MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 19, 1954

The third statutory meeting of the Federal Advisory Council for 1954 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on September 19, 1954, at 2:10 P.M., the President, Mr. Brown, in the Chair.

Present:

William D. Ireland	District No. 1
Henry C. Alexander	District No. 2
Geoffrey S. Smith	District No. 3
George Gund	District No. 4
Robert V. Fleming	District No. 5
Wallace M. Davis	District No. 6
Edward E. Brown	District No. 7
W. W. Campbell	District No. 8
Joseph F. Ringland	District No. 9
Charles J. Chandler	District No. 10
George G. Matkin	District No. 11
John M. Wallace	District No. 12
Herbert V. Prochnow	Secretary

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on May 16, 17 and 18, 1954, copies of which had been sent previously to the members of the Council, were approved.

A complete list of the items on the agenda for the meeting and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* which follows on pages 21 and 22 of these minutes. Also included on pages 23 and 24 is a letter dated July 28, 1954, from President Brown to Wm. McChesney Martin, Chairman of the Board of Governors, regarding the tentative draft of a revision of Regulation A.

The meeting adjourned at 5:18 P.M.

HERBERT V. PROCHNOW
Secretary

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MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 20, 1954

At 10 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

Present: Mr. Edward E. Brown, President; Messrs. William D. Ireland, Henry C. Alexander, Geoffrey S. Smith, George Gund, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, John M. Wallace, and Herbert V. Prochnow, Secretary.

The Council reviewed its conclusions of the previous day regarding the items on the agenda and sent to the Secretary of the Board of Governors the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* which follows on pages 21 and 22, listing the agenda items with conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12 noon on September 20, 1954.

The meeting adjourned at 11:45 A.M.

HERBERT V. PROCHNOW
Secretary

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MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON SEPTEMBER 21, 1954

1. A discussion of the draft revision of Regulation A, copies of which were sent to members of the Council by Chairman Martin.

The Council is not aware of any reason for revision in the statement of general principles which serves as a foreword for Regulation A in its present form. The Council unanimously believes that for the member banks to be able to obtain money through discounts and advances is highly important, both for the successful operation of the Federal Reserve System and for the general economy. The Council is opposed to any statement of principles which implies that the use of discounts or advances by member banks is to be restricted. The proposed statement of general principles would inevitably be so construed, both by the Federal Reserve banks and the member banks. The Federal Reserve System has operated effectively under Regulation A in its present form since 1937. The Council believes the statement of general principles contained in the present regulation is entirely adequate and has the advantage of being understood and accepted by the banks.

The changes proposed in the body of Regulation A constitute with minor exceptions a restatement and rearrangement without particular significance. The Council sees no real advantages in these proposed changes. While the Council is not opposed to the proposed restatement and rearrangement, it believes it is better to leave unchanged the language of the regulation with which banks are familiar through many years of operation.

2. What are the views of the Council with respect to the prospective business situation during the remainder of this year and the first three months of next year and the probable changes that will take place in the volume and purpose of bank loans in each of these periods?

While there are some variations in the business situation from district to district, and even more marked differences from industry to industry, the economic pattern over the country is generally uniform, with business at a reasonably good level and on a relatively even keel. The Council does not believe that any significant business upsurge or decline will occur in the next three months or in the first quarter of next year. The maintenance of consumer spending at a relatively high level and large outlays for construction are two major factors helping to sustain the economy. Over-all construction activity will probably continue at about the present level for the next three months, but there are indications that it may decline somewhat during the first quarter of 1955. At the present time there is no sign of a decline in consumer spending over the next six months.

The Council believes that the seasonal increase in bank loans in the next three months will be less than normal. The Council expects a normal seasonal contraction in bank loans during the first quarter of the coming year. If the Commodity Credit Corporation should borrow a considerable amount on certificates, or if the Federal National Mortgage Association should borrow a large amount of money from banks, it would result in a substantial increase in bank loans. Apart from these two possible borrowings, the Council does not expect any important change in the purpose of loans.

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These views of economic conditions and bank loans assume that there will be no significant change in the international situation which would materially affect the domestic economy.

3. The Board would like to have the views of the members of the Council with respect to the System's current credit policies and what, if any, changes might be called for by developments during the balance of the calendar year.

The members of the Council believe that recent credit policies of the System have been constructive and were an important factor in maintaining business in a period when economic readjustments have been occurring. The June, July, August reduction in reserve requirements was timely and open market operations since then have been extremely well handled.

Government financing for new money in substantial volume is imminent, and the greater part of it will have to be provided by the banks. Considerable additional reserves will be required. As previously stated, unless there are unforeseen foreign developments which would have an important effect on the volume of bank loans, the Council does not expect a normal seasonal increase in loans this fall. The Council believes that the reserves necessary for successfully handling the anticipated government financing, whether done directly by the Treasury or through borrowing by the Commodity Credit Corporation or the Federal National Mortgage Association, can and should be provided by open market operations rather than by presently reducing reserves.

4. What, if any, suggestions does the Council have as to legislation that the Board might support or sponsor in the forthcoming session of the Congress?

The Council does not at this time have any suggestions as to legislation that the Board might support or sponsor in the forthcoming session of the Congress.

If the Board has any suggestions for legislation it may support or sponsor in the forthcoming session, the Council will be pleased to discuss them with the Board.

5. While the Board of Governors has not had an opportunity to discuss with the Presidents of the Federal Reserve Banks, or to reach any conclusions on, the report of the Joint Committee on Check Collections submitted to the American Bankers Association, the Association of Reserve City Bankers, and the Conference of Presidents of the Federal Reserve Banks, the Board will be glad to have at this meeting any comments that the members of the Council might have to offer with respect to the report.

The report of the Joint Committee on Check Collections represents long and thoughtful study and is a comprehensive analysis of a subject important to all bankers. The members of the Council are familiar with the general outlines of the report and with the major objectives of the study, but they have not had an opportunity to give the report the detailed and careful consideration it merits, and to appraise the recommendations made. The Council has appointed a committee to study the report and advise the Council. The Council would prefer not to comment on the report until its committee has made its study. Whether the recommendations of the report can become effective will depend largely on the reactions of the banks of the country. The committees of the American Bankers Association and the Association of Reserve City Bankers have not yet had an adequate opportunity to consider it.

