

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
1957

MEMORANDUM FOR THE FEDERAL RESERVE BOARD
 DATE: February 17, 1957
 SUBJECT: Minutes of Meetings of the Federal Advisory Council

MEMORANDUM FOR THE FEDERAL RESERVE BOARD
 DATE: May 12, 1957
 SUBJECT: Minutes of Meetings of the Federal Advisory Council

MEMORANDUM FOR THE FEDERAL RESERVE BOARD
 DATE: September 15, 1957
 SUBJECT: Minutes of Meetings of the Federal Advisory Council

MEMORANDUM FOR THE FEDERAL RESERVE BOARD
 DATE: November 17, 1957
 SUBJECT: Minutes of Meetings of the Federal Advisory Council

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 FEDERAL ADVISORY COUNCIL

MEMORANDUM FOR THE FEDERAL RESERVE BOARD
 DATE: February 17, 1957
 SUBJECT: Minutes of Meetings of the Federal Advisory Council

MEMORANDUM FOR THE FEDERAL RESERVE BOARD
 DATE: May 12, 1957
 SUBJECT: Minutes of Meetings of the Federal Advisory Council

February 17-19, 1957
 May 12-14, 1957
 September 15-17, 1957
 November 17-19, 1957

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1957

OFFICERS:

President, Robert V. Fleming
Vice President, Frank R. Denton
Director, Adrian M. Massie
Director, William R. K. Mitchell
Director, Homer J. Livingston
Secretary, Herbert V. Prochnow
Assistant Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

Robert V. Fleming
Frank R. Denton
Adrian M. Massie
William R. K. Mitchell
Homer J. Livingston

MEMBERS:

Lloyd D. Brace	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
Walter B. Jacobs	District No. 11
Frank L. King	District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

The Officers of this Council shall be a President, Vice President, three Directors and a Secretary, all of whom, except the Secretary, shall also serve as the Executive Committee.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council, and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

The Executive Committee, as indicated in Article I of the by-laws, shall consist of the President, Vice President, and the three Directors.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with their regulations and promulgations, and to communicate the same to the members of the Council, and to suggest to the Council, from time to time, special matters for consideration.

The Executive Committee shall have the power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

The Executive Committee shall have full power, as officers of the Council, to act for the Council between meetings of the Council.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum, and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 17, 1957

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 17, 1957

The first and organizational meeting of the Federal Advisory Council for the year 1957 was convened in Room 1032 of the Mayflower Hotel, Washington, D.C., on February 17, 1957, at 2:30 P.M.

Present:

Lloyd D. Brace	District No. 1
Adrian M. Massie	District No. 2
William R. K. Mitchell	District No. 3
James N. Land, Alternate for 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
Walter B. Jacobs	District No. 11
Frank L. King	District No. 12
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary
Absent: Frank R. Denton	District No. 4

Mr. Homer J. Livingston was elected Chairman *pro tem* and Mr. Herbert V. Prochnow, Secretary *pro tem*.

The Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1957.

The following officers were nominated and unanimously elected:

Robert V. Fleming, President
Frank R. Denton, Vice President
Adrian M. Massie, Director
William R. K. Mitchell, Director
Homer J. Livingston, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at \$3,000 annually, and that of the Assistant Secretary at \$2,000 annually.

The Secretary presented his financial report for the year 1956, which had been audited by Mr. J. Carl Sommer, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the printed minutes for the meetings of the Council held on February 19, 20, 21, 1956; May 20, 21, 22, 1956; September 16, 17, 18, 1956; November 18, 19, 20, 1956; the special meeting of the Executive Committee, October 31, 1956; and the mimeographed notes of the meeting held November 18, 19, 20, 1956, copies of which had been sent previously to the members of the Council, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Secretary to ask each Federal Reserve bank to contribute \$450.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1957, and to draw upon it for that purpose.

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 8 and 9.

The meeting adjourned at 6:15 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

REPORT OF THE SECRETARY
OF THE
FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1956

Balance on hand, December 31, 1955.....\$ 9,027.89	Salaries.....\$ 2,625.00
Assessments— 12 Federal Reserve Banks.. 5,400.00	Conference Expense..... 1,705.76
	Printing and Stationery..... 658.00
	Postage, Telegrams and Telephone..... 34.90
	Balance on hand, December 31, 1956..... 9,404.23
\$14,427.89	\$14,427.89

Chicago, Illinois
February 1, 1957

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ended December 31, 1956, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO
(Signed) J. Carl Sommer,
Assistant Auditor

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1957

At 10:00 A.M., the Federal Advisory Council reconvened in Room 1032 of the Mayflower Hotel, Washington, D.C., the President, Mr. Fleming, in the Chair.

Present: Mr. Robert V. Fleming, President; Messrs. Lloyd D. Brace, Adrian M. Massie, William R. K. Mitchell, James N. Land, Alternate for Mr. Frank R. Denton; Messrs. Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Julian B. Baird, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. Frank R. Denton.

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 8 and 9, listing the agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12:00 P.M. on February 18, 1957.

The meeting adjourned at 11:30 A.M.

HERBERT V. PROCHNOW
Secretary

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 FEBRUARY 19, 1957

1. What are the views of the Council with respect to the business situation during the period from now until mid-1957? Among specific industries, the Board would like to have the Council's judgment as to the prospective demand for new model automobiles during this period, as well as for used automobiles. Are further increases in prices of finished products expected? Is there any indication of a change in the supply-demand relationships that would call for a relaxation of credit restraints?

All members of the Council expect a high level of business from now until mid-1957. Although economic conditions may vary from district to district, it is anticipated that business generally will be good. However, the members of the Council are concerned with the continued narrowing of the profit margin, as this tends to make business investment progressively less attractive.

