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A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the offices of the Board of Governors on Tuesday, September 20, 1955, at 10:30 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
Mr. Szymczak  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson

Mr. Sherman, Assistant Secretary

Messrs. Ireland, Alexander, Mitchell, Denton, Fleming, Davis, Brown, Campbell, Ringland, Chandler, Matkin, and Wallace, members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively

Mr. Prochnow, Secretary of the Federal Advisory Council

Mr. William J. Korsvik, Acting Secretary of the Federal Advisory Council

President Brown stated that Mr. Prochnow had been asked to become Deputy Under Secretary of State for Economic Affairs and that, in anticipation of his assuming those duties shortly, the Federal Advisory Council at its separate meeting on September 18, 1955, had elected Mr. William J. Korsvik, an Assistant Cashier of the First National Bank of Chicago, as Acting Secretary. President Brown went on to say that both the Secretary of State and the Under Secretary of State had indicated there would be no objection to having Mr. Prochnow attend meetings of the Council and take notes of the discussions as heretofore but that he could not have the

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title of Secretary of the Council during the period in which he was also serving as Deputy Under Secretary of State for Economic Affairs. President Brown also stated that the Council would like to have the Board's permission to have Mr. Prochnow assist in preparing for the meetings of the Council with the understanding that he as well as Mr. Korsvik would attend meetings when able to do so.

Governor Balderston stated that unless there was some reason of a policy or legal nature which would preclude the arrangement suggested by President Brown, the Board would have no objection to the procedure suggested.

Before the meeting the Council submitted to the Board of Governors a memorandum setting forth the Council's views on the subjects to be discussed with the Board at this joint meeting. The statement of the topic, the Council's views, and the discussion with respect to each of the subjects were as follows:

1. What are the views of the Council with respect to the prospective business situation during the remainder of this year and the first three months of next year and the probable changes that will take place in the volume of bank loans in each of these periods? Do the members of the Council see any significant changes in the composition of bank loans in the present period of high level economic activity?

The Council expects a high level of business activity during the remainder of this year and through the first three months of next year. It expects that the rate of increase in business activity will probably be less than that experienced in the first three quarters of 1955.

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The members of the Council believe that the volume of bank loans will increase more than seasonally in the last three months of this year. In the first quarter of 1956, the Council anticipates a seasonal decline in loans, but less than usual. There is a distinct possibility that no decline may occur due to a probable further increase in the volume of outstanding consumer credit represented both by direct loans and by loans to finance companies and to commercial concerns carrying a materially larger amount of consumer paper. Likewise, the volume of real estate loans may experience an expansion in the first quarter of next year. Insurance companies and other financial institutions are committed to take real estate mortgages presently in an amount in excess of their receipt of funds from savings and maturing investments. Some banks have substantial outstanding commitments to warehouse these loans temporarily.

There may also be an increase in real estate loans because of agreements made directly by banks with contractors and mortgage bankers whose borrowings are to be liquidated later under commitments for permanent financing made by insurance companies or other institutions.

Although arrangements for new real estate financing are being curtailed, the financing of present commitments will probably necessitate additional credit during the first quarter of 1956.

Apart from the greater importance of loans based directly and indirectly on consumer credit and for real estate financing, the Council sees no important change in the composition of bank loans in the present period of high level economic activity.

In elaborating on the Council's answer, President Brown said that there was no indication that the present level of economic activity would decline during the balance of the current year or the first quarter of 1956 but that the Council was glad that it had not been asked to comment on the prospects during the latter months of 1956. Consumer credit was the most important element causing expansion in bank loans, he said. This reflected not only direct loans to consumers but a much larger volume of

