

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 18, 1956

The fourth statutory meeting of the Federal Advisory Council for 1956 was convened in Room 1032 of the Mayflower Hotel, Washington, D. C., on November 18, 1956, at 2:10 P.M., the President, Mr. Fleming, in the Chair.

Present:

William D. Ireland	District No. 1
Adrian M. Massie	District No. 2
William R. K. Mitchell	District No. 3
Frank R. Denton	District No. 4
Robert V. Fleming	District No. 5
Comer J. Kimball	District No. 6
Homer J. Livingston	District No. 7
Lee P. Miller	District No. 8
Julian B. Baird	District No. 9
R. Crosby Kemper	District No. 10
George G. Matkin	District No. 11
Frank L. King	District No. 12
William J. Korsvik	Assistant Secretary

The President of the Council stated that Mr. Walter B. Jacobs, President, The First National Bank of Shreveport, Shreveport, Louisiana, who will represent the Eleventh District on the Federal Advisory Council for the year 1957, was present in addition to Mr. Matkin, the present incumbent.

Mr. Herbert V. Prochnow, having resigned as Deputy Under Secretary of State for Economic Affairs, was reelected Secretary of the Council at an annual salary of \$3,000 effective November 15, 1956. Mr. William J. Korsvik was elected Assistant Secretary, his present salary of \$2,250 being continued to the end of the year.

On motion duly made and seconded, the mimeographed notes of the meeting held on September 16, 17 and 18, 1956, copies of which had been sent previously to the members of the Council, were approved.

A complete list of the items on the agenda 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 35 and 36.

The meeting adjourned at 6:05 P.M.

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 19, 1956

At 10:15 A.M., the Federal Advisory Council reconvened in Room 1032 of the Mayflower Hotel, Washington, D. C.

Present: Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Frank R. Denton, Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Julian B. Baird, R. Crosby Kemper, George G. Matkin, Frank L. King, and William J. Korsvik, Acting Secretary. In addition, Mr. Walter B. Jacobs, President, The First National Bank of Shreveport, Shreveport, Louisiana, who will represent the Eleventh District on the Federal Advisory Council for the year 1957, was present.

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* which follows on pages 35 and 36, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12:05 P.M. on November 19, 1956.

The meeting adjourned at 11:45 A.M.

WILLIAM J. KORSVIK
Assistant Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL
ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE
JOINT MEETING ON NOVEMBER 20, 1956

1. What changes are expected in the business situation during the remainder of this year and the first six months of 1957? The Board would be glad to have information on any problems confronting industry, commerce and agriculture in these periods.

All members of the Council expect the present high level of business activity to continue for the balance of the year, and through the first quarter of 1957, despite some spotty situations in the economy. Some members of the Council believe that business will continue to be good through the first six months of 1957, while others are less certain about the second quarter of the new year. The level of business, in the months immediately ahead, may be greatly influenced by developments abroad, such as the economic and financial problems arising out of the situation in the Middle East.

Some of the problems confronting industry, commerce and agriculture are the narrowing profit margins in an increasing number of businesses, the threat of excessive inventory accumulation, and the drought which extends over relatively wide areas of the country.

2. What will be the probable changes in the volume of bank loans (a) during the remainder of 1956 and (b) during the first six months of 1957? As was the case last year, the Board will be interested in a full report on developments and prospects in the field of real estate credit. It will also appreciate a report on the prospects with respect to automobile credit.

(a) The Council believes that the volume of bank loans will increase during the remainder of 1956. (b) The Council also believes that the volume of bank loans will increase during the first six months of 1957, but at a slower rate than during the corresponding period of 1956.

The Council stated at its September meeting, in response to a question on real estate credit, that mortgage loan demand was outrunning the supply of savings, that the rates on mortgages had risen, and that lenders had become more selective. This trend has continued. Less money is now available for mortgages, interest rates are higher and lenders are exercising greater selectivity.

Rates on VA and FHA mortgages are now so unrealistic that this type of investment is becoming increasingly unattractive to lenders. Because of attractive rates, an increasing proportion of savings are being invested in corporate, state and municipal obligations rather than in mortgages.

The Council believes there is and will be adequate credit available for automobile financing, even with an anticipated increase in automobile sales in the months ahead.

3. To what extent are reduced ratios of liquid assets and capital to risk assets deterring banks from making loans?

The present reduced ratios are acting as an appreciable deterrent to the expansion of loans, particularly in some areas of the country. This is especially true in connection with loans for longer terms.

4. Does the Council have any comments with respect to the System's current credit policies? What, if any, changes should be made to meet developments during the balance of this calendar year and during the first three or four months of 1957?

The members of the Council believe that the System's credit policies have been appropriate and well executed, especially in view of the difficulties which are always present in evaluating economic trends. Assuming a continuance of present economic conditions, the Council suggests that current credit policies be maintained with the same degree of restraint for the balance of this calendar year and during the first three or four months of 1957. The policy of keeping the discount window available should be continued.

5. It is understood that the Executive Committee of the Federal Advisory Council and such other members of the Council as are available will meet on October 31 to discuss the suggested amendments to the Federal banking laws sent to Senator Robertson with the Board's letter of September 28. Although the hearings which are scheduled for November 9-10, 1956, will be over by the time of the Council's meeting, the Board will be glad to have any comments on this subject that the members might wish to make.

The Council has approved unanimously the report transmitted to the Board by President Fleming's letter of November 5, 1956, and will be pleased to discuss with the Board any aspect of the report.

6. The Administrative Committee of the ABA has authorized the publication of a study on reserve requirements prepared by the Economic Policy Commission of the ABA. The Council would appreciate having the Board's comments on this study.

The Council believes that a revision of the statutory provisions pertaining to reserve requirements is long overdue. In the Council's opinion, the report of the ABA is a valuable contribution to the study of this problem. Because of the importance of reserve requirements to all banks in the System, the Council would find the Board's views on this study of value.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 19, 1956

At 2:20 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C., the President, Mr. Fleming, in the Chair.

Present: Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Frank R. Denton, Comer J. Kimball, Homer J. Livingston, Julian B. Baird, R. Crosby Kemper, George G. Matkin, Frank L. King, and William J. Korsvik, Acting Secretary. Also present was Mr. Walter B. Jacobs, President of The First National Bank of Shreveport, Shreveport, Louisiana, who will represent the Eleventh District on the Federal Advisory Council for the year 1957.

