

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 15, 1957

The third statutory meeting of the Federal Advisory Council for 1957 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on September 15, 1957, at 2:20 P.M., the President, Mr. Fleming, in the Chair.

Present:

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
Gordon Murray	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

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on May 12, 13 and 14, 1957, copies of which had been sent previously to the members of the Council, were approved.

President Fleming noted that Mr. Gordon Murray had been elected to represent the Ninth District following Mr. Julian B. Baird's resignation from the Federal Advisory Council upon his appointment as Under Secretary of the Treasury.

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 22 and 23 of these minutes.

The meeting adjourned at 5:50 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 16, 1957

At 10:25 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C.

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

The Council reviewed its conclusions of the previous day regarding the items on the agenda and sent to the Secretary of the Board of Governors the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 22 and 23, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12:20 P.M. on September 16, 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 SEPTEMBER 17, 1957

1. What are the views of the members of the Council as to the existing economic situation, particularly with respect to its trend during the rest of the current year? What are the prospects with respect to construction (industrial, commercial, and residential), and the demand for funds for this purpose? What effects are the recently announced terms on FHA and VA mortgages having on the residential mortgage market?

All members of the Council believe that business will continue strong for the balance of the current year. Although there is some spottiness in the economy, a major supporting factor is the present large volume of retail sales.

The prospects are that industrial, commercial, and residential construction and the consequent demand for funds will continue about at present levels for the balance of the year. The recently announced terms on FHA and VA mortgages have had very little effect on the residential mortgage market up to the present time. VA loans have ceased to be a significant factor in the mortgage market because of the continuing unrealistic rates.

2. What changes in the over-all demand for bank credit and in the sources of demand can be expected during the next six months or a year?

The Council expects that loans will expand in the fourth quarter, and that there will be no marked change in the sources of demand for credit. If business should decline after the first of the year, inventories may tend to accumulate. In this event, the seasonal pattern of loan liquidation may be diminished to some extent.

3. What is the public thinking in the various sections of the country with respect to inflation; that creeping inflation is inevitable; that it will be stopped? What effect is this thinking having on the financial plans of business and investors?

The public generally is becoming increasingly concerned with the rise in the price level. There are undoubtedly some who believe that creeping inflation is inevitable and that it will not be stopped. However, the increasing volume of individual savings suggests that the great majority of people believe the growth of the economy will be orderly with relatively stable prices and that their savings will not be dissipated by inflation.

There has been some acceleration in business expenditures for plant and equipment because of an anticipated increase in construction costs. However, increased consumer expenditures because of the rise in personal income and its wider distribution to an expanding labor force, as well as efforts by management to reduce labor costs and increase efficiency, have been major influences determining business plant and equipment expenditures.

The rising price level has probably induced some investors to purchase equities and real estate.

4. At the last meeting of the Council there was a discussion of the effects of the payment by banks of higher interest rates on savings deposits. The Board would appreciate any further comments that the members of the Council might wish to make on this subject.

Banks which increased the interest rate paid on their savings deposits have attracted additional deposits. Those banks which increased the interest rate to 3 per cent experienced the largest gains.

5. What are the Council's views with respect to (a) the credit policies followed by the Federal Reserve System since the last meeting of the Council, and (b) the policies that would be appropriate for the balance of this year?

The credit policies which the Federal Reserve System has followed since the last meeting of the Council have been appropriate and constructive. In the opinion of the Council, the Board should at present continue the same degree of credit restraint which the System has maintained in recent months.

6. (a) As stated at the meeting on May 14, 1957, the topic of changes to be suggested in the Bank Holding Company Act of 1956 is to be carried on the agenda for each meeting of the Council until the spring of 1958.

(b) Does the Council have any changes to suggest in existing law other than the Bank Holding Company Act?

(a) Other than the suggested amendments previously submitted to the Board, the Council has no further comments to make at this time on the Bank Holding Company Act of 1956.

(b) In relation to the Financial Institutions Act of 1957, the Council submitted to the Board a number of recommendations which it believed would improve the proposed legislation.

The Council continues to believe that legislation should be enacted at the next session of Congress which will permit (1) tax deductions of more adequate bad debt reserves for banks, and will provide for (2) a general revision and reduction in reserve requirements. While the Council recognizes that a reduction in reserve requirements would not be appropriate at present, it favors the enactment of legislation now.

7. What was the effect of the call this year for reports of condition as of June 6 rather than June 30?

The Council believes that the call this year for reports of condition as of June 6 rather than June 30 was an effective method of helping to eliminate certain undesirable practices by some banks.