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loans to retailers who were extending increasing volumes of consumer credit and looking to the banks to help them in carrying such credit. While the largest finance companies seemed able to obtain additional funds, banks generally were turning down requests of finance companies for increased lines of credit. Unless automobile production declines substantially, as it well may, the Council saw no indication yet of any cessation in the rise of consumer credit outstanding, President Brown said. The other disturbing element in bank loan expansion was in the real estate field where, as the Council's memorandum indicated, many insurance companies and savings and loan associations were committed to buy real estate mortgages at a rate in excess of their net receipts from new funds and repayments on old mortgages. Mortgage bankers, contractors, and others who have such commitments from the insurance companies have made arrangements for construction loans which, in the case of larger projects, may run for as long as two years. Thus, although there has been a distinct curtailment in new commitments resulting from the policy of credit restraint, including actions taken by Government insuring or lending agencies and the general shortage of money, it will take considerable time for such curtailment to be reflected in the loan volume. President Brown also said that inventories have risen somewhat in the past six months or year thus affecting bank loan volume to some extent. In relation to sales, however, inventories have not gone up and there is no evidence of speculative borrowing for the purpose of carrying inventories at higher prices, as there has been at times in the past.



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Governor Balderston inquired whether the Council felt that the tightening in credit conditions was being felt primarily in New York or whether it had spread to other parts of the country, to which President Brown responded that all districts reported that credit was becoming tight although the tightness varied in degree from district to district.

Mr. Ireland said that the New England picture did not seem to be very different from the rest of the country. Borrowings from the Boston Reserve Bank last week were higher than at any time since 1929. He noted that the increase in member bank loans in the Boston District had been smaller this year than in the rest of the country but felt that this was partly because the increase during the first three quarters of 1954 had been greater in New England than elsewhere. The net result was that the loan situation in the Boston District currently is tight, as indicated by the fact that at many of the larger banks the loan deposit ratio is above 50 per cent.

Mr. Mitchell said that credit was very tight in Philadelphia. In addition, some of the banks have been upgrading loans trying to get rid of weaker ones. Banks were taking care of all legitimate business needs but were doing this despite general tightness in the situation.

Mr. Denton said conditions were not as tight in the Cleveland District as he gathered was the case in most other districts. In commenting on increases in different categories of loans since a year ago, Mr.

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Denton noted that the Cleveland District was carrying a much larger volume of brokers loans than normal, such loans having been farmed out by New York City banks. While the percentage increases in such loans were very large, they still represented a minor proportion of loans by Fourth District banks. As to consumer credit and real estate loans, Mr. Denton said that they made up a large percentage of total loans and accounted for a large proportion of the increase in such loans this year. Mr. Denton also commented that among the so-called business loans, a large part of the increase was in loans to finance companies which represented additional extensions of credit for consumer financing. He noted that in the past four months loans to finance companies in the Fourth District had increased approximately 31 per cent whereas the increase during the corresponding period a year ago was 8 per cent; he felt published weekly condition figures for banks tended to be misleading since the loans to finance companies were reflected in figures usually classed as "business loans".

President Brown said that it had always seemed to him that a weakness of the reports of member bank loans was that loans to finance companies were included in the category of "business loans".

Mr. Fleming summarized conditions in the Fifth District as being "tight" and he cited figures of economic activity pointing to further advances in the outlook for production and trade. The textile industry, he said, was concerned about the effects of the recent increase in the

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minimum wage along with competition from cheaper textiles produced in Japan. Mr. Fleming also noted that some banks in the Fifth District had declined to make additional advances to finance companies.

Mr. Chandler said that the credit situation in the Tenth District was relatively tight although loans had not increased as much as in other sections. Crops had been rather poor and deposits were not rising as ordinarily is the case at this time of the year. There had been considerable selling of Government securities by banks in the Tenth District who wanted to maintain greater liquidity.

Mr. Ringland said that money was very tight in the Ninth District and he expected it to become tighter. Deposits in Reserve city banks had declined somewhat or had failed to increase as much as elsewhere, reflecting the agricultural situation.

Mr. Matkin said that in the Dallas District money was tight. Many banks had run out of bills and relatively short-term Governments and were now hesitant to sell longer-term bonds for the purpose of making additional loans. Most of the banks in the district now showed a red figure in their Government bond portfolio, he thought.