Absent: Mr. Lee P. Miller.

Dr. Woodlief Thomas, Economic Adviser to the Board of Governors commented on "Do We Have Enough Money?" A copy of Dr. Thomas' remarks was presented to the members of the Council.

The meeting adjourned at 3:40 P.M.

WILLIAM J. KORSVIK
Assistant Secretary

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

November 20, 1956

At 10:30 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 William McC. Martin, Jr.; Vice Chairman C. Canby Balderston, Governors M. S. Szymczak, James K. Vardaman, Jr., A. L. Mills, Jr., J. L. Robertson, and Chas. N. Shepardson; 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. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Frank R. Denton, Comer J. Kimball, Homer J. Livingston, Julian B. Baird, R. Crosby Kemper, George G. Matkin, Frank L. King, and William J. Korsvik, Assistant Secretary.

Absent: Mr. Lee P. Miller.

President Fleming reported that Mr. Walter B. Jacobs, President of the First National Bank of Shreveport, Shreveport, Louisiana, had been elected to represent the Eleventh District in 1957, in place of George G. Matkin, and that Mr. Jacobs was attending this session.

President Fleming went on to state that Mr. Herbert V. Prochnow, having resigned his position with the State Department, had been reelected Secretary of the Federal Advisory Council, and that Mr. William J. Korsvik had been elected Assistant Secretary.

Chairman Martin replied that the State Department's loss was the Federal Reserve's gain.

President Fleming then 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 35 and 36 of these minutes. A discussion of this item followed, in which members of the Council and the Board participated.

President Fleming then read the second agenda item and the conclusions of the Council as given in the *Confidential Memorandum* mentioned above.

The third item on the agenda, together with the Council's conclusion as noted in the *Confidential Memorandum* previously mentioned, then was read by President Fleming. A brief discussion followed.

President Fleming read the fourth item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum* cited above. He observed that an awkward situation exists because the yield on Treasury bills is greater than the current discount rate.

The President of the Council then read the fifth item, and the conclusions of the Council as given in the *Confidential Memorandum*.

The sixth item on the agenda and the conclusions of the Council were then read by President Fleming.

Chairman Martin replied that the Board is not adequately prepared at this time to comment on the proposal of the American Bankers Association. The Board, however, cooperated in the preparation of this study and encouraged it. Chairman Martin added that he hopes it will be possible to agree on some plan for reserve requirements. To further this effort, he said that the Board would be glad to make available any material in its files that might be useful.

A brief discussion followed.

The meeting adjourned at 12:25 P.M.

WILLIAM J. KORSVIK
Assistant Secretary

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.

W. J. K.

The Secretary's notes of the meeting of the Federal Advisory Council on November 18-20, 1956, at 2:10 P. M., in Room 1032 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present. In addition, Mr. Walter B. Jacobs, President, The First National Bank of Shreveport, Shreveport, Louisiana, who will represent the Eleventh district on The Federal Advisory Council for the year 1957, was present.

The Council approved the Secretary's notes for the meeting of September 16-18, 1956.

At this point, President Fleming of the Council stated that Mr. Prochnow, having resigned as Deputy Under Secretary of State for Economic Affairs, had returned to The First National Bank of Chicago. Mr. Fleming then suggested that the Council re-elect Mr. Prochnow Secretary of the Council, Mr. Prochnow having resigned from the Council when he accepted his appointment with the State Department. President Fleming went on to suggest that the services of William J. Korsvik, who had functioned as Acting Secretary during Mr. Prochnow's absence, be retained, and that he be elected Assistant Secretary. On motion, duly made and seconded, Mr. Prochnow was elected Secretary at an annual salary of \$3,000 effective November 15. This amount, President Fleming noted, was the salary Mr. Prochnow had received from the Council prior to his resignation to accept the State Department appointment. Mr. William J. Korsvik was elected Assistant Secretary, his present salary of \$2,250 being continued to the end of the year. Mr. Fleming suggested that the total compensation paid the Secretaries be limited to \$5,000 per year, and that at the Council's organizational meeting in February, the Assistant Secretary's annual salary be fixed at \$2,000.

President Fleming reported that a Mr. H. Jean Waldrop, a student at the University of Southern California, had requested access to the Council's records and proceedings. President Fleming stated that because of the confidential nature of the Council's minutes, he had instructed the Secretary to write Mr. Waldrop accordingly. The Council expressed its approval of this action. Mr. Fleming, however, has agreed to make available to Mr. Waldrop a copy of an address he made on the Federal Advisory Council.

ITEM I

WHAT CHANGES ARE EXPECTED IN THE BUSINESS SITUATION DURING THE REMAINDER OF THIS YEAR AND THE FIRST SIX MONTHS OF 1957? THE BOARD WOULD BE GLAD TO HAVE INFORMATION ON ANY PROBLEMS CONFRONTING INDUSTRY, COMMERCE AND AGRICULTURE IN THESE PERIODS.

President Fleming reads Item I and asks the individual members to comment.

Ireland expects a continuance of the high level of business for the balance of the year and a record Christmas trade. Employment is high. Ireland also expects an increase in business during the first six months of 1957, but not as great as during the same period last year. Residential construction is off, but this is being offset by other construction. Although Ireland expects an increase, he is less optimistic than he was last year at this time. He believes some inventory accumulation may occur in anticipation of a rise in prices. Although business is likely to increase, profit margins are narrowing. Industry is concerned about obtaining steel, the rise in wages, and the tightness in money. Ireland does not believe agriculture in his district has any particular problem.

Massie looks for a high level of business through the end of the year. Employment is up slightly with unemployment the lowest since 1946. Retail trade is good. Non-residential construction is strong. Although consumer purchases are holding up, savings have increased. Office building in New York City probably is greater than in 1929. Recently there has been a shift from uptown to the lower end of Manhattan initiated by the building plans of the Chase Manhattan Bank. Outside of residential building, business in the district is going strong. Massie believes the principal problem facing industry is the declining margin of profits, the result of rising labor costs. He believes this could be a problem before the end of 1957. Massie also questions if the inventory accumulation now in progress can be sustained. As a result of this and the drop in the profit margin, Massie believes business expansion programs could slow down before the end of 1957. He does not believe agriculture has any new additional problems.