The Council believes it is somewhat early to make a definite prediction as to the demand for new model automobiles. Most districts expect that the number of new cars sold will be slightly higher in the first half of 1957 than in the corresponding period of 1956, but not as high as in 1955. The demand for used cars is good and should continue satisfactory for the first half of the year.

The prices of most finished products will probably increase, with certain exceptions such as appliances, textiles, and some chemical products.

The Council does not believe there are sufficient changes in the supply-demand relationships to call for a relaxation of credit restraints.

2. Do you know of revisions in business plans for plant and equipment expenditures in 1957? Are there evidences of excess productive capacity?

The members of the Council have been informed of downward revisions in plans for plant and equipment expenditures in some industries and of upward revisions in others. There is not at present sufficient evidence of downward revisions in business plans for plant and equipment in 1957 to change significantly total expenditures for these purposes.

There is evidence of excess plant capacity in certain lines. A large part of the expenditures for additional plant and equipment undoubtedly is an effort to increase operating efficiency and reduce costs in order to keep abreast in an increasingly competitive market.

3. What is the outlook for construction (residential, industrial and commercial, public) during the period from now until mid-1957? Do construction costs appear likely to be stable, to increase, or to decrease in the near future? Is mortgage money available in sufficient volume to support projected residential, commercial, and private construction during this period?

The Council believes housing starts in the first half of 1957 will be slightly lower than in the same period of 1956, but the dollar volume will be approximately the same because of larger housing units and higher labor costs. Industrial and commercial con-

struction in the same period are expected to equal or moderately exceed their 1956 dollar volume but public construction should be considerably above last year. The total dollar volume of all construction from now until mid-1957 should be higher than in the corresponding period of 1956. Rising labor costs will be a major factor in increasing construction costs.

In reply to a similar question on the volume of mortgage money at the meeting in November, the Council stated:

“. . . that mortgage loan demand was outrunning the supply of savings, that the rates of mortgages had risen, and that lenders had become more selective. . . . 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.”

Since the Council's statement, higher mortgage interest rates and the decline in housing starts have tended to bring about a better balance in the supply of funds available for conventional mortgages.

Except for the VA mortgages whose present fixed rates are unattractive, sufficient mortgage funds are expected to be available to finance the anticipated volume of construction from now until mid-1957.

4. What are the probable changes in volume of bank loans during the first half of this year? Is the volume of borrowing for tax purposes in March likely to equal or exceed that of a year ago? What is the outlook for consumer credit?

The members of the Council expect the volume of bank loans to increase moderately between now and the end of June.

Some districts experience little or no borrowing for tax purposes, but most districts in which there is a concentration of large corporation accounts expect that the volume of borrowing for tax purposes in March may exceed that of a year ago. This will result in an increase in such loans for the System as a whole.

The volume of consumer credit may be expected to increase moderately in the first half of the year.

5. What, if any, changes would the members of the Council suggest in the System's current credit policies between now and mid-year?

The Council believes, as stated in its Memorandum to the Board in November,

“. . . 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 period between now and mid-1957.

6. Do the members of the Federal Advisory Council have observations as to any features of the Bank Holding Company Act or its operation to date which they feel would be of assistance to the Board in administering its responsibilities under the law?

The members of the Council who have had experience with holding companies will present their views orally to the Board on this item of the agenda.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1957

At 2:25 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. Lloyd D. Brace, Adrian M. Massie, William R. K. Mitchell, James N. Land, Alternate for Mr. Frank R. Denton; Messrs. Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Julian B. Baird, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. Frank R. Denton.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors of the Federal Reserve System, addressed the Council on the subject, "The Current Economic Situation." Copies of Dr. Thomas' comments were distributed to the members of the Council.

The meeting adjourned at 3:40 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

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

February 19, 1957

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 Wm. 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. Lloyd D. Brace, Adrian M. Massie, William R. K. Mitchell, James N. Land, Alternate for Mr. Frank R. Denton; Messrs. Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Julian B. Baird, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary and William J. Korsvik, Assistant Secretary.

Absent: Mr. Frank R. Denton.

President Fleming read the first item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, as printed on pages 8 and 9 of these minutes.

Chairman Martin acknowledged the Council's comments and stated that he and the Board believe the Council's efforts to explain Federal Reserve policy to businessmen and other groups throughout the country have been helpful.

The President of the Council then read the second item, and the conclusions of the Council as expressed in the *Confidential Memorandum* previously mentioned.

President Fleming then read the third item, and the conclusions of the Council as reported in the *Confidential Memorandum* mentioned above.

Chairman Martin noted that a Congressional Committee had rejected a suggested increase in the VA rate.

President Fleming then read the fourth and fifth items, and the conclusions of the Council as expressed in the *Confidential Memorandum* cited above.

President Fleming then read the sixth item, and conclusions of the Council.

Mr. Baird outlined certain technicalities and suggested amendments to the Bank Holding Company Act. He spoke briefly on the provisions of S. 1075.

Mr. King also spoke briefly on an amendment to the Bank Holding Company Act suggested by the Federal Reserve Bank of San Francisco.

The meeting adjourned at 12:50 P.M.

HERBERT V. PROCHNOW
Secretary

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.

H. V. P.
W. J. K.

The Secretary's notes of the meeting of the Federal Advisory Council on February 17, 1957, at 2:30 P. M., in Room 1032 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present except Mr. Denton. Mr. James N. Land attended as alternate for Mr. Denton.

Mr. Homer J. Livingston was elected Chairman pro tem and Mr. Herbert V. Prochnow was elected Secretary pro tem.