The Council will be greatly interested in any comments Chairman Martin may wish to make on the recent hearings before the House Banking and Currency Committee on the Financial Institutions Act and the hearings before the Senate Finance Committee.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 16, 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, Frank R. Denton, Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Gordon Murray, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Dr. Winfield W. Riefler, Assistant to the Chairman, commented on the Senate Finance Committee hearings on the "Investigation of the Financial Condition of the United States." A summary of Dr. Riefler's remarks was handed the members of the Council.

The meeting adjourned at 3:20 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

September 17, 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., and J. L. Robertson; 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, Frank R. Denton, Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Gordon Murray, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

The President of the Council read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council* as printed on pages 28 and 29 of these minutes. A discussion followed in which the individual members of the Council recited on conditions in their districts.

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

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

Chairman Martin stated that the concept of full employment is a revolutionary idea. People must be convinced, he added, that it includes a rounded program of sound purchasing power and production.

The President of the Council read the fourth item, and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board*. A brief discussion followed.

President Fleming then read the fifth, sixth and seventh items, and the conclusions of the Council.

The meeting adjourned at 12:25 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 September 15-17, 1957, at 2:20 P.M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

The Council approved the Secretary's notes for the meeting of May 12-14, 1957.

Fleming comments on Mr. Julian B. Baird's appointment as Under Secretary of the Treasury, and welcomes to the Council the new member from the ninth district, Mr. Gordon Murray, President, The First National Bank of Minneapolis, Minneapolis, Minnesota.

Livingston inquires about Mr. Ray Gidney, Comptroller of the Currency.

Fleming answers off-the-record on this and on the recent FDIC appointments.

ITEM I

WHAT ARE THE VIEWS OF THE MEMBERS OF THE COUNCIL AS TO THE EXISTING ECONOMIC SITUATION, PARTICULARLY WITH RESPECT TO ITS TREND DURING THE REST OF THE CURRENT YEAR? WHAT ARE THE PROSPECTS WITH RESPECT TO CONSTRUCTION (INDUSTRIAL, COMMERCIAL, AND RESIDENTIAL), AND THE DEMAND FOR FUNDS FOR THIS PURPOSE? WHAT EFFECTS ARE THE RECENTLY ANNOUNCED TERMS ON FHA AND VA MORTGAGES HAVING ON THE RESIDENTIAL MORTGAGE MARKET?

Fleming reads Item I of the Agenda and asks members of the Council to comment individually.

Brace states that business in the Northeast continues on a high plateau as it has in the past six months. The declines in various lines have been more than offset by increases in other areas. He believes business will continue at a high level for the remainder of the year. Although residential construction has been disappointing, it has not caused any distress as commercial, light industrial and shopping center building has been moving at a satisfactory pace. Over-all construction has been on a level since the early part of the year.

Massie states that there has been very little change in the rate of business activity in the second district since the first part of the year. He looks for no change during the balance of 1958. This has been true of aggregate business because the declines have been offset by increases. Total construction is high and moving up. Construction by state and by local municipalities, as well as office building, has more than offset a 30 per cent decline in residential building. Employment is high with overtime shading off a bit and some shifting in employment. Work stoppages in the automobile industry, and the cement strike, have complicated the employment picture. Personal income is high. Massie describes the economic picture as good and anticipates no slowing up of business in the aggregate.

Mitchell states that the business situation in the third district is similar. Although the length of the work week has declined, aggregate factory payrolls are up. Residential building is off and auto sales are disappointing. Retail sales are doing very well. Personal income has increased. The drought has adversely affected agriculture. Residential contract awards are off 14 per cent from a year ago, while those for commercial building are up about 7 per cent. Total construction is about even. Mitchell understands that industrial construction appropriations are off and this may have an effect on construction activity a year from now. He believes the sideways movement that has characterized the economy will continue until the end of the year. Business sentiment looks for a fall off next year.

Denton believes the economy has weakened and will weaken more by the end of the year. He relates that he has spoken to about a dozen industries in the past week or so, including steel, electrical goods, petroleum, aluminum, railroad equipment manufacturers and automobile parts suppliers, and all of them anticipate that 1958 will not be as good as 1957. The most optimistic of those he has spoken to look for physical production to remain even. Denton anticipates a decline in industrial construction since a number of industries have some excess capacity. Some expansion programs now in progress are being delayed and new ones are not being planned. Denton believes housing may go up a little and that public construction is booming.

Fleming states that in the fifth district the strong spots are offsetting weak or declining factors. He cites the following examples: coal production up 13 per cent, lumber about even, the pulp and paper industry down, while the manufacturing of transportation equipment is up slightly, largely because of the building of tankers. Bank loans in the district are up. The military cutbacks have adversely affected employment. Total construction is up 2 per cent, largely as the result of building of offices and municipal projects. Residential building has declined. Automobile sales are below a year ago. The drought in the district has affected agriculture as the rains have come too late. Farm prices have risen about 5 per cent. For the balance of the year, Fleming believes the good points will continue to offset the weak sections of the economy.