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Letter from Edward E. Brown, President of the Federal Advisory Council, to Wm. McChesney Martin, Chairman of the Board of Governors, regarding the tentative draft of a revision of Regulation A.

July 28, 1954

Hon. Wm. McC. Martin, Jr.
Chairman, Board of Governors
Federal Reserve System
Washington 25, D. C.

Dear Bill:

Thank you for sending me in your letter of the 22nd, tentative draft of a revision of Regulation A.

I have gone through this draft, but of course have had no opportunity to discuss it with the other members of the Federal Advisory Council. The Council will undoubtedly want to discuss it at our September meeting, and I trust that the Board will welcome a discussion with the Council on the matter.

I find little new matter in the redraft of the regulation proper. The important new thing is the "Foreword". The redraft of the regulation proper itself is largely a rearrangement and restatement of the present Regulation A. The new matter contained in the "Foreword," with the subheading "General Principles," reflects the theory that the use of the borrowing and rediscount privileges by banks should be materially restricted and restrained. While the language has been greatly watered down from the earlier drafts, the basic idea of the desirability of restricting still persists. This is apparently on the theory that, if banks have any considerable degree of freedom in rediscounting or borrowing, it would interfere with the effect of open market operations by the Open Market Committee, and that this would be undesirable.

With this theory I do not agree. I think that in an economy as widespread and complicated as that of this country, better results are to be obtained by the interplay of the actions of individual banks which rediscount or borrow than by decisions of the Open Market Committee. I do not think that any "Foreword" or a statement of "General Principles" should operate to encourage an individual Federal Reserve Bank to unduly discourage borrowing by member banks.

The wording of this present draft represents a great improvement over earlier drafts, and it will not limit or discourage borrowing in the way earlier proposed revisions of the Regulation would have done. But I still think the present draft goes too far. It will tend to make some, if not all, of the twelve Federal Reserve banks unduly restrictive in passing upon applications for credit by member banks.

Specific criticism and suggestions of the "Foreword" I would have to make include the following:

On page IV under (1), after the words "Maturities of such borrowing are normally short," I would suggest the addition of the words "generally not over a few months."

My reason for this suggestion is that in the South, when the cotton crop is coming into maturity, and after it has been harvested; in the Southwest with the wheat harvest,

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and in many parts of the country when a demand for credit comes in the Fall, and lasts until after the Christmas holidays, banks are frequently justified in borrowing for several months.

In Illinois we have another and uncommon condition caused by our tax laws, where bank deposits are assessed for taxation as of April 1. This causes not only a large loss in deposits over April 1, but causes a great demand for Government Bills shortly before that date. It has been the custom of many Illinois banks to buy Bills as long as ninety days before April 1, and hold them, in order to meet the demand for them from their customers. This has caused borrowing from around January 1 to April 1 by Illinois banks, and such borrowings were made without regard to any possibility of profit in the differential between the rediscount rate and the rate on the Bills. Generally when the banks have had to borrow to carry such Bills they have lost money, because there has been a differential against them between the Bill rate and the rediscount rate. I consider such borrowing entirely justified. Similar unusual reasons for borrowing undoubtedly exist in other states.

On page V under (4), I think it would be advisable to put in after the words "over a considerable period of time" (generally not more than a few months).

On page V under (5), there can be no objection to a statement that Federal Reserve credit should not be extended for the purpose of obtaining a tax advantage through the borrowing. I think the statement that Federal Reserve credit is not extended where it appears that the member bank's principal purpose is to profit from rate differentials should either be omitted or considerably modified. If there is a material differential between the rediscount rate and the rate on short-term commercial loans, or short-term Government obligations, I think the interests of the economy are served in having banks borrow, even though their motive may be profit.

The obvious procedure in such circumstances, where the Federal Reserve Board thinks total borrowings by banks are becoming unduly large, is to raise the rediscount rate.

As I stated in the beginning of this letter, I have had no opportunity to confer about the draft with the other members of the Federal Advisory Council, but I am sure we will want to discuss it at our September meeting. I am sending a copy of this letter to all members of the Advisory Council, in the hope that I might get some reaction from them.

With best regards.

Sincerely yours,

Edward E. Brown

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MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 20, 1954

At 2:15 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., the President Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. William D. Ireland, Henry C. Alexander, Geoffrey S. Smith, George Gund, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, John M. Wallace, and Herbert V. Prochnow, Secretary.

Dr. Ralph Young, Director of the Division of Research and Statistics of the Board of Governors of the Federal Reserve System, discussed the current economic situation. Dr. Young submitted a summary of his remarks, a copy of which was subsequently sent to each member of the Council.

The meeting adjourned at 3:30 P.M.

HERBERT V. PROCHNOW
Secretary

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MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

September 21, 1954

At 10:35 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Wm. McC. Martin, Jr.; Governors M. S. Szymczak, James K. Vardaman, Jr., J. L. Robertson, A. L. Mills, Jr., Paul E. Miller, and C. Canby Balderston; also, Mr. S. R. Carpenter, Secretary, and Mr. Merritt Sherman, Assistant Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. William D. Ireland, Henry C. Alexander, Geoffrey S. Smith, George Gund, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, John M. Wallace, and Herbert V. Prochnow, Secretary.

The President of the Council read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council* as printed on pages 21 and 22 of these minutes. A brief discussion followed.

Chairman Martin stated that the fact that Regulation A has been operating since 1937 does not mean it should not be reviewed and that desirable changes should not be made. He added that he did not believe there is much difference between the viewpoints of the Council and the Board.

Governor Mills said that it is the Board's assumption that the banks and the public want the various regulations under constant review.

An extended discussion followed in which members of the Board and the Council participated.

Chairman Martin said that the discussion had been very helpful.

President Brown read the second item on the agenda, and the conclusions reached by the Council, as expressed in the *Confidential Memorandum*, previously mentioned.

