they would be defrayed out of the Internal Revenue Service appropriations but subsequently by a direct appropriation. Since the Federal Reserve Banks were already handling tax depository receipts for other types of Federal income tax and excise tax payments, he was unwilling to recognize the distinctions drawn by Mr. Leach.

In his July 7 memorandum, Governor Mills stated that it was his impression that if the matter was not dropped, technical experts from

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the Federal Reserve Banks, the Board, and the Internal Revenue Service should completely analyze the mechanics of the procedure requested, with the thought that such an analysis would either suggest ways by which the work involved could be simplified or would clearly reveal that it was of a character that was inappropriate to shift to the Federal Reserve Banks.

The memorandum from Mr. Farrell referred to a conversation that Chairman Martin and Governor Balderston had on March 2, 1960, with Under Secretary of the Treasury Baird and Fiscal Assistant Secretary Heffelfinger, in which they repeated the proposal. Following that conversation, Mr. Farrell talked with Mr. Heffelfinger who stated that, after being informed last summer of the Federal Reserve opposition to the Treasury proposal, his staff had attempted, without success, to develop some arrangement under which the regional offices of the Treasury could handle the work involved under the proposed plan. He said they had given up the idea because it would mean (a) requesting an appropriation to cover at least 150 additional employees, (b) confusion resulting from the necessity to cross Federal Reserve district lines, and (c) withdrawing the present depository receipt operation from the Federal Reserve Banks.

Mr. Hackley said that the Treasury Department proposal had been considered to some extent by the Legal Division, which was of the opinion that under section 15 of the Federal Reserve Act the Treasury Department would have authority to direct the Federal Reserve Banks to carry out

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any fiscal agent functions, and it would appear that the receipt of taxes was of a fiscal character. He spoke also of section 6302(c) of the Internal Revenue Code of 1954, which provided that the Secretary of the Treasury may authorize Federal Reserve Banks, and incorporated banks or trust companies which are depositaries or financial agents of the United States, to receive any tax imposed under the internal revenue laws, in such manner, at such times, and under such conditions as he may prescribe; and he shall prescribe the manner, times, and conditions under which the receipt of such tax by such banks and trust companies is to be treated as payment of such tax to the Secretary or his delegate. Mr. Hackley noted that this provision involved authority; the Treasury Department had pointed to it as the intent of Congress. The proposal of the Treasury Department was not entirely clear, however. If only receipt of quarterly payments of tax payers, validation of receipt forms, and verifying reports were involved, Mr. Hackley felt that this would not be considered collection of taxes. If, on the other hand, the proposal covered verification of tax returns or collection of taxes, Mr. Hackley felt a different question might be presented. The Board would be in a much better position to oppose the proposal if it went beyond the mere receipt of taxes. In summary, Mr. Hackley felt that the proposal involved a policy matter rather than a legal question if it related only to receipt of tax payments and periodic verifications of amounts received.



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Mr. Farrell stated that the procedure proposed by the Treasury Department was about what Mr. Hackley had outlined. He explained the various steps involved and noted that there would be an auditing problem unless validating stamps were controlled. At the present time the Federal Reserve Banks were dealing with employers who were familiar with the procedures; under the proposed plan, the Banks would be dealing directly with taxpayers. He added that about 80 per cent of the estimated tax payments were now being made through commercial banks. However, under the proposed plan since many tax payments would be in small amounts commercial banks would not want to handle them. With individual taxpayers sending payments directly to Federal Reserve Banks, it was to be expected that the Banks would be bothered with numerous questions. Mr. Farrell noted that in considering the proposal Mr. Leach and Mr. Heflin, General Counsel of the Richmond Reserve Bank, had spoken of the distinction between the words "receipt" and "collection" with reference to taxes.

Mr. Hackley stated that this distinction was not clear to him, since he understood under the proposed plan that the Reserve Banks would merely receive quarterly payments, provide evidence of receipt of the payments, and periodically verify the total amounts received.

After further discussion, Mr. Hackley noted that the Treasury Department proposal involved a problem similar to that which had come up several years ago when the Reserve Banks were asked to perform certain

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functions in the destruction of currency. At that time, after a study of the problem, Mr. Vest prepared a memorandum in which he indicated that if the functions were clearly fiscal agency functions the Board had no legal reason to intervene, except that under the Board's powers of general supervision over Reserve Banks the Board would be in a position to contest the act of the Treasury if it could be shown that the performance of such duties would impair the other functions of the Reserve Banks. Mr. Hackley felt it was difficult to see where the other functions of the Reserve Banks would be impaired by extension of their depositary activities to include receipts of payments by individuals on estimated income taxes.

At Chairman Martin's suggestion, it was agreed that further discussion of the proposal would be deferred until a later meeting when all Board members were present.

Mr. Chase then withdrew from the meeting.

Classification of cities and banks for reserve purposes. Pursuant to discussion at the Board meeting on February 11, 1960, a memorandum from Mr. Thomas covering a report on classification of cities and banks for reserve purposes was distributed on March 4, 1960. The report included a brief review of underlying considerations and an appraisal of the various standards that might be used as a basis for classification of individual banks within a city and for classification of reserve cities.

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Pending completion of further study, the report suggested tentative criteria that could be followed.