Kimball says that business in the sixth district is strong, although there are differences in various sections of the district. Employment is showing an upward tendency with manufacturing employment up in June and July after declining for the first five months. Nonmanufacturing employment is inching up. However a mixed pattern is evident in various industries. Construction is up, including residential building. Retail sales are extremely high. Department store sales in the district touched record levels in July. Loan demand has picked up the last month or so. Gross cash agricultural income matches a year ago but net income is smaller because of higher costs. Kimball describes the over-all economic picture in the district as very strong.

Livingston. Business is at a very high level and he expects it to continue for the balance of the year. The condition of business is evidenced by the high employment totals. For the district, unemployment tends to be confined to the Detroit and Flint areas. Agricultural income is good because of higher prices. The packers probably will report a poor year which is customary in a period of low marketings and high prices. Commercial and residential building are down, while industrial building has risen. High retail sales are providing the buoyancy now in the economy. Livingston reports that retailers are anticipating the best

Christmas in history. Money is tight and demand for credit continues heavy. Deposits have not increased as much as the banks would like. Livingston states that business for the balance of the year in the seventh district should be good.

Murray. Aggregate business is good, although some segments of the economy are up while others are down. Moisture has improved the crop outlook and so the income of agriculture is expected to be good. Appliances, lumber, and farm equipment industries are down. Retail sales are good. He expects business to be good for the balance of the year. Residential construction has declined, although commercial and industrial building are holding up well. Loans are at record highs and although deposits have increased, money is tight. On a ratio basis, however, it is not as tight as in the past.

Kemper describes business in the tenth district as good. He expects it to continue for the balance of the year. He suggests that it might decline a little after the first of the year. He attributes the improvement in business to the increased rainfall. Large soil bank payments have provided additional income in the district. He adds that the program has not succeeded in reducing production since it was the marginal land that was idled and additional fertilizers were used on that which remained in production. Despite a 10 to 15 per cent decline in residential construction, total construction is up largely because of public works-- schools, highways, water systems. Retail sales are surprisingly good, although auto sales are off about 5 per cent. Cattle prices have been excellent and hog prices good, though they have declined recently. Loans and deposits have increased recently. Employment in the district is up 1 per cent.

Jacobs reports that employment in the district is good. Construction awards reached a peak in June. Agricultural prospects have greatly improved. The cotton crop outlook is good. Soil bank payments have been helpful in supplementing agricultural income. Deposits have increased in recent months with savings 18 per cent above last year. He expects loan demand to expand in the months ahead. Petroleum stocks are high despite production cuts with consequent pressure on prices. Jacobs expects business to continue strong for the balance of the year.

King says that business is strong. He adds that unemployment in the district is below the national average, despite the cuts in employment by the aviation companies. King expects business in the district to continue strong for the balance of the year. The decline in residential building has been more than offset by other types of construction.

A brief discussion followed, during which it was generally agreed that adequate funds on conventional mortgage terms would be available to finance construction.

Murray reports receiving requests for credit for mortgage warehousing.

After an extended discussion in which most members of the Council participated, the following reply was suggested.

Fleming. The prospects are that construction and the demand for funds will continue about at present levels for the balance of the year. Recently announced terms on FHA and VA mortgages have had little effect on the mortgage market up to the present time. VA loans have ceased to be a factor because of unrealistic rates.

ITEM II

WHAT CHANGES IN THE OVER-ALL DEMAND FOR BANK CREDIT AND IN THE SOURCES OF DEMAND CAN BE EXPECTED DURING THE NEXT SIX MONTHS OR A YEAR?

Fleming reads Item II and asks for comments from the members of the Council.

Massie states that recently the New York banks have received requests from major corporations for substantial revolving credits. Many of these run for two year periods and carry with them the right to renew at maturity. Massie also reports that the utilities are borrowing funds that eventually they will obtain by open market financing.

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

Fleming. The Council may state that it expects loans will expand in the fourth quarter, adding that even if business should decline after the first of the year, loans may increase because of accumulating inventories.

ITEM III

WHAT IS THE PUBLIC THINKING IN THE VARIOUS SECTIONS OF THE COUNTRY WITH RESPECT TO INFLATION; THAT CREEPING INFLATION IS INEVITABLE; THAT IT WILL BE STOPPED? WHAT EFFECT IS THIS THINKING HAVING ON THE FINANCIAL PLANS OF BUSINESS AND INVESTORS?

Fleming reads Item III.