The Secretary pro tem stated that communications had been received from the twelve Federal Reserve Banks, certifying to the election of their respective representatives on the Council for the year 1957.

On motion, duly made and seconded, the by-laws were approved.

The following officers were nominated and unanimously elected:

Robert V. Fleming, President
Frank R. Denton, Vice President
Adrian M. Massie, Director
William R. K. Mitchell, Director
Homer J. Livingston, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at \$3,000 annually, and that of the Assistant Secretary at \$2,000 annually.

The Secretary presented the financial report for the year 1956 which had been audited by Mr. J. Carl Sommer, Assistant Auditor of The First National Bank of Chicago. The report was approved and placed on file. It will be printed and included in the formal printed minutes.

A motion was adopted authorizing the Secretary to draw upon each Federal Reserve Bank for \$450 for the secretarial and incidental expenses of the Federal Advisory Council for the year 1957.

The Council approved the Secretary's notes for the meeting of November 18-20, 1956. The printed minutes for all the 1956 meetings of the Council and for the special meeting of the Executive Committee of the Council, copies of which had been sent previously to members of the Council, also were approved.

Fleming commented briefly on the National Economic Council, suggested by Mr. Elliott Bell, and the letter addressed to Chairman Martin outlining the Council's opposition. The Council again approved the letter which is to be sent to the Chairman of the Board of Governors at any time the President of the Council deems it appropriate.

ITEM I

WHEAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE BUSINESS SITUATION DURING THE PERIOD FROM NOW UNTIL MID-1957? AMONG SPECIFIC INDUSTRIES, THE BOARD WOULD LIKE TO HAVE THE COUNCIL'S JUDGMENT AS TO THE PROSPECTIVE DEMAND FOR NEW MODEL AUTOMOBILES DURING THIS PERIOD, AS WELL AS FOR USED AUTOMOBILES. ARE FURTHER INCREASES IN PRICES OF FINISHED PRODUCTS EXPECTED? IS THERE ANY INDICATION OF A CHANGE IN THE SUPPLY-DEMAND RELATIONSHIPS THAT WOULD CALL FOR A RELAXATION OF CREDIT RESTRAINTS?

Fleming reads the first question of Item I and asks the individual members of the Council to comment.

King does not believe business will go up or down. Loans in the twelfth district are down half as much as the nation as a whole and they are expected to rise. Good business is anticipated for the first half of 1957.

Jacobs states business in the district seems to have reached a plateau at a very high level. He does not expect it to increase. Department store sales are off. More rain is needed in the district. The oil industry is booming.

Kemper reports some easing off in business. The automobile dealers are not doing the business they expected and inventories are accumulating. Residential building is off. Agriculture in the area is bad because of the drought. Retail sales are off. Kemper sees nothing that will stimulate business.

Baird reports a leveling off of business activity in his district. He notes that business in his district seems to lag behind the rest of the country, both during periods of expansion and contraction. Retail sales are up and the crop situation is good. Agricultural prices have improved.

Miller believes business in the months ahead will be characterized by a sidewise movement with some slight decline possible in July. Housing starts are off. There is some accumulation of inventories. He would temper his optimism with caution.

Livingston expects business to continue at a high level. Retail sales have regained some of their tone. Unemployment is down, though some unemployment is reported in Detroit. The farm equipment manufacturers are doing poorly but look for conditions to improve. Livingston believes business both in the district and in the country, is excellent. He believes housing starts will total one million units and that about six million cars will be sold during the year.

Kimball believes business will be moderately better in the months ahead and that his district will better the national average because of population growth, increases in income and consumer spending. Department store sales are up 6 per cent compared to 4 per cent last year. Manufacturing employment is up. Cash receipts in agriculture are somewhat lower. Kimball believes the momentum that characterizes the economy in the district will carry business higher than the national average.

Fleming states that the shipping industry is booming because of the demand for new carriers and tankers. Coal production is up and farm prices have risen. The textile people are unhappy. Fleming believes business for the first six months of 1957 will be good.

Land believes a downturn in business activity may come by midyear, if not before. Business spending was the factor that made last year better than 1955. He believes this is topping out and may decline before the year ends because of the squeeze on profits, lower corporate liquidity, and tight money. Steel has been operating at a high rate since the strike ended. The demand, however, has weakened a little and the industry is now operating at about 97 per cent of its increased capacity. The auto industry has reduced its demand for steel. Land reports that about 10 to 15 per cent of steel production since the strike has been going into inventories. If this trend continues to the end of March, inventories will be at their pre-strike levels. It is questionable whether business will rebuild steel inventories to that height since there is no inducement to do so, as there is no threat of a strike. Despite an anticipated decline in steel operations, he believes business will operate at a high level.

Livingston observes that girders are in short supply but that sheets are in abundance. Livingston reports a conversation he had with a large building contractor who stated that he had received more orders in January than he executed in 1956.

Mitchell. Business activity in the last month or so has been leveling off in his district. The strong spots, however, are steel, ship building, chemicals, and petroleum. Residential construction has declined. Contract awards were down in the district. Department store sales are about even with a year ago. Automobile sales are about the same as last year and are disappointing. Businessmen are cautious about inventory accumulation. Electrical production is up as is agricultural income. Employment is about the same as a year ago, although wages have increased. The prices of industrial products are up. Personal income has risen. Savings, however, are about the same as last year. Business seems to have reached a high plateau and Mitchell expects it to move at this level until midyear. Any increase that occurs probably will be the result of price rises. Business confidence has weakened the last month or so. Mitchell attributes this to the stock market break, productive capacity in excess of demand, and the Federal budget, particularly the welfare portion of it. Any decrease in business will tend to be offset by increased government expenditures.