President Brown then read the third item on the agenda and the conclusions of the Council as expressed in the attached *Confidential Memorandum* to the Board.

General discussion followed the reading of items two and three of the agenda.

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The fourth item on the agenda was then read by the President of the Council, who added that the Council would be ready, when it might be possible to achieve it, to support legislation that would raise the salaries of the members of the Board.

Chairman Martin stated that the Board does not have any legislative proposals at present, but that it hopes to have some legislative proposals ready by the next meeting of the Council. If possible, copies of such proposals will be sent to members of the Council in advance of the next meeting.

President Brown then read the fifth agenda item and the conclusions of the Council as reported in the *Confidential Memorandum* attached.

The meeting adjourned at 12:35 P.M.

HERBERT V. PROCHNOW
Secretary

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NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

The Secretary's notes of the meeting of the Federal Advisory Council on September 19, 1954, at 2:10 P.M. in Room 932 of the Mayflower Hotel, Washington, D.C. All members of the Federal Advisory Council were present.

The Council approved the Secretary's notes for the meeting of the Council on May 16, 17 and 18, 1954.

* * * * *

ITEM I

A DISCUSSION OF THE DRAFT REVISION OF REGULATION A, COPIES OF WHICH WERE SENT TO MEMBERS OF THE COUNCIL BY CHAIRMAN MARTIN

Brown suggests that most of the discussion should probably be given to this item because of its importance relative to the other items. (Off-the-record comments).

Ireland agrees with the general views expressed in Brown's letter to Martin. (Off-the-record comments). Ireland thinks it would be very difficult to administer the regulation as between districts. (A copy of Brown's letter to Martin will be found beginning on page 7 of these notes.)

Brown. Is there any need for a new Foreword? (Off-the-record comments.)

Alexander agrees with the general principles expressed in Brown's letter to Martin. If the Foreword becomes a part of Regulation A, it lends a restrictive tone to the regulation.

Smith thinks there is no substantial change in the revision of the body of the regulation. The Foreword can be interpreted so it is innocuous, but it can also be interpreted so it is restrictive.

Gund is in agreement that it is not advisable to put so much emphasis on restriction.

Fleming concurs with Brown's letter to Martin. He thinks the Foreword in the present Regulation A is entirely adequate.

Alexander reads the Foreword of the present Regulation A. (Off-the-record comments).

Fleming says he would favor keeping the statement of general principles in the present regulation, instead of adopting the revised form.

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Davis agrees with the views expressed by the other members of the Council.

Campbell is also in agreement.

Chandler states that he did not have the full background on this subject until he came to the meeting. He agrees with the views of the other members of the Council.

Matkin comments that he sees nothing wrong in making a loan for profit. He believes there is no reason for changing the foreword of the present regulation.

Wallace supports Matkin's view.

Brown There is obviously no divergence of opinion on this matter. Everyone is strongly opposed to a restrictive policy in the use of the discount window. The members of the Council see no reason for any change in the present foreword. The revision in the body of the regulation makes no significant changes. The Council may report to the Board that the Council members unanimously believe that obtaining money by member banks through rediscounts or advances is highly important to the success of the Federal Reserve System and the economy generally. The Council is opposed to any policy that is restrictive in the use of discounts or advances by member banks. We believe the proposed statement of general principles would inevitably be so construed both by the Federal Reserve banks and the member banks. Therefore the Council is opposed to it. We have operated since 1937 under Regulation A, and we see no reason for changing the present statement of general principles contained in Regulation A. The changes proposed in the body of the regulation constitute a restatement and rearrangement without major significance. The Council sees no advantage to the rearrangement generally. In the oral discussion, we may state that in an economy as widespread and complicated as that of the United States, better results are to be obtained by the interplay of the actions of individual banks which rediscount than by decisions of the Open Market Committee.

ITEM II

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROSPECTIVE BUSINESS SITUATION DURING THE REMAINDER OF THIS YEAR AND THE FIRST THREE MONTHS OF NEXT YEAR AND THE PROBABLE CHANGES THAT WILL TAKE PLACE IN THE VOLUME AND PURPOSE OF BANK LOANS IN EACH OF THESE PERIODS?

Ireland. No important changes have taken place in business since the last meeting. Business has held up well, but so far has not had the anticipated Fall seasonal increase. Department store sales in the district are about the same as a year ago. The textile business has held up fairly well. Ireland does not look for an increase in the volume of loans in the next three months of this year or in the first quarter of next year.

Alexander. Business is moving sidewise. Consumer spending is holding up well, and construction is booming. Manufacturing in general is off. Unemployment continues about the same. Commercial loans are down. A strong seasonal demand for loans has not materialized. Business will probably go sidewise for the next six months. Capital expenditures may show some decline. If construction should fall in volume, the situation might

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become more serious. Construction and consumer spending are playing an important part in holding up the economy. The seasonal increase in bank loans in the next three months will probably be less than normal. Alexander sees no heavy demand for credit.

Smith. The situation in the Third District is similar to that in Districts One and Two. Suburban sales are up over store sales in the city. There will probably be some reduction in construction in the months ahead. The seasonal demand for bank credit has been weak. Telephone company collections in the district are better.

Gund. There is no great change in industrial activity. Employment in Cleveland declined because of automobile changeovers. Department store sales are under a year ago. The demand for commercial loans has declined. Consumer installment credit is up from the previous month, but is down compared to a year ago. Gund expects some improvement in the first quarter of 1955 and some improvement in the inventory situation.

Davis The Southeast has been hit by drought and heat, and the business situation may grow worse because the drought effects are not fully felt for some time. Construction remains strong. There is great activity in shipbuilding. Loans are a little above a year ago. Cotton is moving into the mills and not into the government loan. Loans will increase somewhat seasonally.

Fleming. Bank loans have held up well. Demand deposits are off. Savings are up. Textiles have shown some improvement. Employment has shown some increase. The tobacco crop is better. Retail sales are up. Manufacturing and coal production are down, but construction is up. Fleming does not expect a major decline in business but anticipates a more or less sidewise movement. He believes the demand for bank loans will be less than seasonal.