This was followed by considerable discussion during which it was agreed that the average public is becoming increasingly concerned with the rise in the cost of living. A certain segment of the business community apparently believes that inflation is inevitable. On the other hand, several members of the Council called attention to the volume of savings which occurred in the first six months, and to the fact that the pace of business spending on plant and equipment has slowed considerably. These facts suggest that the belief that inflation is inevitable, is not widespread nor has it greatly modified the consumption and savings behavior of the community. It was also mentioned that in periods of rapidly rising prices, savings balances are withdrawn and utilized to purchase commodities and real estate. It was suggested, however, that the rise in construction costs probably has accelerated business building expansion programs. Rising price levels also probably have induced investors to buy real estate and to invest in equities with growth prospects.

ITEM IV

AT THE LAST MEETING OF THE COUNCIL THERE WAS A DISCUSSION OF THE EFFECTS OF THE PAYMENT BY BANKS OF HIGHER INTEREST RATES ON SAVINGS DEPOSITS. THE BOARD WOULD APPRECIATE ANY FURTHER COMMENTS THAT THE MEMBERS OF THE COUNCIL MIGHT WISH TO MAKE ON THIS SUBJECT.

Fleming reads Item IV and adds that Mr. Ray Dunkerley of the American Bankers Association had sent him some material on the savings experience of members in the United States.

Massie reports that the New York Federal Reserve Bank had received letters from two major New York banks both suggesting an increase in the savings rate. In one instance, the suggestion was made that the interest rate be raised to 3-1/4 per cent on deposits running 90 days or more. In the other case, it was suggested that deposits running 90 days to six months earn 3-1/4 per cent, whereas those running six months or more earn 3-1/2 per cent. Massie states that he mentions this only to keep the Council informed.

King reports that most banks in California increased the savings interest rate to 3 per cent on January 1. In Los Angeles, in the first six months the banks enjoyed a 10 per cent gain, compared to a 1.6 per cent increase in the same period last year. The savings and loan associations experienced a 10 per cent gain in the first six months both in 1956 and 1957.

Some general discussion followed at this point.

Fleming states that the Council may report that banks which increased the interest rate paid on their savings deposits have attracted additional deposits and that those banks which increased the rate to 3 per cent experienced the larger gains.

ITEM V

WHAT ARE THE COUNCIL'S VIEWS WITH RESPECT TO (a) THE CREDIT POLICIES FOLLOWED BY THE FEDERAL RESERVE SYSTEM SINCE THE LAST MEETING OF THE COUNCIL, AND (b) THE POLICIES THAT WOULD BE APPROPRIATE FOR THE BALANCE OF THIS YEAR?

Fleming reads Item V.

A brief discussion followed in which members of the Council indicated their approval of the System's credit policies and that the same degree of restraint should be maintained in the period ahead.

ITEM VI

(a) AS STATED AT THE MEETING ON MAY 14, 1957, THE TOPIC OF CHANGES TO BE SUGGESTED IN THE BANK HOLDING COMPANY ACT OF 1956 IS TO BE CARRIED ON THE AGENDA FOR EACH MEETING OF THE COUNCIL UNTIL THE SPRING OF 1958.
(b) DOES THE COUNCIL HAVE ANY CHANGES TO SUGGEST IN EXISTING LAW OTHER THAN THE BANK HOLDING COMPANY ACT?

Fleming reads Item VI and reviews the study and subsequent recommendations the Council has made on the Bank Holding Company Act of 1956, and the Financial Institutions Act of 1957.

No member of the Council had additional comments to offer.

Livingston. It would be appropriate to state that the Council favors the enactment of legislation which will permit the tax deduction of more adequate bad debt reserves for banks and will provide for a general revision and reduction in reserve requirements.

ITEM VII

WHAT WAS THE EFFECT OF THE CALL THIS YEAR FOR REPORTS OF CONDITION AS OF JUNE 6 RATHER THAN JUNE 30?

Fleming reads Item VII. He believes that requesting the call as of June 6 rather than June 30 had a salutary effect.

Jacobs believes that the surprise element had desirable results.

Mitchell notes that there has been some objection voiced that the notice of the call came so long after the call that additional paper work was required.

Fleming states that the Council believes that call reports of condition as of June 6 rather than June 30 was an effective method helping to eliminate certain undesirable practices by some banks.

The meeting adjourned at 5:50 P.M.

THE COUNCIL RECONVENED AT 10:25 A.M. ON SEPTEMBER 16, 1957, IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D. C. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on September 17, 1957. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors at 12:20 P.M. on September 16, 1957. It will be noted that each items of the Agenda is listed together with the comments of the Council.

The meeting adjourned at 11:30.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON SEPTEMBER 17, 1957

1. What are the views of the members of the Council as to the existing economic situation, particularly with respect to its trend during the rest of the current year? What are the prospects with respect to construction (industrial, commercial, and residential), and the demand for funds for this purpose? What effects are the recently announced terms on FHA and VA mortgages having on the residential mortgage market?