Chairman Martin asked for views on the report, and Governor Szymczak replied that he felt it was a good paper that represented a good approach to a solution of a difficult and complex problem. Two classification steps were involved: (1) classification of reserve cities and (2) exemption from reserve city reserve requirements of certain banks which, under the new legislation, could be permitted to carry reduced reserves, depending upon the nature of their business. Governor Szymczak thought that the approach suggested in Mr. Thomas' memorandum and in the three annexes, especially annex C, was reasonable. The suggestions in annex C sounded technical and difficult for the average person to understand because they were based on wholesale and retail business, but the essence of the papers was that the Board needed further statistical information to help it reach a final solution. In the interim, Governor Szymczak suggested that the Board continue the approach that it had been following up to this time, that is permitting banks having less than about \$40 million of demand deposits to carry reduced reserves. This had seemed to him to be a reasonable thing to do, and any other approach that might be tried now would get the Board into an entirely different category of questions. If the Board should decide to pursue the study further along the lines suggested in the memorandum and, in the interim, follow what it has been doing, it would seem desirable to bring the

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Reserve Banks into the picture promptly; they would administer these reserve requirements and the sooner they entered the discussions the better. Governor Szymczak concluded his comments with a statement that he wished to congratulate the staff on the papers that had been prepared. They represented a reasoned attempt to give information on reserve requirements that could be applied in terms of monetary needs, and this was something that the Board had not had up to this point.

Governor Mills stated that the report left him with the same concern he had had from the beginning, that an attempt was being made to refine the distinguishing marks of a reserve city or a "country" bank so far that in the process of refinement a decision important to the banking fraternity was being delayed. Secondly, this refinement would involve collecting additional data on deposits and turnover and a narrow distinction between wholesale and retail business. This, he said, would take a great deal of time and would involve banks with additional reporting, a process which they would find difficult to understand. Governor Mills said he would hope some formula could be decided upon that would not be exactly a rule of thumb decision but would give better than a rough justification to support a Board decision in making classifications without involving extensive further study or imposing burdensome requirements on reporting banks. To him, it appeared that, by and large, size was the principal denominator for determining classification of banks for reserve purposes. The Board



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had consistently played down below its importance the liquidity advantages of reserve requirements and the justification for imposing liquidity requirements, he said, and the case had been built too largely on the importance of reserve requirements as a tool of monetary policy. He was groping for some formula that would set size as the basis of classification and would not make narrow distinctions between wholesale and retail deposits. It would be based on demand deposits and would possibly contain some observations as to the locality in which the bank was operating. A bank operating in a reserve city or in a neighborhood where other banks were clearly reserve city banks might have to be called a reserve city bank irrespective of size. Governor Mills felt the Board was floundering in a morass at present. He wondered if it would be best to decide on the communities that would be reserve cities and then, having made that decision, determine which banks in those cities should be exempted from the reserve requirements for such cities.

Governor Szymczak said that that would be an easier approach if it were practicable, which he doubted. He emphasized the need for having standards for classification that could be defended. One bank would hear that another bank had been exempted from reserve city reserve requirements and naturally would want to know the standards so as to determine whether it was eligible for such exemption. It was necessary, in his opinion, to have clear reasons for making a city a reserve city before granting exemptions to carry reduced reserves. Under the old

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law, these exemptions could only be made for banks in outlying sections of central reserve or reserve cities, but under the new legislation the classification had to be based on character of business. It was necessary, therefore, to determine what was meant by character of business.

After some further discussion, it was understood that the question of standards for classification of reserve cities and banks would be considered again at a later meeting of the Board.

At this point all of the members of the staff excepting Messrs. Sherman, Hackley, Solomon, Farrell, Molony, and Fauver withdrew from the meeting.

Appointment of director--Portland Branch. Chairman Martin referred to a memorandum from Mr. Fauver dated March 9, 1960, distributed before this meeting in which there were listed names of persons whom the Board might consider for appointment to the existing vacancy on the Board of Directors of the Portland Branch of the Federal Reserve Bank of San Francisco. After discussion and on the basis of Governor Mills' recommendation, the Board agreed unanimously that the usual steps would be taken to ascertain whether Mr. Paul De Koning, President and General Manager, Jantzen, Inc., Portland, was eligible and would accept appointment if tendered, and if he would, to make the appointment.

Secretary's Note: It having been ascertained that Mr. De Koning would accept appointment, if tendered, as a director of the Portland Branch, Federal Reserve Bank of San Francisco, for the unexpired portion of the term ending December 31, 1961, a telegram was sent to him on March 15, 1960, making the appointment.

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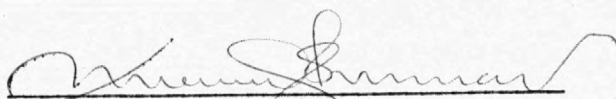
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Mr. Fauver withdrew from the meeting at this point and Mr. Smith, Assistant Director, Division of Examinations, entered the room.

Examination report--Federal Reserve Bank of Minneapolis. The report of examination of the Federal Reserve Bank of Minneapolis made as of October 30, 1959, had been circulated among the members of the Board prior to this meeting.

Mr. Smith reviewed the results of the examination, stating that no matters appeared to require action by the Board. In the course of his report, Mr. Smith called attention to the fact that the Board of Directors of the Federal Reserve Bank of Minneapolis, after consideration of the question whether an operating officer of the Bank should be present at meetings of the Audit Committee, had reached the conclusion that it was preferable to continue the practice of having an operating officer attend such meetings as a rule.

Thereupon, the meeting adjourned.

  
Secretary