Mitchell. Business activity in the third district is tending to exceed the highs reached in 1955 with steel, paper, chemicals and petroleum industries among the most active. Bituminous coal has also improved. Textiles have shown some improvement and some firming of prices. Residential building is off about 15 per cent, although factory and school building is increasing. Total construction awards are about even with a year ago. Department store sales are about the same as last year. Auto sales are below a year ago, but inventories are down. Freight car loadings have increased about 5 per cent in physical volume over a year ago. Employment has improved, except in the labor surplus areas around Scranton and Wilkes Barre. Personal income and savings are up. Farm income has risen about 4 per cent with cash marketing up about 7 per cent. Mitchell expects business activity to continue at a high level for the balance of the year and for the first six months of 1957. He expects the increase in some of the indexes to be the result of higher prices rather than a larger volume. Some businessmen have certain reservations about the future. They cite the dropping off in the backlog of new orders and the possibility of excessive productive capacity a year or two from now.

Massie has heard some reports that the acceptance of the new automobiles may be disappointing. There has been some inventory accumulation stimulated by the threat of war.

Mitchell anticipates an increase in defense spending, as well as an increase in spending by local political subdivisions. Deposits have increased and loans are off slightly. He anticipates excellent business through the end of the year with the increase thereafter the result of higher prices.

Denton anticipates good business through the end of the year and into the first of 1957. He is not quite so optimistic about the second quarter however. The inventory accumulations and reduced profit margins concern him. These comments, he adds, are all "ex" the foreign situation. Denton has no knowledge of special problems other than these confronting business, industry, commerce or agriculture.

Fleming states that the business situation in the fifth district is spotty. He notes that though cigarette demand has lessened, cigarette manufacturing is up. Coal production is up about 5 per cent higher than the preceding month, and 12 per cent above a year ago. Ship building in the Newport News area is strong, stimulated by orders for larger tankers as the result of the Suez situation. Demand deposits are about level, while time deposits are off. Bank credit seems easier, though loan demand is still brisk. Housing starts are down considerably, however some new factories have been started in the district. Department store sales this

Fall have not been good probably as the result of the weather. Fleming believes that business for the balance of the year and for the first three months of 1957 will be good. Beyond that the outlook is somewhat clouded.

Kimball. Business in the sixth district continues to expand but at a slower rate. Non-farm employment is up. Steel production in the district is up while textiles have declined. Manufacturing payrolls have increased despite the decline in employment because of higher wages. Residential construction and housing starts are down, while nonresidential construction is up 14 per cent in the first three quarters. It is expected to continue to rise in the final quarter and in the first six months of 1957. Kimball reports some increase in deposits with loan expansion slower than last year. Business is moving up but at a slower rate. Kimball is uncertain about the outlook after the first quarter of the new year. He believes farm prices, inventory accumulation, and the acceptance of new autos are among the problems facing the economy in the district.

Livingston. Business in the seventh district is at an extremely high level and includes a condition of over-employment, especially in Chicago. Retail sales are very good and the trade anticipates its best Christmas. Shrinking profit margins are a serious problem. The farm equipment industries continue poor as a result, in part at least, of the drought. Livingston believes the public's acceptance of the new model automobiles will be good. The steel mills are producing at capacity. There is a shortage of structural, shapes and pipe. The corn crop has been excellent and farmers are anxious to get cattle for feeding purposes. This, Livingston suggests, may offset the increased anticipated marketings from the range. Housing is down, as are starts, in part the reflection of the unsatisfactory V.A. rate. Livingston believes that "ex" the Middle East, business the first six months looks good, although declining profit margins and inventory accumulations may prove troublesome, and in his judgment are the problems facing business.

Miller prefaces his comments with "ex" the Middle East. He states that although department store sales have declined, a banner Christmas is anticipated. He notes that there is some hesitancy about business expansion, though this may be the result in part of the shortage of steel. Agriculture seems to be improving. He reports an excellent tobacco crop and notes that if prices hold, the farmer will do well. Loan demand has expanded with the deposits increasing slightly. Miller does not believe that any legitimate demand for credit is being denied. He notes that the road building program which was recently voted in his district will tend to offset any decline in housing. He anticipates a high level of business through the end of the year and the first six months of 1957. He believes increasing wage costs and reduced profit margins are the principal problems facing business.

Baird states that employment in his district is high, and that there is now, for the first time, some difficulty manning plants. Retail sales have been good, although they have fallen off in the last three or four weeks as a result, presumably, of the warm weather. The agricultural situation in the district is spotty, although the overall result is good. Crop marketing income is up two per cent compared to the national average of one per cent. The rain in the western part of the district has pleased the cattlemen and aided the winter wheat crop. The money situation, which was very tight, has eased considerably, and borrowings are negligible. This is the result of the seasonal flow of funds into the banks and efforts of the banks to better their positions. Baird believes business through the end of the year and the first quarter will be good. Iron ore production is going at full force. The taconite developments are a pronounced

success and there is now talk of expanding. The furnace people report remarkable results. The high iron content of the pellets, and the uniform texture have resulted in greater economies than were anticipated. Copper mining in Montana is off, as a result of cutting to a five-day week. Baird doesn't believe capital expansion can continue at its past rate. Inventory accumulations also may be a problem. Baird believes some adjustment might occur in the second quarter and this would be wholesome. He knows of no other problems facing industry or agriculture.

Kemper reports that conditions in his district are surprisingly good, considering the drought which has not been relieved. Some rain has fallen which has allowed the winter wheat to germinate, but the shortage of pasture and hay continues. Although the government has absorbed the freight charges on hay, prices have risen so, that the farmer has benefitted little. The corn crop is good. The shortage of water is another handicap to the cattlemen. Department store sales are off. Employment has declined. Kemper believes we are faced with a profitless prosperity. Generally, however, he believes business in the district will be good next year, especially if the wheat crop is good. Deposits are down two per cent over last year. Correspondent bank balances have declined. Kemper does not believe there is any particular problem in the district that couldn't be solved by good rains.