Massie. A number of indicators touched all-time peaks in the fourth quarter. Retail sales in January were excellent. The decline in residential construction is offset by other building. Public construction of schools, highways, and other facilities is up about 40 per cent in the district. Massie reports no weakness in employment. Automobiles have been selling well, particularly the lower priced models. Ford and Chrysler products seem to be doing better than G.M. Some discounts on new models have been reported. Personal income and savings in the district are up. The total dollar volume of business is very high in spite of soft spots. Escalator clauses in labor contracts had sparked wage increases. The increase in dollar public spending, Massie believes, more than offsets the weak spots in the economy.

Brace expects excellent business in the first six months with the movement tending to be sidewise with a slight decline possible. Ship building and the machine tool industries are booming. Textiles are down. The electronic equipment industry is operating at capacity and reports shortages of scientists.

A brief informal discussion followed on the remaining portion of Item I. At this point, President Fleming suggested the following summary:

Fleming states that all members of the Council expect a high level of business from now until mid-1957. Some members anticipate a slight decline, while others believe a slight increase is likely. All members are concerned with the continued narrowing of the profit margin. The Council may state in its reply that it is somewhat early to make a definite prediction as to the demand for new model automobiles. Most districts expect that the number of new cars sold will be slightly higher in the first half of 1957 than in the corresponding period of 1956 but not as high as in 1955. The demand for used cars is good and should continue satisfactorily for the first half of the year. The prices of most finished products probably will increase with certain exceptions, such as appliances, textiles, and some chemical products. The Council does not believe there are sufficient changes in the supply-demand relationships to call for a relaxation of credit restraints.

ITEM II

DO YOU KNOW OF REVISIONS IN BUSINESS PLANS FOR PLANT AND EQUIPMENT EXPENDITURES IN 1957? ARE THERE EVIDENCES OF EXCESS PRODUCTIVE CAPACITY?

Fleming reads Item II.

Land reports of a number of businessmen who have revised their plans downward; others he notes are not pressing as hard for the completion of their building programs.

Baird states that in his district the pressure for public facilities, such as schools, hospitals, and highways, is increasing.

An extended informal discussion followed in which most members of the Council participated.

Fleming suggests that the Council state in its reply that members have been informed of downward revisions in business plans for plant and equipment expenditures and of upward revisions by others. The Council does not believe there is sufficient evidence at present of downward revisions in business plans for plant and equipment in 1957 to change significantly total expenditures for these purposes. The reply also should state, Fleming suggests, that the Council believes there is evidence of excess plant capacity in certain lines and that a large part of the expenditures for additional plant and equipment undoubtedly is an effort to increase operating efficiency and to reduce costs.

Item III

WHAT IS THE OUTLOOK FOR CONSTRUCTION (RESIDENTIAL, INDUSTRIAL AND COMMERCIAL, PUBLIC) DURING THE PERIOD FROM NOW UNTIL MID-1957? DO CONSTRUCTION COSTS APPEAR LIKELY TO BE STABLE, TO INCREASE, OR TO DECREASE IN THE NEAR FUTURE? IS MORTGAGE MONEY AVAILABLE IN SUFFICIENT VOLUME TO SUPPORT PROJECTED RESIDENTIAL, COMMERCIAL, AND PRIVATE CONSTRUCTION DURING THIS PERIOD?

Fleming reads Item III and reports that he knows of insurance companies who are buying corporate bonds rather than mortgages.

A discussion followed.

Fleming summarized the discussion suggesting that the Council's reply state that housing starts in the first half of 1957 will be slightly lower than in the same period as 1956, but that the dollar volume will be approximately the same because of

larger housing units and higher labor costs. Industrial and commercial construction in the same period are likely to equal or exceed their 1956 dollar volume. Public construction should be substantially greater. Rising labor costs will be a major factor in increasing construction costs.

Livingston suggests that in the reply to the Agenda question on the volume of mortgage money, that the Council reply as it did to a similar question on the November Agenda.

Fleming said that in addition the Council's reply should state that higher mortgage interest rates and the decline in housing starts have tended to bring about a better balance in the supply of funds available for conventional mortgages. Except for VA mortgages, the Council believes that sufficient funds are expected to be available to finance the anticipated volume of construction from now until mid-1957.

ITEM IV

WHAT ARE THE PROBABLE CHANGES IN VOLUME OF BANK LOANS DURING THE FIRST HALF OF THIS YEAR? IS THE VOLUME OF BORROWING FOR TAX PURPOSES IN MARCH LIKELY TO EQUAL OR EXCEED THAT OF A YEAR AGO? WHAT IS THE OUTLOOK FOR CONSUMER CREDIT?

Fleming reads Item IV.

An extended discussion followed based on the assumption that the Council's inquiry on the volume of bank loans referred to the period from February 20 to the end of June.

Fleming states that the members of the Council believe that the volume of bank loans will increase moderately between now and the end of June. Some districts expect their loans on June 30 will exceed their year end figures. Several districts experience little or no borrowing for tax purposes but most districts in which there is a concentration of large corporation accounts expect that the volume of borrowing for tax purposes in March may exceed that of a year ago. The Council may reply that it believes the volume of consumer credit will increase moderately in the first half of the year.

ITEM V

WHAT, IF ANY, CHANGES WOULD THE MEMBERS OF THE COUNCIL SUGGEST IN THE SYSTEM'S CURRENT CREDIT POLICIES BETWEEN NOW AND MID-YEAR?

Fleming reads Item V.

After a brief discussion it was suggested that the Council quote from the November memorandum to the Board of Governors when the Council replied to a similar question.