Mr. Davis said that the Sixth District presented a mixed picture. In general, money was tight both in city and country areas. However, in New Orleans banks were in a position to loan additional funds since at present loans represented only about 30 per cent of their deposits. In contrast, banks in Jackson, Mississippi, had a loan-deposit ratio of

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around 54 per cent. The cotton crop was beginning to move and this would take some of the pressure off country banks shortly.

Mr. Wallace said that the Pacific Coast money situation was generally tight. He called attention to the marked activity in construction, particularly in residential building, that had prevailed in some parts of the district, especially in Southern California. Mr. Wallace went on to say that the whole economic structure in that area had been greatly affected by this building activity and by sales of consumer goods which often were related to the building activity. Banks were being called upon to provide funds for these purposes which meant that they were making less contribution to the national pool of funds for meeting other credit needs than had been the case at times in the past.

Mr. Campbell said that loans in the Eighth District had been restricted. Crops were turning out quite heavy and much better than last year, and additional funds would be needed during the crop moving season.

Mr. Alexander said the policy of restraint was working well in New York. Money was very tight. Whereas loans during the first eight months of 1954 declined about \$800 million, they had increased by more than \$1 billion thus far during 1955. However, deposits had not increased. As a result, New York banks account for a goodly portion of total borrowings from the Federal Reserve, and those banks also are buying all the Federal funds they can get. But even so, they have not been able to avoid



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selling large amounts of Governments with the result that their total investments have declined substantially during the current year -- in fact, sales of Governments have exceeded the increase in loans. Perhaps many banks started out this year in an over-invested position, Mr. Alexander said, and the Treasury financing in July added to their investments. The funds raised by the Treasury from sales of securities to banks have not stayed in New York, however, and the tightness in the local situation is reflected in the fact that virtually every New York City bank has been borrowing off and on. Banks generally have sold short-term securities and some of them have sold maturities up to five years. Mr. Alexander did not know who was buying the bonds but he supposed that as the yields became attractive, more of them found their way into pension funds, State funds, and municipal funds and some might also have gone into foreign accounts. There was no question in Mr. Alexander's mind but that the tight situation in New York was slowing down lending activity. Additional credit was being denied finance companies, and New York banks were holding down commitments for warehousing real estate loans. Stock market credit has not risen in the past few months.

Mr. Alexander also referred to the fact that loans of New York City banks for warehousing real estate loans had increased from \$58 million a year ago to over \$200 million at present. Further, these same banks have firm written commitments to warehouse an additional \$689 million, Mr. Alexander said, adding the comment that this whole situation

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had moved much faster than had been generally realized. Mr. Alexander also noted that President Sproul of the New York Reserve Bank had taken the position in recent talks with New York City banks that in all probability these warehousing commitments would be looked upon as inconsistent with Federal Reserve policy. Nevertheless, these and various seasonal commitments had been made and were outstanding, and in order to meet them banks would be borrowing from the Federal Reserve during the next few months and there would also be more selling of securities from their portfolios. Mr. Alexander was satisfied that a tight situation would continue for New York City banks throughout the rest of this year.

Governor Robertson said that he assumed the Council believed that the present level of business activity would be maintained during the next six months, and he inquired whether the Council was concerned about the ability of the United States to maintain this level of activity over a longer period of time and to what extent would maintenance of this level depend on stretching out terms for consumer credit and other loans.

President Brown responded that the Council had been asked to comment on the outlook for six months, that its present feeling was that the present level of economic activity was too high to be maintained for any considerable period of time, and that unless there was restraint the high level of activity ultimately would break down. While there was no formal vote, he said, the comments of members of the Council revealed a general

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belief that the boom was moving too fast; and, if current activity in consumer credit and real estate continued, it was felt that savings of the country would not keep up with the formation of capital.

Mr. Fleming referred to population estimates released by the Bureau of the Census, stating that continuation of a high level of economic activity was suggested by the forecast of a population for the United States as a whole of 195 million persons by the year 1965.

2. The Board would appreciate the views of the members of the Council with respect to the System's current credit policies and what, if any, changes might be called for during the remainder of this year.