All members of the Council believe that business will continue strong for the balance of the current year. Although there is some spottiness in the economy, a major supporting factor is the present large volume of retail sales.

The prospects are that industrial, commercial, and residential construction and the consequent demand for funds will continue about at present levels for the balance of the year. The recently announced terms on FHA and VA mortgages have had very little effect on the residential mortgage market up to the present time. VA loans have ceased to be a significant factor in the mortgage market because of the continuing unrealistic rates.

2. What changes in the over-all demand for bank credit and in the sources of demand can be expected during the next six months or a year?

The Council expects that loans will expand in the fourth quarter, and that there will be no marked change in the sources of demand for credit. If business should decline after the first of the year, inventories may tend to accumulate. In this event, the seasonal pattern of loan liquidation may be diminished to some extent.

3. What is the public thinking in the various sections of the country with respect to inflation; that creeping inflation is inevitable; that it will be stopped? What effect is this thinking having on the financial plans of business and investors?

The public generally is becoming increasingly concerned with the rise in the price level. There are undoubtedly some who believe that creeping inflation is inevitable and that it will not be stopped. However, the increasing volume of individual savings suggests that the great majority of people believe the growth of the economy will be orderly with relatively stable prices and that their savings will not be dissipated by inflation.

There has been some acceleration in business expenditures for plant and equipment because of an anticipated increase in construction costs. However, increased consumer expenditures because of the rise in personal income and its wider distribution to an expanding labor force, as well as efforts by management to reduce labor costs and increase efficiency, have been major influences determining business plant and equipment expenditures.

The rising price level has probably induced some investors to purchase equities and real estate.

4. At the last meeting of the Council there was a discussion of the effects of the payment by banks of higher interest rates on savings deposits. The Board would appreciate any further comments that the members of the Council might wish to make on this subject.

Banks which increased the interest rate paid on their savings deposits have attracted additional deposits. Those banks which increased the interest rate to 3 per cent experienced the largest gains.

5. What are the Council's views with respect to (a) the credit policies followed by the Federal Reserve System since the last meeting of the Council, and (b) the policies that would be appropriate for the balance of this year?

The credit policies which the Federal Reserve System has followed since the last meeting of the Council have been appropriate and constructive. In the opinion of the Council, the Board should at present continue the same degree of credit restraint which the System has maintained in recent months.

6. (a) As stated at the meeting on May 14, 1957, the topic of changes to be suggested in the Bank Holding Company Act of 1956 is to be carried on the agenda for each meeting of the Council until the spring of 1958.
(b) Does the Council have any changes to suggest in existing law other than the Bank Holding Company Act?

(a) Other than the suggested amendments previously submitted to the Board, the Council has no further comments to make at this time on the Bank Holding Company Act of 1956.

(b) In relation to the Financial Institutions Act of 1957, the Council submitted to the Board a number of recommendations which it believed would improve the proposed legislation.

The Council continues to believe that legislation should be enacted at the next session of Congress which will permit (1) tax deduction of more adequate bad debt reserves for banks, and will provide for

(2) a general revision and reduction in reserve requirements. While the Council recognizes that a reduction in reserve requirements would not be appropriate at present, it favors the enactment of legislation now.

7. What was the effect of the call this year for reports of condition as of June 6 rather than June 30?

The Council believes that the call this year for reports of condition as of June 6 rather than June 30 was an effective method of helping to eliminate certain undesirable practices by some banks.

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The Council will be greatly interested in any comments Chairman Martin may wish to make on the recent hearings before the House Banking and Currency Committee on the Financial Institutions Act and the hearings before the Senate Finance Committee.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. AT 2:25 P.M. ON SEPTEMBER 16, 1957. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

Dr. Winfield W. Riefler, Assistant to the Chairman, spoke to the Council on the four principal assertions underlying the case presented to the Senate Finance Committee by an important group of critics of the Federal Reserve System. A summary of Dr. Riefler's remarks was distributed to each member of the Council.

The meeting adjourned at 3:20 P.M.

Dr. Riefler introduced the new member of the Federal Advisory Council from the sixth district, Mr. Gordon Murray, President of the First National Bank of Knoxville. He made a statement to the Council on behalf of the Advisory Council members in the field. He then asked individual members to speak.

Dr. Riefler stated that there is considerable variation in his district from district to district with some weak and some strong. He indicated that the business is good and he expects it to continue to be so for the remainder of the year. Textile and textile mill operations are all- out. Chemicals, on the other hand, are operating at near capacity. Retail business has improved considerably as a result of moving business and commercial construction in the district.

Dr. Riefler stated that business in the district in the second half of the year is good. He expects it to continue to be so for the remainder of the year. He expects that the business will be good for the remainder of the year. He expects that the business will be good for the remainder of the year. He expects that the business will be good for the remainder of the year.