ITEM VI

DO THE MEMBERS OF THE FEDERAL ADVISORY COUNCIL HAVE OBSERVATIONS AS TO ANY FEATURES OF THE BANK HOLDING COMPANY ACT OR ITS OPERATION TO DATE WHICH THEY FEEL WOULD BE OF ASSISTANCE TO THE BOARD IN ADMINISTERING ITS RESPONSIBILITIES UNDER THE LAW?

Fleming reads Item VI and asks for comments from those members of the Council who have had experience with holding companies.

Baird states that the law has accomplished a good deal, but that he believes there are several inequities or technicalities that ought to be eliminated or corrected. These, he said, included the following:

1. The prohibition against "horizontal loans".
2. The provision in the law prohibiting loans against company stock.

(Subsequent to this meeting, Mr. Baird agreed to have a summary of his suggestions prepared for distribution to the members of the Council through the office of the Secretary.)

Kimball comments (off-the-record) on a bank holding company development in Florida.

Fleming suggests that the Council's reply state that the members of the Council who have had experience with bank holding companies will present their views orally to the Board.

Fleming then reported briefly on the Bill now in the Congress which includes among other things a number of recommendations, made by the Federal Reserve Board, for changes in the statutes governing the financial institutions and credit. The Council is opposed to several of them. Fleming questions if the Council should appear before a Congressional Committee and reaffirm its opposition to portions of the Bill.

Livingston reports that the Council's objections are part of the record, as copies of it were forwarded to Senator Robertson. Furthermore, Livingston explains that hearings in the Senate on the Bill are about completed. He suggests that the Council watch for the introduction of the Bill in the House and that it might be useful to appear at that time.

At Fleming's suggestion, the Council authorized the Executive Committee to act on this matter should it be necessary to do so before the next meeting of the Council.

The meeting adjourned at 6:15 P.M.

THE COUNCIL RECONVENED AT 10:00 A. M. ON FEBRUARY 18, 1957, IN ROOM 1032 OF THE MAYFLOWER HOTEL, WASHINGTON, D. C. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT EXCEPT MR. DENTON. MR. JAMES N. LAND ATTENDED AS ALTERNATE FOR MR. DENTON.

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 February 19, 1957. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors at 12:00 A. M. on February 18, 1957. It will be noted that each item of the Agenda is listed together with the comments of the Council.

The meeting adjourned at 11:30 A. M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 19, 1957.

1. What are the views of the Council with respect to the business situation during the period from now until mid-1957? Among specific industries, the Board would like to have the Council's judgment as to the prospective demand for new model automobiles during this period, as well as for used automobiles. Are further increases in prices of finished products expected? Is there any indication of a change in the supply-demand relationships that would call for a relaxation of credit restraints?

All members of the Council expect a high level of business from now until mid-1957. Although economic conditions may vary from district to district, it is anticipated that business generally will be good. However, the members of the Council are concerned with the continued narrowing of the profit margin, as this tends to make business investment progressively less attractive.

The Council believes it is somewhat early to make a definite prediction as to the demand for new model automobiles. Most districts expect that the number of new cars sold will be slightly higher in the first half of 1957 than in the corresponding period of 1956, but not as high as in 1955. The demand for used cars is good and should continue satisfactory for the first half of the year.

The prices of most finished products will probably increase, with certain exceptions such as appliances, textiles, and some chemical products.

The Council does not believe there are sufficient changes in the supply-demand relationships to call for a relaxation of credit restraints.

2. Do you know of revisions in business plans for plant and equipment expenditures in 1957? Are there evidences of excess productive capacity?

The members of the Council have been informed of downward revisions in plans for plant and equipment expenditures in some industries and of upward revisions in others. There is not at present sufficient evidence of downward revisions in business plans for plant and equipment in 1957 to change significantly total expenditures for these purposes.

There is evidence of excess plant capacity in certain lines. A large part of the expenditures for additional plant and equipment undoubtedly is an effort to increase operating efficiency and reduce costs in order to keep abreast in an increasingly competitive market.

3. What is the outlook for construction (residential, industrial and commercial, public) during the period from now until mid-1957? Do construction costs appear likely to be stable, to increase, or to decrease in the near future? Is mortgage money available in sufficient volume to support projected residential, commercial, and private construction during this period?

The Council believes housing starts in the first half of 1957 will be slightly lower than in the same period of 1956, but the dollar volume will be approximately the same because of larger housing units and higher labor costs. Industrial and commercial construction in the same period are expected to equal or moderately exceed their 1956 dollar volume, but public construction should be considerably above last year. The total dollar volume of all construction from now until mid-1957 should be higher than in the corresponding period of 1956. Rising labor costs will be a major factor in increasing construction costs.

In reply to a similar question on the volume of mortgage money at the meeting in November, the Council stated:

". . . that mortgage loan demand was outrunning the supply of savings, that the rates of mortgages had risen, and that lenders had become more selective. . . . 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."

Since the Council's statement, higher mortgage interest rates and the decline in housing starts have tended to bring about a better balance in the supply of funds available for conventional mortgages.

Except for the VA mortgages whose present fixed rates are unattractive, sufficient mortgage funds are expected to be available to finance the anticipated volume of construction from now until mid-1957.

4. What are the probable changes in volume of bank loans during the first half of this year? Is the volume of borrowing for tax purposes in March likely to equal or exceed that of a year ago? What is the outlook for consumer credit?

The members of the Council expect the volume of bank loans to increase moderately between now and the end of June.

Some districts experience little or no borrowing for tax purposes, but most districts in which there is a concentration of large corporation

accounts expect that the volume of borrowing for tax purposes in March may exceed that of a year ago. This will result in an increase in such loans for the System as a whole.

The volume of consumer credit may be expected to increase moderately in the first half of the year.