Matkin states that conditions in the eleventh district are similar to those recorded in the other districts. Business is good, even though the cattle and the farm situations are poor. Department store sales are up slightly, but the sale of consumer durable goods is off. Crude oil production is up 26 per cent above a year ago. Non-agricultural employment is high. Construction has declined. Business failures and bankruptcies are up but not seriously. The rains last month came too late. The winter wheat crop is the only one which is above a year ago. The cotton crop is nine per cent below last year. Matkin reports that irrigated areas report good yields. The most critical problem in the district is the continued insufficiency of moisture. The cattlemen must soon decide to sell their basic herd or buy high-priced feed. Matkin believes record levels will prevail in all segments of the economy through the end of the year and into the first quarter. He anticipates some slow down in the second quarter, which he believes might be healthy. Tight money in general, and the lack of construction funds in particular are the problems currently facing business.

Jacobs states that the drought in Louisiana is bad. Irrigation would be helpful but this is difficult. Business, however, is good. The warm weather in October adversely affected retail trade. The reduction of crop areas has made many farm units unprofitable. Jacobs believes that some areas in the district have reached the saturation point in housing.

King states that housing starts in the past ten months are down fifteen per cent in volume and eleven per cent in dollar value. Some builders are out of money as a result of an overbuilt situation in some areas where housing has gone unsold for about nine months. King also reports an over-supply of lumber. Up to the time of the developments in the Middle East, oil inventories were considered excessive, but developments in Suez seem to have solved this problem. The aircraft and electronics industries are active. They report a shortage of both skilled and unskilled workers. Retail sales are good. The motion picture industry, stimulated by the production of films for TV, is active. King states that the automobile dealers are reporting optimistically on interest in new models and sales. King, however, has heard reports that discounts are being offered. He anticipates good business for the rest of the year and the first part of 1957. One problem facing business, King notes, is the unrealistic FHA and VA rates.

Fleming. The Council can advise the Board that all members expect the present high level of business activity to continue for the balance of the year and through the first quarter of 1957 despite some spotty situations in the economy. The outlook for the second quarter is cloudy, and consequently some members are less certain about business during that period. The Council may add that any forecast will be influenced by developments abroad. The drought, the narrowing profit margins, and inventory accumulations are the most important problems currently facing the economy.

ITEM II

WHAT WILL BE THE PROBABLE CHANGES IN THE VOLUME OF BANK LOANS (a) DURING THE REMAINDER OF 1956 AND (b) DURING THE FIRST SIX MONTHS OF 1957? AS WAS THE CASE LAST YEAR, THE BOARD WILL BE INTERESTED IN A FULL REPORT ON DEVELOPMENTS AND PROSPECTS IN THE FIELD OF REAL ESTATE CREDIT. IT WILL ALSO APPRECIATE A REPORT ON THE PROSPECTS WITH RESPECT TO AUTOMOBILE CREDIT.

Fleming reads Item II.

Denton believes that the high level of bank loans will increase from now until the end of the year. In the first six months loans will increase further but at a slower rate than during the corresponding period of 1956.

The other members of the Council were in agreement with this statement.

Massie mentions that many institutions are approaching their legal limit on conventional mortgage holdings.

Fleming mentions the political difficulty of changing the rate on GI mortgages. He suggests Congress would be reluctant to increase the rate on loans to veterans.

Denton states that lenders are requiring borrowers to have higher incomes and to make larger down payments and that this is operating as a selective loaning technique.

Fleming suggests that the Council reply by referring to a response it made at its September meeting to a question on real estate credit and that the Council indicate that this trend has persisted.

Massie. In considering auto credit, Massie suggests that the monthly payment seems to be a determining factor in auto sales. This being so, and since auto manufacturers have increased their prices, there may be pressure to stretch out the period of repayments.

Livingston suggests that the Council reply by stating there is adequate credit available for auto financing even with the anticipated increase in sales. All members of the Council agreed.

ITEM III

TO WHAT EXTENT ARE REDUCED RATIOS OF LIQUID ASSETS AND CAPITAL TO RISK ASSETS DETERRING BANKS FROM MAKING LOANS?

Fleming reads Item III.

Massie states that the biggest deterrent to bank lending is the outstanding confirmed lines of credit.

Livingston states that the reduced ratios have had an effect of loan expansion.

Denton believes it has had an important deterring effect on loan activity, especially term loans.

Fleming states that since there is general agreement on this, the Council can so advise the Board, mentioning that the effect has been especially noticeable in connection with loans for longer terms.

ITEM IV

DOES THE COUNCIL HAVE ANY COMMENTS WITH RESPECT TO THE SYSTEM'S CURRENT CREDIT POLICIES? WHAT, IF ANY, CHANGES SHOULD BE MADE TO MEET DEVELOPMENTS DURING THE BALANCE OF THIS CALENDAR YEAR AND DURING THE FIRST THREE OR FOUR MONTHS OF 1957?

Fleming reads Item IV. A brief discussion followed, after which Fleming suggested that the Council advise the Board that it believes its credit policies have been appropriate and well executed considering the difficulties involved. The Council would not recommend a change in policy or in the degree of restraint during the balance of the year and the first three or four months of 1957 so long as conditions remain unchanged. It is assumed that the discount window will remain available.

ITEM V

IT IS UNDERSTOOD THAT THE EXECUTIVE COMMITTEE OF THE FEDERAL ADVISORY COUNCIL AND SUCH OTHER MEMBERS OF THE COUNCIL AS ARE AVAILABLE WILL MEET ON OCTOBER 31 TO DISCUSS THE SUGGESTED AMENDMENTS TO THE FEDERAL BANKING LAWS SENT TO SENATOR ROBERTSON WITH THE BOARD'S LETTER OF SEPTEMBER 28. ALTHOUGH THE HEARINGS WHICH ARE SCHEDULED FOR NOVEMBER 9-10, 1956, WILL BE OVER BY THE TIME OF THE COUNCIL'S MEETING, THE BOARD WILL BE GLAD TO HAVE ANY COMMENTS ON THIS SUBJECT THAT THE MEMBERS MIGHT WISH TO MAKE.

Fleming described the sequence of events leading up to the Executive Committee meeting on October 31, and suggested that the Council approve the report of the Executive Committee which was transmitted to the Board by President Fleming's letter of November 5. After this was done, it was suggested that the Council advise the Board that it would be glad to discuss with the Board any aspect of the report.