Dr. Riefler stated that business in the district is following the same pattern as in the past with some variations. He expects that the business will be good for the remainder of the year. He expects that the business will be good for the remainder of the year. He expects that the business will be good for the remainder of the year.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 10:30 A.M. ON SEPTEMBER 17, 1957. ALL MEMBERS OF THE COUNCIL WERE PRESENT. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON: GOVERNORS SZYMCAK, VARDAMAN, MILLS AND ROBERTSON. MESSRS. CARPENTER, SECRETARY, AND SHERMAN, ASSISTANT SECRETARY, WERE ALSO PRESENT.

ITEM I

WHAT ARE THE VIEWS OF THE MEMBERS OF THE COUNCIL AS TO THE EXISTING ECONOMIC SITUATION, PARTICULARLY WITH RESPECT TO ITS TREND DURING THE REST OF THE CURRENT YEAR? WHAT ARE THE PROSPECTS WITH RESPECT TO CONSTRUCTION (INDUSTRIAL, COMMERCIAL, AND RESIDENTIAL), AND THE DEMAND FOR FUNDS FOR THIS PURPOSE? WHAT EFFECTS ARE THE RECENTLY ANNOUNCED TERMS ON FHA AND VA MORTGAGES HAVING ON THE RESIDENTIAL MORTGAGE MARKET?

Fleming introduces the new member of the Federal Advisory Council from the ninth district, Mr. Gordon Murray, President of the First National Bank of Minneapolis. He reads Item I and the conclusions of the Council as stated in the Confidential Memorandum to the Board. He then asks individual members to comment.

Brace states that there is considerable variation in his district from industry to industry with some weak and some strong. On balance, however, business is good and he expects it to continue to be so for the remainder of the year. Textile and textile machine manufacturing is off. Electronics, on the other hand, are operating at high levels. Retail business has increased. Residential construction is moving sideways and industrial and commercial construction are up moderately.

Massie states that business in the aggregate in the second district is at a high level. Employment is high. Personal income, though at a record high, is tending to level off. He reports some drop in overtime. Industrial and commercial construction, particularly office buildings, are high. Residential construction in the district is off 30 per cent which is twice the national average. Retail trade has been unusually good. Textile and apparel, however, have had their troubles. Deposits are down, though the increase in savings has brought some pickup. Loan demand seems to be stepping up and Massie expects it to continue through the end of the year. The outlook is for a high volume of business in the months ahead.

Mitchell states that business in the district is following the same pattern as in the past with weak spots being offset by strong factors. Department store sales have been excellent. Agriculture has been hard hit by the drought in the district, particularly the vegetable crops. Personal income is up, though employment is about at the same level as a year ago, with hours down but wages up. Money is tight as deposits have declined and loan volume has been maintained. Borrowings at the Federal Reserve are at about the same as last year. Banks in the district are loaning 57 per cent of their deposits against a national average of 50 per cent. Mitchell expects business to continue at its present high level for the balance of the year.

Denton anticipates a high level of business for the rest of the year. Executives of individual concerns in the district that he has visited are more

pessimistic than the opinions expressed by the members of the Council. In many instances, business is below last year's level and they forecast a smaller volume next year. He mentions that the chemical industry is suffering from overcapacity, and that the storage problem is acute. The oil industry has large inventories, although a cold winter would alleviate the pressure on fuel oils. Consumers are buying freely and retail trade is high. Loan demand shows no signs of slackening. He anticipates some relief on the credit structure next year as loans to finance expansion mature. Business is good, though the atmosphere is not quite as optimistic as in the past.

Martin asks if any member of the Council can explain why there are such swings in business sentiment. He comments that he has observed business sentiment swinging from the heights of optimism to the depths of depression.

Livingston says that the longer the boom runs, the more alert people become to economic changes. Often they tend to magnify the importance of any particular event.

Balderston asks if France's economic difficulties will have any effect on our economy?

Fleming does not believe it will be an important factor.

Livingston does not believe the deterioration of France's international exchange position will have a serious effect on our economy.

Massie suggests that the devaluation in France is not complete and that eventually the devaluation will have an effect on Britain, and this in turn will have some effect in the United States. Massie reports that some exporters are experiencing difficulty selling to Western Europe. He suggests that the effect on the U. S. economy of France's devaluation will be delayed.

Fleming states that the gains and losses have kept the economy in the fifth district on an even keel. Loans are up and where banks have increased the savings rate, deposits have risen. Commercial and industrial building are strong, while residential building has declined. The demand for loans continues strong. The bright spot in the economy is the high level of retail trade.

Kimball describes the over-all picture in the sixth district as good with weak spots tending to be offset by others which are strong. He notes, however, that there are divergent patterns within states in the district. Employment is showing an upward trend. All construction awards have risen with those for residences showing the greatest increase. Loans and deposits in the district continue to inch up. Agricultural cash income is about the same as last year, though net income is off because of higher costs. Kimball describes the economy in the sixth district as strong.