Brown. The Chicago pattern is similar to that of the rest of the country. Conditions in the agricultural implement and coal mining industries are not good. Banks have not experienced a normal increase in loans, and there is no strong demand for credit. It is expected the increase in loans for the balance of the year will be less than normal, and there will probably be a normal seasonal contraction in loans during the first quarter of 1955.

Campbell. Business activity is not much less than it was a year ago. Retail business is about the same as it was last year. Unemployment is a little lower. Considering the drought, conditions are relatively good. Some money will be spent on irrigation. There should be some seasonal increase in loans.

Chandler. The Tenth District follows the national pattern generally. Kansas and Oklahoma are under strict oil prorationing. Consequently, Colorado is now producing 23 per cent as much oil as Oklahoma. Construction is up. Department store sales are slightly above a year ago. There has been a heavy sale of air conditioners, as a result of the hot weather. Agricultural conditions are spotty. The wheat crop was about 85 per cent of normal. Loans are up slightly over a year ago. Chandler expects the regular seasonal loan demand this Fall and expects that the district will have normal business in the first quarter of 1955.

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Matkin. Department store sales are under a year ago. Construction is above 1953. Non-agricultural employment is up somewhat. Cash farm income may be below 1953. Bank loans have declined. The volume of bank loans for the next three months will depend on a seasonal pickup of business. So far there is no evidence of a real business pickup. Matkin does not expect a normal seasonal increase in loans.

Wallace. There have been copper and lumber strikes in the district. The seasonal increase in business has been less than normal. Construction is down from the national average. School, highway and military construction look a little better. Automobile assemblies are down, but shipbuilding is better. The steel industry is somewhat above the national average. Farm income will probably be 8 per cent to 10 per cent below 1953. Bank credit has followed the national pattern, but consumer credit is below the national average. The increase in bank loans in the next three months will probably be less than normal.

Ringland. Business is on a relatively even keel. Agricultural income is about even with last year. Crops generally are good and the overall situation is quite good. Ringland expects bank loans to increase about on a seasonal pattern.

Brown. The Council may state that there are some variations from district to district and even more marked differences from industry to industry, but the economic pattern, generally, is uniform throughout the country. Business is reasonably good and is moving sidewise. There are few indications of any important increase in business in the next six months. It is anticipated that the increase in bank loans in the next three months will be less than normal. During the first quarter of 1955, there will probably be the normal seasonal contraction in bank loans. If the Commodity Credit Corporation should borrow a considerable amount on certificates or if the Federal National Mortgage Association should borrow a large amount of money from banks, these borrowings would result in a substantial increase in bank loans. These remarks are predicated on the fact that no important international crisis will occur.

ITEM III

THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE MEMBERS OF THE COUNCIL WITH RESPECT TO THE SYSTEM'S CURRENT CREDIT POLICIES AND WHAT, IF ANY, CHANGES MIGHT BE CALLED FOR BY DEVELOPMENTS DURING THE BALANCE OF THE CALENDAR YEAR.

Brown asks whether there is any disagreement on the Board's credit policy.

Gund states he would go along with the present market policies of the Board.

Alexander believes that the Board's credit policies have been sound and open market operations have been extremely well conducted. (All members of the Council agree with this viewpoint.)

Brown. (Off-the-record comments). To the extent that the banks provide the money for the government financing in the next three months, some additional reserves will be needed. What is the best method of providing

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the reserves?

Fleming. (Off-the-record comments.)

Brown thinks it is probably better to use open market operations at first, and then resort to a reduction in reserves later if it is necessary.

Alexander comments that he dislikes passing any opportunity to suggest a reduction in reserves, but he would favor the open market operations now.

Fleming favors the open market operations now, rather than a reduction in reserves.

Ringland does not believe a reduction in reserves is desirable now.

Brown states that the Council may report to the Board that large additional reserves will be required for the government financing that is imminent and that reserves should be supplied by open market operations to insure the sucess of the financing. Since the Council does not expect the normal seasonal increase in bank loans this Fall, the Council believes the necessary reserves can be provided by open market operations.

ITEM IV

WHAT, IF ANY, SUGGESTIONS DOES THE COUNCIL HAVE AS TO LEGISLATION THAT THE BOARD MIGHT SUPPORT OR SPONSOR IN THE FORTHCOMING SESSION OF THE CONGRESS?

Matkin reports that he has received a proposal suggesting an increase in the salaries of the members of the Board.

Fleming says an increase in the salaries of Board members is desirable and traces the history of such proposals.

Brown thinks it is futile to suggest legislative proposals until we see the makeup of the next Congress. The Council may say to the Board that it does not at this time have any suggestions as to legislation the Board might support or sponsor in the forthcoming session of the Congress.

Alexander. The Council may state it hopes the Board will continue its study of reserve requirements to develop a feasible and generally acceptable plan, which may later be embodied in legislation. (This matter was submitted to a vote of the Council but the vote was so close it was decided not to include the suggestion in the report of the Council to the Board).

Brown. The Council may also state to the Board that if the Board has any suggestions for legislation, the Council will be pleased to discuss them with the Board.

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ITEM V

WHILE THE BOARD OF GOVERNORS HAS NOT HAD AN OPPORTUNITY TO DISCUSS WITH THE PRESIDENTS OF THE FEDERAL RESERVE BANKS, OR TO REACH ANY CONCLUSIONS ON, THE REPORT OF THE JOINT COMMITTEE ON CHECK COLLECTIONS SUBMITTED TO THE AMERICAN BANKERS ASSOCIATION, THE ASSOCIATION OF RESERVE CITY BANKERS, AND THE CONFERENCE OF PRESIDENTS OF THE FEDERAL RESERVE BANKS, THE BOARD WILL BE GLAD TO HAVE AT THIS MEETING ANY COMMENTS THAT THE MEMBERS OF THE COUNCIL MIGHT HAVE TO OFFER WITH RESPECT TO THE REPORT.