ITEM VI

THE ADMINISTRATIVE COMMITTEE OF THE ABA HAS AUTHORIZED THE PUBLICATION OF A STUDY ON RESERVE REQUIREMENTS PREPARED BY THE ECONOMIC POLICY COMMISSION OF THE ABA. THE COUNCIL WOULD APPRECIATE HAVING THE BOARD'S COMMENTS ON THIS STUDY.

Fleming reads Item VI and suggests that the Council not take a position on the ABA study at this time.

Baird suggests that the Council ask the Board when they think action might be taken on a revision of reserve requirements.

Fleming suggests that the Council state that a revision of reserve requirements is long overdue, and that the Council would find the Board's views of the ABA study of value.

The meeting adjourned at 6:05 P.M.

THE COUNCIL RECONVENED AT 10:15 A.M. ON NOVEMBER 19, 1956, IN ROOM 1032 OF THE MAYFLOWER HOTEL, WASHINGTON, D.C. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT. IN ADDITION, MR. WALTER B. JACOBS, PRESIDENT, THE FIRST NATIONAL BANK OF SHREVEPORT, SHREVEPORT, LOUISIANA, WHO WILL REPRESENT THE ELEVENTH DISTRICT ON THE FEDERAL ADVISORY COUNCIL FOR THE YEAR 1957, WAS 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 November 20, 1956. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors at 12:05 P.M. on November 19, 1956. It will be noted that each item of the Agenda is listed together with the comments of the Council.

It was suggested that it might be useful if the Council prepared a statement objecting to the formation of a national monetary council that might weaken the independence of the Federal Reserve Board. After some discussion, it was decided that the Secretary would draft such a statement and submit it to President Fleming and members of the Council for approval.

The meeting adjourned at 11:45 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON NOVEMBER 20, 1956

1. What changes are expected in the business situation during the remainder of this year and the first six months of 1957? The Board would be glad to have information on any problems confronting industry, commerce and agriculture in these periods.

All members of the Council expect the present high level of business activity to continue for the balance of the year, and through the first quarter of 1957, despite some spotty situations in the economy. Some members of the Council believe that business will continue to be good through the first six months of 1957, while others are less certain about the second quarter of the new year. The level of business, in the months immediately ahead, may be greatly influenced by developments abroad, such as the economic and financial problems arising out of the situation in the Middle East.

Some of the problems confronting industry, commerce and agriculture are the narrowing profit margins in an increasing number of businesses, the threat of excessive inventory accumulation, and the drought which extends over relatively wide areas of the country.

2. What will be the probable changes in the volume of bank loans (a) during the remainder of 1956 and (b) during the first six months of 1957? As was the case last year, the Board will be interested in a full report on developments and prospects in the field of real estate credit. It will also appreciate a report on the prospects with respect to automobile credit.

(a) The Council believes that the volume of bank loans will increase during the remainder of 1956. (b) The Council also believes that the volume of bank loans will increase during the first six months of 1957, but at a slower rate than during the corresponding period of 1956.

The Council stated at its September meeting, in response to a question on real estate credit, that mortgage loan demand was outrunning the supply of savings, that the rates on mortgages had risen, and that lenders had become more selective. This trend has continued. Less money is now available for mortgages, interest rates are higher and lenders are exercising greater selectivity.

Rates on VA and FHA mortgages are now so unrealistic that this type of investment is becoming increasingly unattractive to lenders. Because of attractive rates, an increasing proportion of savings are being invested in corporate, state and municipal obligations rather than in mortgages.

The Council believes there is and will be adequate credit available for automobile financing, even with an anticipated increase in automobile

sales in the months ahead.

3. To what extent are reduced ratios of liquid assets and capital to risk assets deterring banks from making loans?

The present reduced ratios are acting as an appreciable deterrent to the expansion of loans, particularly in some areas of the country. This is especially true in connection with loans for longer terms.

4. Does the Council have any comments with respect to the System's current credit policies? What, if any, changes should be made to meet developments during the balance of this calendar year and during the first three or four months of 1957?

The members of the Council believe that the System's credit policies have been appropriate and well executed, especially in view of the difficulties which are always present in evaluating economic trends. Assuming a continuance of present economic conditions, the Council suggests that current credit policies be maintained with the same degree of restraint for the balance of this calendar year and during the first three or four months of 1957. The policy of keeping the discount window available should be continued.

5. It is understood that the Executive Committee of the Federal Advisory Council and such other members of the Council as are available will meet on October 31 to discuss the suggested amendments to the Federal banking laws sent to Senator Robertson with the Board's letter of September 28. Although the hearings which are scheduled for November 9-10, 1956, will be over by the time of the Council's meeting, the Board will be glad to have any comments on this subject that the members might wish to make

The Council has approved unanimously the report transmitted to the Board by President Fleming's letter of November 5, 1956, and will be pleased to discuss with the Board any aspect of the report.

6. The Administrative Committee of the ABA has authorized the publication of a study on reserve requirements prepared by the Economic Policy Commission of the ABA. The Council would appreciate having the Board's comments on this study.

The Council believes that a revision of the statutory provisions pertaining to reserve requirements is long overdue. In the Council's opinion, the report of the ABA is a valuable contribution to the study of this problem. Because of the importance of reserve requirements to all banks in the System, the Council would find the Board's views on this study of value.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C., AT 2:20 P.M. ON NOVEMBER 19, 1956. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. MILLER WHO WAS OBLIGED TO RETURN TO LOUISVILLE TO ATTEND A SPECIAL STOCKHOLDERS MEETING OF HIS BANK. ALSO PRESENT WAS MR. WALTER B. JACOBS, PRESIDENT OF THE FIRST NATIONAL BANK OF SHREVEPORT, SHREVEPORT, LOUISIANA, WHO WILL REPRESENT THE ELEVENTH DISTRICT ON THE FEDERAL ADVISORY COUNCIL FOR THE YEAR 1957.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors, addressed the Council on the subject "Do We Have Enough Money?" A copy of Dr. Thomas' remarks was presented to the members of the Council.