Livingston. Business continues to be very good in the seventh district and he expects it to continue for the balance of the year. Employment is high except in the Detroit and Flint areas. Crops have been good. Hog and cattle prices have been high, though the former has dropped recently because of increased marketings and a weakening in demand. The packers are not having a good year. Residential building is down sharply from a year ago, but commercial and industrial are up. Retail sales are excellent and provide the buoyancy which characterizes business in the district.

Miller states that conditions in the eighth district are similar to those described by other members of the Council. Business continues at a high level. Loan demand is above a year ago with deposits off slightly. Retail sales have shown a decided pickup. The tobacco crop and price outlook is good. Highway construction is expanding.

Murray. Business in the ninth district is at a high level and he expects it to continue for the balance of the year. Agriculture, which dominates the economy of the district, is good as farm prices are up and adequate moisture has insured a good crop. This has tended to balance the soft spots in the economy, particularly residential building and the related industries. They have enjoyed a good tourist season. Retail sales are holding up well and tends to be a strong spot currently. Money is tight with loans reaching new highs. The increase in deposits has tended to reduce borrowings from the Federal Reserve.

Kemper describes business in his district as good and attributes the improvement over last year to increased rainfall. All crops with the exception of winter wheat are good. The soil bank payments have added to agricultural income. He notes that the soil bank program has had little effect on total crop output. Retail sales are good. The decline in residential building has been more than offset by public works, office building and highway construction. Employment is excellent. Loan demand continues strong. Retail sales are excellent. He expects good business for the balance of the year.

Jacobs reports that department store sales in the district are high, and that employment is good. Construction awards reached a peak in June. The outlook for agriculture has improved because of rainfall. Deposits and loans have risen. He expects loans to increase during the balance of the year. Oil stocks are at high levels despite production cutbacks. As a consequence, there is some pressure on prices. He notes that there is considerable activity in off-shore oil drilling. Business is good. Jacobs states that many businessmen are puzzled by their inability to make money despite increased sales. He also believes that people are becoming increasingly alarmed at the rise in the cost of living.

King reports that business in the twelfth district is about the same as in the other districts. Lumber is a weak spot probably because of the decline in residential building. Though aviation employment is off, other industries have absorbed the labor, and unemployment in the district is below the national average. Construction activity follows the national pattern with commercial and industrial building, particularly utilities, strong and offsetting the decline in residential construction. Loans are up and deposits have increased largely as the result of the growth in savings. The Los Angeles banks, paying 3 per cent on savings deposits, have reported a gain of about 10 per cent in the first six months, though the rate of increase appears to be slowing down. King looks for strong business during the balance of the year.

ITEM II

WHAT CHANGES IN THE OVER-ALL DEMAND FOR BANK CREDIT AND IN THE SOURCES OF DEMAND CAN BE EXPECTED DURING THE NEXT SIX MONTHS OR A YEAR?

Fleming reads Item II and the conclusions of the Council as stated in the Confidential Memorandum to the Board.

Balderston asks if steel stocks have been increasing the last two months?

Denton No. He believes that inventories are being reduced in the third quarter.

ITEM III

WHAT IS THE PUBLIC THINKING IN THE VARIOUS SECTIONS OF THE COUNTRY WITH RESPECT TO INFLATION; THAT CREEPING INFLATION IS INEVITABLE; THAT IT WILL BE STOPPED? WHAT EFFECT IS THIS THINKING HAVING ON THE FINANCIAL PLANS OF BUSINESS AND INVESTORS?

Fleming reads Item III and the conclusions of the Council as stated in the Confidential Memorandum to the Board. He adds that he is disturbed about the reports in some periodicals and business letters which state that inflation will continue in the future.

Martin replies that the nature of the problem facing the economy is quite clear, but that the solution to the problem is confused. Martin is not certain that we have made any progress persuading people that there is only one way to fight inflation and that is "the hard way." Unfortunately most people want to do it "the easy way." We have a real problem and we must face up to it. The people must be persuaded that the printing press solution whereby we spend ourselves rich is an illusion.

Denton states that businessmen seem to be less certain today, as compared to a few weeks ago, that creeping inflation is inevitable.

Mitchell believes an increasing number expect poorer business and some deflation next year.

Martin states that the concept of full employment is a revolutionary idea. People must be convinced that it includes a rounded program of sound purchasing power and production. He suggests that the British are convinced that they cannot permit readjustments in the economy and retain political power. If this belief is true and persists, it means the end of freedom. He argues that the full employment concept is a vast, potentially serious idea.

Vardaman asks if the increase in retail trade is at all related to rising prices.