5. What, if any, changes would the members of the Council suggest in the System's current credit policies between now and mid-year?

The Council believes, as stated in its Memorandum to the Board in November,

" . . . 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 period between now and mid-1957.

6. Do the members of the Federal Advisory Council have observations as to any features of the Bank Holding Company Act or its operation to date which they feel would be of assistance to the Board in administering its responsibilities under the law?

The members of the Council who have had experience with holding companies will present their views orally to the Board on this item of the agenda.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. AT 2:25 P. M. ON FEBRUARY 18, 1957. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. DENTON. MR. JAMES N. LAND ATTENDED AS ALTERNATE FOR MR. DENTON.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors, addressed the Council on the subject "The Current Economic Situation". Copies of Dr. Thomas' comments are being made available to the members of the Council.

The meeting adjourned at 3:40 P. M.

ON FEBRUARY 19, 1957, AT 10:30 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. DENTON. MR. JAMES N. LAND ATTENDED AS AN ALTERNATE FOR MR. DENTON. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN AND VICE CHAIRMAN BALDERSTON: GOVERNORS SZYMCAK, MILLS, ROBERTSON, VARDAMAN AND SHEPARDSON. MR. CARPENTER, SECRETARY, AND MR. SHERMAN, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS ALSO WERE PRESENT.

Fleming introduces the new members of the Council and presents the officers for the coming year.

- Robert V. Fleming, President
- Frank R. Denton, Vice President
- Adrian M. Massie, Director
- William R. K. Mitchell, Director
- Homer J. Livingston, Director
- Herbert V. Prochnow, Secretary
- William J. Korsvik, Assistant Secretary

Fleming also states that the Council has reaffirmed its willingness to oppose the creation of a national economic council which might lessen or destroy the independence of the Federal Reserve System.

ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE BUSINESS SITUATION DURING THE PERIOD FROM NOW UNTIL MID-1957? AMONG SPECIFIC INDUSTRIES, THE BOARD WOULD LIKE TO HAVE THE COUNCIL'S JUDGMENT AS TO THE PROSPECTIVE DEMAND FOR NEW MODEL AUTOMOBILES DURING THIS PERIOD, AS WELL AS FOR USED AUTOMOBILES. ARE FURTHER INCREASES IN PRICES OF FINISHED PRODUCTS EXPECTED? IS THERE ANY INDICATION OF A CHANGE IN THE SUPPLY-DEMAND RELATIONSHIPS THAT WOULD CALL FOR A RELAXATION OF CREDIT RESTRAINTS?

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

Martin suggests that members of the Council individually recite on this item of the agenda and, in addition, comment on the current "blitz of pessimism," which has recently come to the Board's attention. He would appreciate the Council's appraisal of this development.

Brace states that the outlook in the Northeast is somewhat disappointing, and cites the shrinking profit margin and the sales performance of the new model automobiles. He reports that the outlook for used cars is more cheerful. Shipbuilding is booming, while the textile industry is in a slump. The machine tool industry is operating profitably. The important electronic industry is experiencing a great demand for its products. Brace believes there is a fairly wide feeling of concern about shrinking profit margins.

Massie reports that business activity in the fourth quarter in his district set some new all-time records, although some weak spots are evident. Employment is good, personal income is at record levels and savings are strong. Textiles

are weak. Residential building is down sharply, while industrial and commercial building are high. Massie reports that public construction is up 40 per cent in his district. Automobile sales are going reasonably well, although discounts are reported. Ford and Chrysler products are apparently doing better than G. M. Massie believes business is as good as can be hoped for. He reports that the talk of pessimism is among the professional stock market investors, who believe that if a "technical adjustment" occurs in the stock market, some investors will be discouraged. Massie believes that some investors are switching from stocks to bonds. He does not think that business people are particularly bearish. Massie reports that a group of business men in the construction industry felt tight money was harming their business and called upon him. He tells of his efforts to persuade them of the need for the present restrictive monetary policy.

Mitchell. Business activity in his district is at a high level, although last month there was some indication of a levelling off. Steel, metals, petroleum, and shipbuilding are the strong industries in the economy. Bituminous coal production is at satisfactory levels and anthracite coal has shown some improvement. Although housing starts are off, the dollar volume probably will be at last year's level. Commercial and industrial construction are high and public construction is likely to increase. Department store sales are at a high level. Automobile units sold are about the same as a year ago but the dollar figure is higher. Business seems to be more cautious about accumulating inventories. Mitchell reports agricultural income in the district is up; employment is unchanged but wages have risen. Prices are up, as is personal income. Money is tight. He believes business until mid-1957 will operate at current levels, with no noticeable rise. Profit margins are shrinking. Mitchell believes business confidence has weakened in the last month or so, probably as a result of the decline in the stock market and because of reports of productive capacity in excess of demand. He also believes the record federal budget has had an adverse effect on business confidence. What slack might occur in business activity probably will be offset by increased government spending. Mitchell is of the opinion that inflationary pressures have lessened somewhat in recent months.

Land. Business in the district is at high levels, dominated by steel operations, which are about at capacity. Recently there has been some weakening of demand. The steel industry expected some decline in its rate of operations, but it has come sooner than expected. Capacity operations have characterized mills since the strike. It is estimated that 10 per cent to 15 per cent of this output went into inventories. If this rate of accumulation were continued into March, inventories would be at their pre-strike level. It is doubtful that this will happen, since there is no expectation of a strike and, consequently, no pressure to accumulate inventories. The inventory demand has about run its course. The automobile industry has cut back its steel orders, although the steel thus released has found other takers. The glass industry is showing some slackening. Land reports that the aluminum industry is hunting sales. Retail sales are good except for appliances. The price of steel is likely to edge upward. Although the prices of some products have declined, on balance, the trend is toward higher prices. Land believes business confidence is less buoyant than it has been.