The meeting adjourned at 3:40 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 10:30 A.M. ON NOVEMBER 20, 1956. ALL MEMBERS WERE PRESENT EXCEPT MR. MILLER. IN ADDITION, MR. WALTER B. JACOBS, PRESIDENT, THE FIRST NATIONAL BANK OF SHREVEPORT, SHREVEPORT, LOUISIANA, WHO WILL REPRESENT THE ELEVENTH DISTRICT ON THE FEDERAL ADVISORY COUNCIL FOR YEAR 1957, WAS PRESENT. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MCC. MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS SZYMCAK, VARDAMAN, MILLS, ROBERTSON AND SHEPARDSON. MESSRS. CARPENTER, SECRETARY AND SHERMAN, ASSISTANT SECRETARY, WERE ALSO PRESENT.

Fleming reports that Mr. Walter B. Jacobs, President of the First National Bank of Shreveport, Louisiana, had been elected to represent the 11th district in 1957, in place of George G. Matkin, and that Mr. Jacobs was attending this session. President Fleming went on to state that Mr. Prochnow, having resigned his position with the State Department, had been reelected Secretary of the Federal Advisory Council and that William J. Korsvik had been elected Assistant Secretary.

Chairman Martin replied that the State Department's loss was the Federal Reserve's gain.

ITEM I

WHAT CHANGES ARE EXPECTED IN THE BUSINESS SITUATION DURING THE REMAINDER OF THIS YEAR AND THE FIRST SIX MONTHS OF 1957? THE BOARD WOULD BE GLAD TO HAVE INFORMATION ON ANY PROBLEMS CONFRONTING INDUSTRY, COMMERCE, AND AGRICULTURE IN THESE PERIODS.

Fleming reads Item I and the conclusions of the Council as expressed in the attached confidential memorandum to the Board. He offers to ask the individual members of the Council to report on conditions in their respective districts, if the Board would find this helpful.

Martin states that the Board would appreciate it if the individual members would recite, and that the Board is especially interested in their evaluation of the consequences of the developments abroad, particularly in the Middle East. The Board finds it difficult to assess the consequences of the developments abroad. There have been reports that the crises will stimulate a certain amount of hoarding and inventory accumulation. The Council's evaluation of this would be helpful.

Ireland states that business in the First district is at a high level and that this characterizes all segments of the economy, except home building. He adds, however, that the decline here is not serious. A continuance of the high level of business activity is expected, with perhaps some increase, in the period ahead through the first six months of the new year. Ireland notes that even textiles have shown some improvement. Research is getting to be an important factor in the economy of the district. Narrowing profit margins are expected to accompany the anticipated increase in business.

Massie looks for a high level of business to the end of the year, although the longshoremen's strike may modify this somewhat. Non-farm employment has increased slightly and unemployment has declined. Wages have increased. Retail trade through September is up 10 per cent over the previous year. In October, retail trade was off, attributed by the trade to the unseasonably warm weather. An excellent Christmas trade, however, is anticipated. The garment business is increasing but profits are low. Non-residential construction is strong. Office

building in New York City is up 100 per cent over last year, although residential construction is down 20 per cent. Savings are up about 8 per cent over last year. Loan demand continues strong and is difficult to satisfy. Massie believes, however, that legitimate demands are being met, although at higher rates. Profit margins will drop in spite of an increase in sales, but aggregate earning figures are good. He believes it is too early to assess the effects of foreign developments. It has, however, created a certain nervousness. Massie believes it is too early to know if it will bring about serious inventory accumulations, although there may be a temporary step-up. To date, he has no clues as to the effect the foreign developments may have on new financing or bidding for loans. Massie is confident of good business to the end of the year. It is likely to go forward well into the first six months of the new year. The nervousness created by foreign developments may have an effect and shorten the period of good business.

Mitchell. Business activity in the district is about at peak levels reached in 1955. Steel, particularly structural and plates, is in short supply. Paper, petroleum and chemical industries are very active. Construction is about the same as last year, with a decline in residential building being offset by increases in industrial construction. Department store sales were good until last month. Automobile sales are off as against a year ago but inventories are especially low. Electrical production has risen. Mitchell has observed some tendency toward accumulating inventories, particularly steel and automobiles. Employment has improved, except in the labor surplus area in the district around Scranton and Wilkes-Barre. Prices are up and there is a tendency for them to continue to rise. Business men say that the backlog of unfilled orders is dropping off. Some business men also feel there may be an oversupply of productive facilities in the not too distant future. There are also reports of shrinking profit margins. Defense outlays may increase and, in addition, state, municipal and county financing are likely to rise. Mitchell expects excellent conditions to the end of the year. He believes the increases in the indexes in the next six months or so will be accounted for mostly by rises in prices. Money in the Philadelphia area is about as tight as last year but money in the district in the last few months has been a little easier, as deposits are up and loans down slightly. Borrowings in the district are about comparable with that in the other districts.

Denton states that the fourth district, like the others which have reported, is busy with the steel, glass and aluminum industries very active. Business is excellent. The demand for money continues, with loans touching new highs. In the period ahead, Denton expects the present high level of business activity to continue, although the profit margins of many businesses are narrowing and inventories are continuing to rise. The cumulative results of these factors makes Denton less certain about the first half of next year. Business is fine now and it will probably continue so into the first quarter. Beyond that, he is less certain.

Fleming. Conditions in the fifth district are spotty, although retail trade is down in the last month or so. An excellent Christmas season is anticipated. Farm prices are down and employment is full. The demand for bank credit is down, although he has noticed some stepping up in recent weeks. The shipbuilding industry is very active; textile production is down. People are working more hours. Fleming believes it is too early to assess the effects on our economy of developments abroad.

Kimball reports that overall economic activity in his district is at a record level. The rate of increase, however, has slowed down, probably because of

the decline in cash farm income, which is off 5 per cent from last year. The gains in the district are primarily in the non-manufacturing industries, such as construction, mining and services. Retail trade is at a high level, but slowing down. The Fall loan expansion has been less than expected. Kimball believes agriculture is acting as a drag on the economy of the district. Diversification is bolstering and stabilizing the economy. Kimball expects very good business for the balance of the year and for the first quarter of 1957. He hesitates to look beyond this. He also adds that they expect a good winter season.