Brown. The report is lengthy and must be read in full to be understood. Some sections are controversial. There is already opposition by some reserve city banks. Brown reports on the views of reserve city bankers in some districts. He doubts whether members of the Council are as yet sufficiently informed regarding all aspects of the report. Brown then suggests the appointment of a committee consisting of Fleming, Alexander and Smith to study the report and advise the Council. (All members of the Council approve Brown's suggestion). (Off-the-record discussion on the report)

The meeting adjourned at 5:18 P. M.

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Letter from Edward E. Brown, President of the Federal Advisory Council to Wm. McChesney Martin, Chairman of the Board of Governors, regarding the tentative draft of a revision of Regulation A.

July 28, 1954

Hon. Wm. McC. Martin, Jr.
Chairman, Board of Governors
Federal Reserve System
Washington 25, D. C

Dear Bill:

Thank you for sending me in your letter of the 22nd, tentative draft of a revision of Regulation A.

I have gone through this draft, but of course have had no opportunity to discuss it with the other members of the Federal Advisory Council. The Council will undoubtedly want to discuss it at our September meeting, and I trust that the Board will welcome a discussion with the Council on the matter.

I find little new matter in the redraft of the regulation proper. The important new thing is the "Foreword". The redraft of the regulation proper itself is largely a rearrangement and restatement of the present Regulation A. The new matter contained in the "Foreword," with the subheading "General Principles," reflects the theory that the use of the borrowing and rediscount privileges by banks should be materially restricted and restrained. While the language has been greatly watered down from the earlier drafts, the basic idea of the desirability of restricting still persists. This is apparently on the theory that, if banks have any considerable degree of freedom in rediscounting or borrowing, it would interfere with the effect of open market operations by the Open Market Committee, and that this would be undesirable.

With this theory I do not agree. I think that in an economy as widespread and complicated as that of this country, better results are to be obtained by the interplay of the actions of individual banks which rediscount or borrow than by decisions of the Open Market Committee. I do not think that any "Foreword" or a statement of "General Principles" should operate to encourage an individual Federal Reserve Bank to unduly discourage borrowing by member banks.

The wording of this present draft represents a great improvement over earlier drafts, and it will not limit or discourage borrowing in the way earlier proposed revisions of the Regulation would have done. But I still think the present draft goes too far. It will tend to make some, if not all, of the twelve Federal Reserve banks unduly restrictive in passing upon applications for credit by member banks.

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Page Two

Specific criticism and suggestions of the "Foreword" I would have to make include the following:

On page IV under (1), after the words "Maturities of such borrowing are normally short," I would suggest the addition of the words "generally not over a few months."

My reason for this suggestion is that in the South, when the cotton crop is coming into maturity, and after it has been harvested; in the Southwest with the wheat harvest, and in many parts of the country when a demand for credit comes in the Fall, and lasts until after the Christmas holidays, banks are frequently justified in borrowing for several months.

In Illinois we have another and uncommon condition caused by our tax laws, where bank deposits are assessed for taxation as of April 1. This causes not only a large loss in deposits over April 1, but causes a great demand for Government Bills shortly before that date. It has been the custom of many Illinois banks to buy Bills as long as ninety days before April 1, and hold them, in order to meet the demand for them from their customers. This has caused borrowing from around January 1 to April 1 by Illinois banks, and such borrowings were made without regard to any possibility of profit in the differential between the rediscount rate and the rate on the Bills. Generally when the banks have had to borrow to carry such Bills they have lost money, because there has been a differential against them between the Bill rate and the rediscount rate. I consider such borrowing entirely justified. Similar unusual reasons for borrowing undoubtedly exist in other states.

On page V under (4), I think it would be advisable to put in after the words "over a considerable period of time" (generally not more than a few months).

On page V under (5), there can be no objection to a statement that Federal Reserve credit should not be extended for the purpose of obtaining a tax advantage through the borrowing. I think the statement that Federal Reserve credit is not extended where it appears that the member bank's principal purpose is to profit from rate differentials should either be omitted or considerably modified. If there is a material differential between the rediscount rate and the rate on short-term commercial loans, or short-term Government obligations, I think the interests of the economy are served in having banks borrow, even though their motive may be profit.

The obvious procedure in such circumstances, where the Federal Reserve Board thinks total borrowings by banks are becoming unduly large, is to raise the rediscount rate.

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Page Three

As I stated in the beginning of this letter, I have had no opportunity to confer about the draft with the other members of the Federal Advisory Council, but I am sure we will want to discuss it at our September meeting. I am sending a copy of this letter to all members of the Advisory Council, in the hope that I might get some reaction from them.

With best regards.

Sincerely yours,

Edward E. Brown

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THE FEDERAL ADVISORY COUNCIL CONVENED AT 10 A.M. ON SEPTEMBER 20, 1954, IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D.C. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on September 21, 1954. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors at 12 noon on September 20, 1954. It will be noted that each item of the Agenda is listed together with the comments of the Council.

The meeting adjourned at 11:45 A.M.

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CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON SEPTEMBER 21, 1954

1. A discussion of the draft revision of Regulation A, copies of which were sent to members of the Council by Chairman Martin.

The Council is not aware of any reason for revision in the statement of general principles which serves as a foreword for Regulation A in its present form. The Council unanimously believes that for the member banks to be able to obtain money through discounts and advances is highly important, both for the successful operation of the Federal Reserve System and for the general economy. The Council is opposed to any statement of principles which implies that the use of discounts or advances by member banks is to be restricted. The proposed statement of general principles would inevitably be so construed, both by the Federal Reserve banks and the member banks. The Federal Reserve System has operated effectively under Regulation A in its present form since 1937. The Council believes the statement of general principles contained in the present regulation is entirely adequate and has the advantage of being understood and accepted by the banks.

The changes proposed in the body of Regulation A constitute with minor exceptions a restatement and rearrangement without particular significance. The Council sees no real advantages in these proposed changes. While the Council is not opposed to the proposed restatement and rearrangement, it believes it is better to leave unchanged the language of the regulation with which banks are familiar through many years of operation.

2. What are the views of the Council with respect to the prospective business situation during the remainder of this year and the first three months of next year and the probable changes that will take place in the volume and purpose of bank loans in each of these periods?