Fleming believes the performance of the stock market, the profit squeeze and the publicity given the remarks of Secretary Humphrey and ex-president Hoover have had an effect on business confidence. Fleming states that they were referring to the long range trend but that business reacted immediately. The overall picture in the district is good, with shipbuilding especially active. Coal production has

been excellent though there has been some dropping off. Cigarette production is up. Farm prices have improved, while housing starts have declined. Commercial and industrial construction have risen. Fleming reports on commercial building projects in the district. He cites furniture and textiles as the weak spots in the economy of the district. Business loans and deposits have declined.

Kimball. The long term growth trend which has characterized his district continues. The immediate outlook, however, is somewhat mixed. Non-manufacturing and non-farm income are up. Consumer spending reflects this increase in income. Construction in the district is better than the national average. Manufacturing payrolls have improved. Because of fleet buying, automobile sales started out well. Recently, however, discounts can be had for all makes with the exception of Cadillac. Cash receipts from agriculture have declined. The paper and chemical industries are experiencing some weakening in demand. The textile and lumber industries are depressed. Kimball does not know why bank loans in the district are off more than seasonally. There have been reports of increased availability of steel in the district. He believes the stock market has had some effect on business confidence. He also notes that the rate of growth in the district is slowing down.

Livingston states he does not find much pessimism in the seventh district. The performance of the stock market has had some effect on business confidence. Business, however, is good and he expects it to continue at this level at least until mid-1957. Farm equipment people are hopeful and have called back some employees. Employment in the district is high. Retail sales are excellent - automobile sales are encouraging. Livingston does not believe the availability of discounts is a significant fact or that it suggests a weakening in demand. He believes dealers are reluctant to accumulate inventories. The manufacturers' sales tag, Livingston adds, has lost its sacredness. Used car sales are good. Livingston believes business is good and will continue so through the mid-year.

Miller. Business is good and he expects it to continue for the first six months of the year. He believes what pessimism there is has been brought about by imprudent statements on the outlook. Business people are cautiously optimistic. Commercial construction continues at a high level. Housing starts are down but dollar volume will probably be maintained at last year's level. He looks for a continued high level of business. There was some slow-down in business in the district at the end of last year, which he believes resulted from the shortage of steel. Some public construction is being delayed because of the level of interest rates. The improvement in the municipal bond market may change this and stimulate construction. Automobile sales are good.

Baird. Business conditions are satisfactory, especially in the eastern part of the district. The outlook for farm machinery has improved. Retail sales were up 2 per cent in January. The iron ore prospects for 1957 are very good. Cooper production has been curtailed somewhat. There is some drought in the district, although heavy snows have been helpful. Heavy rainfall in the spring and summer in the plains area will be required if there are to be normal crops. The outlook in general is optimistic. Baird reports on a symposium in which the ten largest industries in the district were represented. He was surprised at the optimism which characterized the session. The deposits in the district declined more than seasonally in January.

Kemper is mildly optimistic about the period to mid-1957. He is uncertain about the latter part of the year. He believes people have been disappointed about the lack of tax cuts, the federal budget and narrowing profit margins. Production seems to

have caught up with demand. The stock market also has had its effect on business confidence. Conditions in the district, however, are surprisingly good, considering the drought area. Car registrations are down and large discounts are common. Residential building is off about 50 per cent from a year ago. Other business, such as lumber, T. V. and furniture have been adversely affected. Public construction and corporate construction are up and have offset the decline in residential building. Pasture conditions are poor. The soil bank payments have been helpful. Business loans have declined, but an increase for tax payments is anticipated. Deposits have declined, as in other districts.

Jacobs. Business in the eleventh district appears to be on a plateau. Non-agricultural employment is down less than seasonal. He reports that the area has had the best rainfall in two years. Forage on the range is still poor. While production is at high levels, new car registrations in the four largest cities in the district are up 14 per cent over January of last year. Used cars are providing strong competition for the new models. Jacobs reports that the resistance to price increases may prevent some price rises. The chemical industry is expanding. He believes mortgage money will be available to care for projected construction. The volume of bank loans is high. Consumer credit is strong and likely to increase. The over-all business outlook is good.

King reports that the outlook in the district is optimistic, as a result of the better than average growth in population and industry. The stock market seems to be less of an influence on the west coast than it is in the East. He believes financial columnists and reporters select the pessimistic statements for their stories. Home building improved in January and February. He believes loans, by June 30, will be over the year-end figure. General Motors products seem to be less popular than other competing products. He believes business plans for spending, which have been revised upward, offset the cutbacks. He observes that over three-fourths of the time deposits in the district earn 3 per cent and that in the first six weeks they had increased \$165 million as compared to a decline of \$24 million in the corresponding period last year.

Martin expresses appreciation for the Council's thoughtful and careful comments. He states that he and the Board are impressed with the "back stopping" given by the members of the Council. He believes the efforts of the Council to explain Federal Reserve policy to businessmen and other groups throughout the country have been greatly helpful. All of us, Martin adds, have a responsibility to bring to the attention of the public the costs of a depreciating currency. If our system is going to operate as we want it to, it will take the collective efforts of all of us. Martin also urged the members of the Council to bring to the attention of the Board any matters or opinions that they believe would be helpful.

Fleming, on behalf of the Council, acknowledges Chairman Martin's remarks. He believes that the growing appreciation of the public of the problems of monetary management are attributable to the teamwork Chairman Martin has inspired.