Livingston. Business in the seventh district is very good. In Chicago we have a condition of overemployment. The production of automobiles has added to employment pressures. Retail sales are good and an excellent Christmas season is anticipated. Steel mills are operating at capacity. Farm equipment sales are poor. Livingston believes that shrinking profit margins bear close watching. Loan demand is strong. He adds that because of the large corn crop in the district, farmers are anxious to get cattle for feeding. This, he suggests, may offset the anticipated increased marketing of cattle by the range people. Livingston looks for good business for the balance of the year and throughout the first six months. Livingston notes that in 1953 and early 1954 when our economy declined slightly, business in Europe was at a very high level. Consequently, our economy benefited from the active level of business abroad. Should we experience a similar period of adjustment next year, when Western Europe was also having certain difficulties as the result of developments in the Middle East, our period of adjustment might be somewhat longer.

Baird. Conditions in the ninth district do not vary from those described as prevailing in the other districts. For the first time in years, there is a shortage of labor in the Twin Cities. Retail sales have not been good the last few weeks. The farm equipment industry is not good, although there are large crops in the eastern part of the district. The drought has been lessened in part of the area and there now is better prospects for grass and winter wheat. Copper production has been cut by reducing the work week to five days. Borrowings are much lower in recent months because of adjustments in bond portfolios and an increase in deposits. The Fall loan demand is not as high as anticipated. The prospects are for good business through the end of the year and the first quarter of 1957. Baird questions the continuance of the rate of business investment and inventory accumulations. The iron producers expect a big year as production is strong. The steel strike and shipping strike on the Lakes adversely affected production. The taconite development will be an additional stimulation to the business in the district. To date the results have exceeded expectations.

Kemper. Business in the tenth district is surprisingly good despite the drought. The rain which has fallen has not been sufficient to care for the wheat crop. Hay and forage are short. Although the government subsidized hay movement, price rises have tended to offset these freight payments, and as a consequence, cattlemen have not benefited very much. The shortage of water is also troublesome and cattle have been moved out of the range area into the farm belt states. Employment in the area has increased, but is below the national average. Retail trade is good considering conditions in the district. Motor car registrations are surprisingly good. Construction awards are down. There is a big demand for credit. Deposits are off in the larger cities and there is a shortage of mortgage money as insurance companies find bonds more attractive investments than mortgages. Although winter wheat is up, it is not suitable for grazing. If the district has moisture during the winter, a very good crop is expected. Although business is

making money, profit margins are narrow. Kemper expects good business for the balance of the year and if the drought is relieved, well into 1957.

Matkin. Business in the eleventh district is good notwithstanding the condition of the farmer and cattleman and the decline in home building. Non-agricultural employment reached an all time high in October. Construction is down. The rains have come too late to help the farmer. Winter wheat shows an increase, while the production of other crops is off. Good yields have been obtained in irrigated areas. Matkin states the cattlemen are facing the problem of buying more hay at high prices or selling the mother herd, which he stated had dropped in price from \$300 to \$50 per head. Money is tight as loan demand continues. Matkin expects good business for the balance of the year, the first quarter of 1957, and perhaps the second quarter of the new year despite the drought.

At Mr. Fleming's suggestion, Matkin described the possible consequences on oil production of developments in the Middle East.

King states that oil was an inventory problem in his district but that developments abroad seemed to have solved it. Business in the district follows the pattern described by the other members of the Council. The aircraft and electronics industry are strong. King states that there appears to be a shortage of both skilled and unskilled labor in the area. The motion picture industry is doing well. The automobile dealers believe the new cars will sell though King understands some discounts are being offered. Compared to a year ago housing starts are down about 15 per cent in volume and 11 per cent in dollar amount in the first nine months. Industrial and commercial building have increased greatly with the dollar volume of starts up 65 per cent over a year ago. King expects business to be good through the end of the year and into the first two quarters of 1957.

Fleming asks if any member of the Council wishes to comment on possible consequences of developments in the Middle East.

Ireland reports on a recent meeting of economists that was held in the Federal Reserve Bank of Boston. It was their opinion that the international situation in the Middle East might result in an attempt to accumulate inventories. They also seemed to believe that our economy probably would be stimulated.

Matkin stated that the producers of long staple cotton in his district expect to increase their production and sales as a result of the situation in Egypt.

Denton says it is difficult to evaluate results in the Middle East.

Fleming describes the plight of the Arab refugees.

Balderston asks if there is any evidence of excessive office space or housing.

Fleming replies that there is a great shortage of office space in Washington, D. C. This condition has been aggravated by the removal of "the temporaries". Fleming also describes the influx of national organizations who are locating their headquarters in Washington.

Denton notes that there is a difference between office space, which seems to be short, and housing, the demand for which is decreasing. Some builders in

his district are having difficulty disposing of new homes, and as a result, are withdrawing from building.

Vardaman asks what price bracket these houses are in.

Denton. Less than \$15,000.

Kemper describes the movement of business to the suburbs in order to obtain parking areas. As a result, in his district there seems to be some surplus of office space in the downtown area. Some estimates place the vacancies as high as ten per cent. He believes some cities in his district are over-built.

Livingston states that only two office buildings have been built in Chicago since 1935. These are the Prudential Building, recently completed, and the Inland Steel building which is in the process of construction. He states that the New York office building boom puzzles him. He believes there is neither a shortage nor a surplus in the Chicago area.

Mitchell believes there is a five to ten per cent surplus in the Philadelphia area, but that the vacancies are occurring in the second grade office buildings.

Ireland states that office space is at a premium in Boston. There was a tendency to move out of the downtown area, because of the taxes and transportation, but this movement has been halted because of the difficulty in obtaining the necessary financing.

ITEM II

WHAT WILL BE THE PROBABLE CHANGES IN THE VOLUME OF BANK LOANS (a) DURING THE REMAINDER OF 1956 AND (b) DURING THE FIRST SIX MONTHS OF 1957? AS WAS THE CASE LAST YEAR, THE BOARD WILL BE INTERESTED IN A FULL REPORT ON DEVELOPMENTS AND PROSPECTS IN THE FIELD OF REAL ESTATE CREDIT. IT WILL ALSO APPRECIATE A REPORT ON THE PROSPECTS WITH RESPECT TO AUTOMOBILE CREDIT.

Fleming remarks that a change in the VA rates requires Congressional action which would be politically difficult to accomplish.

Martin states that the Board is interested in attempting to determine what is going to happen on the tax dates next year. Last year corporations required an inordinate amount of credit to meet their tax liabilities. If there is increased corporate use of tax accrual funds now, the banking system may again be hit for large sums of credit for corporate tax purposes.