While there are some variations in the business situation from district to district, and even more marked differences from industry to industry, the economic pattern over the country is generally uniform, with business at a reasonably good level and on a relatively even keel. The Council does not believe that any significant business upsurge or decline will occur in the next three months or in the first quarter of next year. The maintenance of consumer spending at a relatively high level and large outlays for construction are two major factors helping to sustain the economy. Over-all construction activity will probably continue at about the present level for the next three months, but there are indications that it may decline somewhat during the first quarter of 1955. At the present time there is no sign of a decline in consumer spending

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over the next six months.

The Council believes that the seasonal increase in bank loans in the next three months will be less than normal. The Council expects a normal seasonal contraction in bank loans during the first quarter of the coming year. If the Commodity Credit Corporation should borrow a considerable amount on certificates, or if the Federal National Mortgage Association should borrow a large amount of money from banks, it would result in a substantial increase in bank loans. Apart from these two possible borrowings, the Council does not expect any important change in the purpose of loans.

These views of economic conditions and bank loans assume that there will be no significant change in the international situation which would materially affect the domestic economy.

3. The Board would like to have the views of the members of the Council with respect to the System's current credit policies and what, if any, changes might be called for by developments during the balance of the calendar year.

The members of the Council believe that recent credit policies of the System have been constructive and were an important factor in maintaining business in a period when economic readjustments have been occurring. The June, July, August reduction in reserve requirements was timely and open market operations since then have been extremely well handled.

Government financing for new money in substantial volume is imminent, and the greater part of it will have to be provided by the banks. Considerable additional reserves will be required. As previously stated, unless there are unforeseen foreign developments which would have an important effect on the volume of bank loans, the Council does not expect a normal seasonal increase in loans this fall. The Council believes that the reserves necessary for successfully handling the anticipated government financing, whether done directly by the Treasury or through borrowing by the Commodity Credit Corporation or the Federal National Mortgage Association, can and should be provided by open market operations rather than by presently reducing reserves.

4. What, if any, suggestions does the Council have as to legislation that the Board might support or sponsor in the forthcoming session of the Congress?

The Council does not at this time have any suggestions as to legislation that the Board might support or sponsor in the forthcoming session of the Congress.

If the Board has any suggestions for legislation it may

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support or sponsor in the forthcoming session, the Council will be pleased to discuss them with the Board.

5. While the Board of Governors has not had an opportunity to discuss with the Presidents of the Federal Reserve Banks, or to reach any conclusions on, the report of the Joint Committee on Check Collections submitted to the American Bankers Association, the Association of Reserve City Bankers, and the Conference of Presidents of the Federal Reserve Banks, the Board will be glad to have at this meeting any comments that the members of the Council might have to offer with respect to the report.

The report of the Joint Committee on Check Collections represents long and thoughtful study and is a comprehensive analysis of a subject important to all bankers. The members of the Council are familiar with the general outlines of the report and with the major objectives of the study, but they have not had an opportunity to give the report the detailed and careful consideration it merits, and to appraise the recommendations made. The Council has appointed a committee to study the report and advise the Council. The Council would prefer not to comment on the report until its committee has made its study. Whether the recommendations of the report can become effective will depend largely on the reactions of the banks of the country. The committees of the American Bankers Association and the Association of Reserve City Bankers have not yet had an adequate opportunity to consider it.

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THE FEDERAL ADVISORY COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C. AT 2:15 P.M. ON SEPTEMBER 20, 1954. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

Dr. Ralph A. Young, Director, Division of Research and Statistics of the Board of Governors of the Federal Reserve System, discussed the current economic situation. Dr. Young submitted the following summary of his remarks.

THE CURRENT ECONOMIC SITUATION

Since the early part of this year the broad aggregates used to summarize economic developments in the United States have shown remarkably little change. Gross national product and industrial production stopped declining at that time and in the third quarter were both estimated to be at the same level as in the first quarter. Non-agricultural employment appears to be down by only 1 per cent. The indexes of wholesale and consumer prices have remained practically unchanged near levels prevailing since the end of 1952. Demand deposits and currency together have been showing only about the usual seasonal movements.

While the broad aggregates have been generally unchanged in the past two quarters, the more detailed figures show that developments of some importance have been going on in particular fields. National security expenditures, although down little from the second quarter, are considerably lower than they were in the first quarter. Outlays for producers durable goods have been drifting downward steadily. On the other hand, retail demand has been up moderately and residential building activity has clearly broken away from earlier levels on the upside. Residential construction is now at a higher level than at any other time except 1950, reflecting in part the influence of easing mortgage credit terms. Common stock prices have continued the advance begun last September. Time deposits have risen substantially, contributing to a further strengthening of the economy's liquidity.

Continued inventory liquidation has brought inventory holdings of business down further to a more comfortable level, with the reduction concentrated in the durable goods field where most of the previous accumulation had occurred.

Economic activity abroad, which expanded while activity in this country contracted last year, has continued to expand this year. In Western Europe industrial production rose further in the second quarter.

By June, when the Advisory Council last met, the leveling out process in the United States economy had gone on long enough so that many observers were asking whether we might be near a turning point. Now, with a recent record of three more months of little change over-all, those who expected clear evidence of general recovery by this time are somewhat disappointed while some of those who thought the economy would be settling down further are somewhat reassured. Consequently, the possibility of continued little change over-all now appears to be taken rather more seriously by many observers than before.

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As already noted, however, the record of the past three months has been one of important developments in particular fields as well as little change over-all and it can be argued that some of the special forces making for change fairly soon--more likely on the upside, but conceivably on the downside--are stronger than they were in June. In any event, one thing that business history teaches is that a period of little change does not often perpetuate itself for very long.

The meeting adjourned at 3:30 P.M.

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ON SEPTEMBER 21, 1954, at 10:35 A. M., THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT, EXCEPT MR. GUND. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, GOVERNORS SZYMCZAK, VARDAMAN, ROBERTSON, MILLS, MILLER AND BALDERSTON. MR. CARPENTER, SECRETARY, AND MR. SHERMAN, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS, WERE ALSO PRESENT.