ITEM II

DO YOU KNOW OF REVISIONS IN BUSINESS PLANS FOR PLANT AND EQUIPMENT EXPENDITURES IN 1957? ARE THERE EVIDENCES OF EXCESS PRODUCTIVE CAPACITY?

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

ITEM III

WHAT IS THE OUTLOOK FOR CONSTRUCTION (RESIDENTIAL, INDUSTRIAL AND COMMERCIAL, PUBLIC) DURING THE PERIOD FROM NOW UNTIL MID-1957? DO CONSTRUCTION COSTS APPEAR LIKELY TO BE STABLE, TO INCREASE, OR TO DECREASE IN THE NEAR FUTURE? IS MORTGAGE MONEY AVAILABLE IN SUFFICIENT VOLUME TO SUPPORT PROJECTED RESIDENTIAL, COMMERCIAL, AND PRIVATE CONSTRUCTION DURING THIS PERIOD?

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

Martin notes that a Congressional Committee had rejected a suggested increase in the VA rate.

ITEM IV

WHAT ARE THE PROBABLE CHANGES IN VOLUME OF BANK LOANS DURING THE FIRST HALF OF THIS YEAR? IS THE VOLUME OF BORROWING FOR TAX PURPOSES IN MARCH LIKELY TO EQUAL OR EXCEED THAT A YEAR AGO? WHAT IS THE OUTLOOK FOR CONSUMER CREDIT?

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

ITEM V

WHAT, IF ANY, CHANGES WOULD THE MEMBERS OF THE COUNCIL SUGGEST IN THE SYSTEM'S CURRENT CREDIT POLICIES BETWEEN NOW AND MID-YEAR?

Fleming reads Item V and the conclusions of the Council as expressed in the attached confidential memorandum to the Board. He points out that the Board will note that the usual comment about the discount window is absent, although, of course, the Council's interest in its continued availability is unchanged.

ITEM VI

DO THE MEMBERS OF THE FEDERAL ADVISORY COUNCIL HAVE OBSERVATIONS AS TO ANY FEATURES OF THE BANK HOLDING COMPANY ACT OR ITS OPERATION TO DATE WHICH THEY FEEL WOULD BE OF ASSISTANCE TO THE BOARD IN ADMINISTERING ITS RESPONSIBILITIES UNDER THE LAW?

Fleming reads Item VI and the conclusions of the Council as expressed in the attached confidential memorandum to the Board. He then asks Baird to comment.

Baird prefaces his remarks by stating that the opinions he will express are not those of the Council. He believes the Act will serve a useful purpose but that the following technicalities or difficulties probably should be brought to the attention of the Board:

1. The prohibition of horizontal loans.
2. The provision in the law prohibiting loans on the stock of a holding company and requiring that existing loans be liquidated within two years.
3. The provisions of Bill S. 1075 exempting from the provisions of the Act a holding company owned by a charitable organization.

Robertson asks how you oppose the provisions of S. 1075.

Baird replies that he does not know. He hopes a delaying action would be helpful.

Reserve Bank of San Francisco.

"It is suggested that it might be advisable for the Board to seek legislative reconsideration of the "other than a bank" clause of Section 3(a)(3). It would seem that by thus allowing bank subsidiaries of bank holding companies to merge through the asset acquisition route an inexplicable distinction between stock and asset acquisitions such as exists under Section 7 of the Clayton Act is perpetuated. The exemption given to bank asset acquisition mergers seems to flout the spirit, if not the letter, of Section 3(d), the so-called Douglas amendment."

Baird comments on the suggest amendment.

Kimball describes the development in Florida of an exempt holding company which uses a technique involving appreciation in the value of agricultural land. The income of the banks is used to offset the depreciation of assets. He reports that the group already controls 5 per cent of the bank resources of the state.

Martin suggests that the holding company item continue to be placed on the Agenda for about two years.

Robertson suggests that the other exemptions included in the Act be discussed at subsequent meetings of the Board and the Council. The Board has opposed these exemptions but there is a need for more reasoned judgment if this opposition is to be effective.

Fleming agrees that the item should remain on the Agenda.

Vardaman asks if it would be appropriate to inquire into the risks involved in the concentrated clearing of checks. He believes it is a kiting operation and involves certain dangers. Commenting on the development and growth of certain bank holding companies, Vardaman says he has personal knowledge of offers for bank stock at ten times book or market value.

Fleming notes that the exemptions permitted under the Bank Holding Company Act appear to be unjustified and have permitted certain unsavory practices to develop. In view of the Board's concern, he suggests that the members of the Council study this matter and prepare individual memorandums to be submitted to the Board before the next meeting of the Council.

Baird agrees to prepare a summary of his remarks on the Bank Holding Company Act for distribution to the members of the Council through the office of the Secretary.

Robertson suggests that the Council consider at one of its subsequent meetings the practice, indulged in by a very limited number of banks, of "padding" deposits at call dates so as to build up their totals. He states that at a recent call date, this padding by a few banks totaled \$600 million. The Board wants to stop the practice but it does not know how. If it continues, it could discredit all banking. Robertson asks what is the best way of stopping it.

Martin adds that what disturbs the Board is that the tendency or practice has been growing.

Shepardson asks if the soil bank allotment payments have presented any problems to the banks.

Kemper acknowledges that people will want to borrow against them and that occasionally the amounts involved are so large that the city correspondent is obliged to take part of the loan.

Shepardson noted that he envisions some difficulty as the allotments cannot be reassigned.

Kemper agrees that certain difficulties may be involved but that he believes they will be overcome as the banks gain more experience with the transactions.

The meeting adjourned at 12:50 P. M.

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After some brief discussion it was agreed that the next meeting of the Council will be May 12, 13, 14, 1957.