Denton reports that many companies are using their tax reserves and he believes there will be borrowing for tax purposes in March and June. It is this thought that influences his opinion that bank credit will increase in the first six months, although at a slower rate than occurred in the first six months of 1956.

ITEM III

TO WHAT EXTENT ARE REDUCED RATIOS OF LIQUID ASSETS AND CAPITAL TO RISK ASSETS DETERRING BANKS FROM MAKING LOANS?

Fleming reads Item III and the conclusions of the Council as expressed in the attached confidential memorandum to the Board.

A brief discussion followed.

ITEM IV

DOES THE COUNCIL HAVE ANY COMMENTS WITH RESPECT TO THE SYSTEM'S CURRENT CREDIT POLICIES? WHAT, IF ANY, CHANGES SHOULD BE MADE TO MEET DEVELOPMENTS DURING THE BALANCE OF THIS CALENDAR YEAR AND DURING THE FIRST THREE OR FOUR MONTHS OF 1957?

Fleming reads Item IV and the conclusions of the Council as expressed in the attached confidential memorandum to the Board. He adds that seasonal loan demand may require the Open Market Committee to supply additional reserves to the System. The discount rate probably should not be increased, though the fact that bills are above the discount rate makes for an awkward situation.

Martin says the Board finds it difficult to assess the foreign situation. Some people think credit restraint should not be reduced, while others feel credit should be eased. The Board finds it difficult to reconcile these conflicting views.

Szymczak asks if the Council could assure the Board that Boston or New York will not increase the prime rate.

Ireland says he can assure the Board of one Boston bank that will not increase the prime rate. (Off-the-record comments.)

Denton states that there is some conversation on when it should be raised, not if it should be raised.

ITEM V

IT IS UNDERSTOOD THAT THE EXECUTIVE COMMITTEE OF THE FEDERAL ADVISORY COUNCIL AND SUCH OTHER MEMBERS OF THE COUNCIL AS ARE AVAILABLE WILL MEET ON OCTOBER 31 TO DISCUSS THE SUGGESTED AMENDMENTS TO THE FEDERAL BANKING LAWS SENT TO SENATOR ROBERTSON WITH THE BOARD'S LETTER OF SEPTEMBER 28. ALTHOUGH THE HEARINGS WHICH ARE SCHEDULED FOR NOVEMBER 9-10, 1956, WILL BE OVER BY THE TIME OF THE COUNCIL'S MEETING, THE BOARD WILL BE GLAD TO HAVE ANY COMMENTS ON THIS SUBJECT THAT THE MEMBERS MIGHT WISH TO MAKE.

Fleming reads Item V and the conclusions of the Council as expressed in the attached confidential memorandum to the Board.

Martin states that the Board appreciates the Council's cooperation. The views of the Council as transmitted by Mr. Fleming in his letter of November 5

were presented to Senator Robertson's Committee. Martin adds that Governor Robertson, who represented the Board at the meetings of the Committee, did an excellent job. He then asked Governor Robertson to comment.

Fleming replies that the Council appreciates the fact that the Board submitted the Council's views.

Robertson says the different points of view are in the hands of the Committee who presumably will evaluate them, prepare a bill, and hold hearings.

Livingston states he was present at the hearings and that he would like to echo Chairman Martin's praise of Governor Robertson's performance which was first rate. Robertson answered questions under very difficult circumstances and he, Livingston, was proud of Robertson's performance.

At this point Fleming described the efforts of the Council to review the Board's recommendation at the ABA Convention, and subsequently at the Executive Committee meeting in Washington, D. C. on October 31.

Martin expresses the Board's appreciation for the speed and work of the Council and adds that the Board had to work nights to complete its assignment. He believes that all recognize that the work was completed under difficult circumstances.

Fleming remarks that there were only a few points where the Council differed strongly from the Board's recommendation. One of these was the matter of changing reserve requirements which the Council felt should require the affirmative vote of four members of the Board.

Martin replies that the Board had not discussed this as it was a procedural matter and not one involving policy.

ITEM VI

THE ADMINISTRATIVE COMMITTEE OF THE ABA HAS AUTHORIZED THE PUBLICATION OF A STUDY ON RESERVE REQUIREMENTS PREPARED BY THE ECONOMIC POLICY COMMISSION OF THE ABA. THE COUNCIL WOULD APPRECIATE HAVING THE BOARD'S COMMENTS ON THIS STUDY.

Fleming reads Item VI and the conclusions of the Council as expressed in the attached confidential memorandum to the Board.

Martin replies that the Board is not adequately prepared to comment at this time on the ABA's proposal but is happy to have its study. The Board has cooperated with Evans Woollen in preparation of this study and encouraged it. Martin hopes that it will be possible to agree on some plan for reserve requirements. To further this effort, the Board will be glad to make available any material in its files that might be useful. It was this, Martin states, that prompted the Board to distribute copies of two studies by Dr. Woodlief Thomas. These were a review of the reserve requirement proposal by the Economic Policy Commission of the American Bankers Association, and a memorandum including an

analysis of a study by Professors Norton and Jacoby of the University of California, as well as a review of a proposal by Dr. Winfield Riefler. (These studies were distributed to members of the Council on Monday, November 19th, previous to its joint meeting with the Board.) The Board at this time, Martin states, does not wish to endorse this, or any other proposal. The Board, however, agrees with the Council that a revision of reserve requirements is long overdue. He hopes something can be drafted after all plans are considered that will have wide acceptance.

King asks if it would be helpful if the Council had copies of the Norton-Jacoby study.

Martin replies that the Board will try and get copies for members of the Council.

Fleming describes the 1951 efforts of the Council and the Board to change the law governing reserve requirements.

Martin replies that it is this experience that has prompted the Board's work on this matter. How to bring it to fruition is a mute point. Martin encourages the members of the Council to come directly to the Board for any information that might be in its files. The Board will try to make available to the Council any data in the Board's files that might be helpful.

Robertson suggests that it is desirable to get broad acceptance of a plan before it is presented to the legislature so as to avoid as much controversy as possible.

The meeting adjourned at 12:25 P. M.

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The next meeting of the Council will be held February 17-19, 1957.