ITEM I

A DISCUSSION OF THE DRAFT REVISION OF REGULATION A, COPIES OF WHICH WERE SENT TO MEMBERS OF THE COUNCIL BY CHAIRMAN MARTIN.

Brown reads Item 1 and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Brown states that the Council believes Item I is the most important item on the Agenda. The Council realizes that the Federal Reserve Act does not give a member a "right" to use the discount window, but over the years banks following sound practices have been able to borrow as they needed funds. If any bank had not followed sound banking practices, or had borrowed for too long periods, the local Federal Reserve bank could decline to discount. The Council feels the proposed draft would be interpreted to mean that banks would be restricted in their use of the discount window. The Council would be interested in the Board's philosophy on the subject. The body of the revised draft contains no important changes. The significant change is in the statement of principles in the foreword. The Council would appreciate the Board's views.

Martin states he would like to speak regarding Regulation A and ask Mills also to speak, as Mills has been working on it. The fact that Regulation A has been operating since 1937 does not mean it should not be reviewed, and that desirable changes should not be made. He does not believe there is too much difference between the viewpoints of the Council and the Board. In some respects the changes in banking since 1937 have been small, but in other ways they have been almost revolutionary. Martin believes the discount window, as such, is a part of the Federal Reserve System mechanics which should be carefully reviewed.

Mills. The Board assumes that the banks and the public want the various regulations under constant review to keep them up-to-date. Similar studies are going on in connection with reserves. The need for this study came about in 1953, when the economic situation threatened to become highly inflationary. The danger arose that banks might be creating credit at a time when the Open Market Committee might be trying to restrict credit. When the Federal Reserve banks restricted access to credit, the banks were concerned that a privilege of theirs was being withdrawn. So it seemed desirable to have some guide for banks on this matter. The numerous revisions of the draft have resulted in changes suggested by various bankers and Federal Reserve Banks and their directors. The study being made regarding the discount rate may have an important bearing on Regulation A. Mills believes the misgivings regarding Regulation A may be over-emphasized. He is doubtful the Regulation would be interpreted so strictly as to harm the System or the economy. Those who have worked on the revised draft

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include John Coleman, Al Williams and Mills, plus the Staff of the Board, research men of various Federal Reserve banks and a conference of bankers who considered it.

Fleming. No member of the Council thinks the Regulation should not be under constant study, and the Council did not intend to convey that idea. Fleming traces the situation in 1953 and points out how the banks were in a tight position at that time, partly because of the Mills Plan. Fleming does not believe the economic and credit situation in 1953 is a good situation upon which to base the need for a revision of Regulation A.

Martin thinks Fleming's point is well taken. He admits the System has made mistakes. However, he states that when we go through ten years of a pegged market, some guides are needed as we change to freer markets and unravel the situation. Martin believes it is desirable to have guides that can be recognized.

Brown thinks it is disadvantageous to change language unless there is some clear advantage to be gained.

Szymczak. In 1953, Regulation A was not applied in the same way over the country. The purpose in a revision is to have the Regulation apply uniformily in all districts.

Alexander states the draft reflects much fine workmanship and undoubtedly reflects the views of the men working on it. However, if a restrictive polity is set up under which credit is unavailable, it is difficult to establish a rule of just when credit is to be available. Alexander believes the matter is actually one of administration. If the foreword is to be set up as a guide to restrict, then it is idle to say it does not restrict. He believes it is best to leave it to administration, especially when one deals with something so crucial. The administration of the local Federal Reserve bank is a better guide. Alexander emphasizes that his point is the crucial nature of the availability or unavailability of credit.

Ringland agrees with Alexander. There, of course, have been misuses of the discount window, but Ringland states it is a serious matter to set up a policy of restriction.

Martin comments that he believes the cardinal sin of a central bank is unavailability of credit.

Smith states that he could not find a specific statement in the revision that credit would be restricted, but the reaction of the members of the Council with long banking experience was that this is an attempt to restrict credit. Consequently, Smith felt that the reaction of bankers over the country would be similar to that of members of the Council.

Brown asks for the views of the presidents of the Federal Reserve banks on this matter, if their views are not held confidential.

Martin replies that the views of the presidents of the Federal Reserve banks have changed.

Mills believes that the presidents of the Federal Reserve banks would

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favor a statement of principles, but would differ as to what they would say. There are undoubtedly seasonal swings for which the banks need funds and the Federal Reserve banks would want to be sure such needs are met.

Robertson. The vast majority of the presidents of the Federal Reserve banks would approve the last draft, provided the local Federal Reserve banks could make the decisions on credit needs.

Chandler. On this matter all members of the Council have the feeling that there is an attempt to restrict credit.

Ireland. If the vast majority of presidents of the Federal Reserve banks wish their own interpretation, do you not lose the guide you are trying to set up. The present draft is less objectionable than earlier drafts, and it is in a sense "watered down".

Wallace was pleased with the way the 1953 situation was resolved. With our experiences of the last twenty years, would it not be advisable for the Federal Reserve System to work under the broadest principles. He sees no need for an additional restrictive statement.

Szymczak. The discount window has not been used for a long time and the revision of the regulation is an attempt to find a sound basis of operation. Many of the persons in the System have not had experience with operating the discount window.

Brown. Would it not be better to have the Federal Reserve officers who handle discounts meet and discuss their problems.

Martin. The discussion has been helpful.

ITEM II

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROSPECTIVE BUSINESS SITUATION DURING THE REMAINDER OF THIS YEAR AND THE FIRST THREE MONTHS OF NEXT YEAR AND THE PROBABLE CHANGES THAT WILL TAKE PLACE IN THE VOLUME AND PURPOSE OF BANKS LOANS IN EACH OF THESE PERIODS?

Brown reads Item II and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. The views of the Council as to the outlook for business are in such accord that one wonders if there is something wrong. Declining returns may cause a reduction in residential construction, but road and public construction will be at least a partially offsetting factor. The trend in consumer spending is primarily a psychological matter, but there is no indication at present that a real decline will come in the next six months.