Fleming No.

Livingston says that the increase in retail sales has come in soft goods. This suggests that inflation is not a factor.

Vardaman asks if it is replacement buying or if can it be expected to continue?

Most members of the Council indicate they feel it is not replacement buying.

Massie outlines the change in the pattern of buying since the middle of the year indicating that the increase in sales was first reflected in soft goods but that now it is beginning to appear in appliances.

Jacobs believes that price reductions of some consumer durables have been a factor.

Vardaman asks if the increase in sales has been cash or credit.

Livingston says that there has been no change in cash-credit pattern of retail sales. He adds that basically the increased buying is a reflection of job security and high incomes.

ITEM IV

AT THE LAST MEETING OF THE COUNCIL THERE WAS A DISCUSSION OF THE EFFECTS OF THE PAYMENT BY BANKS OF HIGHER INTEREST RATES ON SAVINGS DEPOSITS. THE BOARD WOULD APPRECIATE ANY FURTHER COMMENTS THAT THE MEMBERS OF THE COUNCIL MIGHT WISH TO MAKE ON THIS SUBJECT.

Fleming reads Item IV and the conclusions of the Council as expressed in the Confidential Memorandum to the Board.

King reports on the 10 per cent increase in savings that the Los Angeles banks experienced in the first six months of 1957 after raising the rate to 3 per cent.

Denton comments that the rate of increase in the growth of savings deposits tends to slow down.

Kemper states that 3 per cent seems to be "a magic rate."

Fleming reports on the Association of Reserve City Bankers meeting last spring where approximately one-third of the bankers present who had raised their rate to 3 per cent reported marked gains. This compared to one-third who increased their rate but not to 3 per cent who reported no increases in deposits, while the remaining one-third who have not increased the rate reported a decline in balances.

Jacobs states that savings in his district have gone up about 18 per cent.

Balderston asks if the tendency for the rate to slow down parallels the amount of merchandising and advertising, most of it usually accompanying the announcement of the increase?

ITEM V

WHAT ARE THE COUNCIL'S VIEWS WITH RESPECT TO (a) THE CREDIT POLICIES FOLLOWED BY THE FEDERAL RESERVE SYSTEM SINCE THE LAST MEETING OF THE COUNCIL, AND (b) THE POLICIES THAT WOULD BE APPROPRIATE FOR THE BALANCE OF THIS YEAR?

Fleming reads Item V and the conclusions of the Council as stated in the Confidential Memorandum. He adds that the Council was unanimous in their approval of the courageous program of the System.

ITEM VI

(a) AS STATED AT THE MEETING ON MAY 14, 1957, THE TOPIC OF CHANGES TO BE SUGGESTED IN THE BANK HOLDING COMPANY ACT OF 1956 IS TO BE CARRIED ON THE AGENDA FOR EACH MEETING OF THE COUNCIL UNTIL THE SPRING OF 1958.

(b) DOES THE COUNCIL HAVE ANY CHANGES TO SUGGEST IN EXISTING LAW OTHER THAN THE BANK HOLDING COMPANY ACT?

Fleming reads Item VI and the conclusions of the Council as expressed in the Confidential Memorandum.

Martin hopes the Council will continue to review the Bank Holding Company Act and give the Board any suggestions it might have.

Fleming asks if the Board's thinking on the matter of reserve requirements has crystalized.

Martin says it has not.

ITEM VII

WHAT WAS THE EFFECT OF THE CALL THIS YEAR FOR REPORTS OF CONDITION AS OF JUNE 6 RATHER THAN JUNE 30?

Fleming reads Item VII and the conclusions of the Council as expressed in the Confidential Memorandum to the Board.

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Chairman Martin informally commented on the recent hearings before the House Banking and Currency Committee on the Financial Institutions Act and the hearings before the Senate Finance Committee.

He reported that it became apparent early in the House hearings that the Committee was interested in the System and not primarily in the Financial Institutions Act. During the nine days in which he was on the stand, about 20 per cent of the questions had something to do with the Act, and the other 80 per cent were on the general theme of banker domination of the Federal Reserve System. He believes that the System was successful in demonstrating that the charge of banker domination was largely a myth. Martin has the impression that nothing new was raised during the hearings. He believes that the House hearings were valuable and served a useful purpose as the attendance was good when money and credit policies were discussed. Consequently, a number of Congressmen were exposed to the System's point of view. One problem that confronts the System is the time required to answer questions. The System has a policy of attempting to supply information to anyone who requests it.

The Senate hearings, Martin continued, were largely political, and he questions if they served any useful purpose. He also stated that Senator Byrd plans to reopen the hearings early in January.

Fleming expresses the Council's appreciation of Martin's candidness in his remarks.

The meeting adjourned at 12:25 P.M.

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