Martin. The views of the Council seem very clear, but Martin says he is troubled when he tries to define the word "normal".

Wallace. The Council also struggled with the word normal.

Balderston. Did any member of the Council express any concern as to inventories?

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Brown. The Council did not discuss inventories at length, but there were comments by the members of the Council. Inventories are not as serious a problem as they were a year ago.

Alexander. The Council made several observations regarding inventories. There has been a $4 billion reduction in inventories in the last year. In the automobile industry the carry-over is less than it was a year ago and the situation is much healthier. The second-hand car market is better. Steel consumption is believed to be running above production. Business is moving sidewise, and there is no evidence of a strong upswing. Everyone hopes the consumer will continue spending, but this is a matter of consumer psychology. On the negative side of the economic picture there is the question of a probable reduction in plant expenditures. However, highway and public construction should be strong.

Robertson asks about conditions in the agricultural areas.

Martin states he is also interested in the unemployment situation.

Chandler. Unemployment is not serious. The agricultural situation is mixed. The winter wheat was about eighty to eighty-five per cent of normal. Pastures are dry in some sections.

Fleming. Unemployment is above a year ago, but it has shown some decline recently.

Brown. In the Seventh District crops are generally good. Unemployment is spotty in that it is present in some cities where industries have been adversely affected. For example, cities producing farm equipment have unemployment.

Ringland. Agricultural conditions generally are good. There is some unemployment in the areas producing iron ore.

Campbell. Much of the district suffered from a drought, and in some areas they will make about three-fourths of the normal crop. There will be considerable new irrigation, and a rather large amount will be spent for seed for new pastures. Retail sales are almost equal to 1953. Unemployment has shown no important change.

Matkin. The district needs rain. Farmers are concerned about their future, especially when they are asked to give up cash crops to put land into soil improvement crops.

Szymczak. Did the Council consider the home mortgage situation?

Brown. A number of members commented on the problems arising as a result of extending real estate mortgages to thirty years with no down payment.

ITEM III

THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE MEMBERS OF THE COUNCIL WITH RESPECT TO THE SYSTEM'S CURRENT CREDIT POLICIES AND WHAT, IF ANY, CHANGES MIGHT BE CALLED FOR BY DEVELOPMENTS DURING THE BALANCE OF THE CALENDAR YEAR.

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Brown reads Item III and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. The Council has been critical of open market operations, but all the members of the Council believe that recent credit policies of the System have been constructive and that open market operations have been extremely well handled.

Alexander states that he dislikes passing by any opportunity to suggest a reduction in reserves--a subject he knows the Board is studying thoroughly. However, in the present situation he believes reserves should be provided by open market operations.

Ringland says that at the risk of offending the New York and Chicago banks he thinks that those who wrote the Federal Reserve Act and set up a geographical classification for bank reserves were not without wisdom.

ITEM IV

WHAT, IF ANY, SUGGESTIONS DOES THE COUNCIL HAVE AS TO LEGISLATION THAT THE BOARD MIGHT SUPPORT OR SPONSOR IN THE FORTHCOMING SESSION OF THE CONGRESS?

Brown reads Item IV and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Brown states that the Council would be ready, when it might be possible to achieve it, to support legislation that would raise salaries of the members of the Board.

Martin. The Board hopes to have some legislative proposals ready by the next meeting of the Council, especially on changing reserves from a geographical to some other basis. The reserve situation was highlighted this summer when the reserves were in the country banks and did not move to the money centers for use. Martin also thinks a call money market might be established. He does not think the money market works as efficiently as it should.

Ringland. There is much to be said for a geographical basis for reserve requirements.

Smith. Some Philadelphia banks have raised questions regarding the restrictions on national banks in connection with real estate loans.

Brown thinks the question raised in Philadelphia is due to the difference in powers between state and national banks on the matter of real estate loans.

Martin says the matter should receive study.

Fleming asks if any legislative proposals which the Board may prepare can be given to the Council a little ahead of the next meeting of the Council. This will permit the members of the Council to give more time to a consideration of the proposals.

Martin states that the proposals will be sent to the members of the Council, if the Board can agree on the proposals.

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ITEM V

WHILE THE BOARD OF GOVERNORS HAS NOT HAD AN OPPORTUNITY TO DISCUSS WITH THE PRESIDENTS OF THE FEDERAL RESERVE BANKS, OR TO REACH ANY CONCLUSIONS ON, THE REPORT OF THE JOINT COMMITTEE ON CHECK COLLECTIONS SUBMITTED TO THE AMERICAN BANKERS ASSOCIATION, THE ASSOCIATION OF RESERVE CITY BANKERS, AND THE CONFERENCE OF PRESIDENTS OF THE FEDERAL RESERVE BANKS, THE BOARD WILL BE GLAD TO HAVE AT THIS MEETING ANY COMMENTS THAT THE MEMBERS OF THE COUNCIL MIGHT HAVE TO OFFER WITH RESPECT TO THE REPORT.

Brown reads Item V and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. There are varying viewpoints on the report even within banks. Brown states that the committee which the Council has appointed consists of Fleming, Alexander and Smith.

Robertson. The Board, as such, has not considered the report, and has no comment.

Fleming. The American Bankers Association Administrative Committee will consider it at the convention in Atlantic City next month.

Mills. The Board cannot add anything to the discussion on the report. The problems that concern the banks also concern the Federal Reserve System. The problem of handling checks is growing by leaps and bounds and Federal Reserve banks are swamped.

Brown. There will be a great deal of discussion in banks over the country on the report.

The meeting adjourned at 12:35 P.M.

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After the meeting, the members of the Council had luncheon with the presidents of the Federal Reserve banks, the members of the Board and a few members of the Board Staff. Special guests at the luncheon were George M. Humphrey, Secretary of the Treasury; W. Randolph Burgess, Under Secretary of the Treasury for Monetary Affairs; Ray M. Gidney, Comptroller of the Currency; and H. Earl Cook, Chairman, Federal Deposit Insurance Corporation.

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The next meeting of the Council will be held November 14, 15 and 16, 1954.

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