At the May meeting, the Council responded to a similar question of the Board of Governors as follows:

"The effects of System credit policies since the last meeting of the Council have been good. The Council believes that a policy of mild credit restriction should be continued for the near term if business continues to be buoyant.

Government financing for new money in substantial volume is inevitable in the last half of the calendar year. If, as seems probable, the banks must provide a considerable part of the new money required, and if business continues at a high level with an increasing demand for bank loans, the System must be prepared through open market operations or a reduction in reserve requirements, or both, to put more reserves into the banks. In view of the increasing activity of business and of the probability of an increase in loans in the months immediately ahead, it may become necessary to consider raising the rediscount rate. The use of the discount window by member banks should not be restricted or discouraged, as credit for good borrowers should continue to be available at reasonable rates."

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The Council believes that the System's credit policies since its last meeting have been well conceived and carried out. It believes that the objective of restraining the further development of the present boom was and is correct. The System's policies are having desirable effects which should become increasingly apparent.

The conditions which the Council at the time of the May meeting thought might develop have now come about. In view of the imminence of heavy Treasury financing and with the increasing seasonal need for loans, the Council believes that the time has come when more reserves must be put into the banking system. The Council believes that this can be better accomplished through open market operations than through a reduction in reserve requirements.

There is a growing concern among bankers that the use of the discount window may be restricted or severely discouraged. Unless the banks feel assurance that the discount window will be readily available, even though the cost of their borrowing may be higher, it is apt to create a panicky feeling which might lead to widespread liquidation of government bonds and undue restriction of credit to the banks' customers. It would be very unfortunate if such a feeling of apprehension among bankers, as developed in the first half of 1953, should again occur.

President Brown said that every member of the Council felt that some mild brake should be put on the boom and approved the policy being carried out in the market. On the other hand, the Treasury would be seeking around \$2-1/2 billion of new money in mid-October, and in December it would need another \$1-1/2 to \$2 billion. An increase in loans because of the high volume of business was inevitable during the fall months. Seasonal factors would be accentuated by the credit commitments already referred to. In addition to commitments for warehousing real estate loans, there were large open lines of credit which the banks had to meet. If need be, banks would sell Governments at a loss in order to meet these



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commitments. Unless more reserves were put into the banking system this fall, the Council felt that a panicky situation could easily be created in the Government bond market. President Brown said that members of the Council reflected the feelings of bankers generally in approving the raising of the discount rate from  $1\frac{3}{4}$  to  $2\frac{1}{4}$  per cent, and members of the Council, he thought, would favor a further increase in the rediscount rate. This was not for selfish reasons, he said, noting that  $1\frac{1}{4}$  of 1 per cent would increase net income of banks by only a small fraction of the amount by which bond portfolios recently had declined. The banks sympathized with the Board regarding credit restraint and very generally were refusing new credit commitments. President Brown also said that every member of the Council felt very strongly that the most serious mistake that could be made by the System would be to create a feeling such as existed in the spring of 1953 that use of the discount window would be restricted. Banks generally were trying to contract credit but it was necessary that they know they could go to the Reserve Bank and borrow if they felt they needed to do so. If a feeling should develop among banks that it would be entirely within the discretion of any Reserve Bank to "shut off" borrowing to meet legitimate needs, dumping of Government securities in the market could easily begin. This would be bad for the whole economy, for the Government generally, and for the chance of a balanced budget. President Brown commented on the different classes of securities

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banks were selling now in order to obtain funds, adding that the Council felt there was real danger of a real panic if there was a repetition of what happened at the discount window in the spring of 1953, when some of the largest banks "went back" on commitments for loans for justifiable purposes. He also said that he could see no objection to action by the System to increase the cost of discounts, or to the action taken by President Sproul in telling the banking system not to make warehousing commitments beyond the current capacity of savings banks and insurance companies to accumulate funds. If Mr. Sproul had gone further and indicated that banks could not obtain necessary funds at the discount window to take care of existing firm commitments, that could have resulted in dumping of Government bonds on a large scale, because most banks already have "red figures" in their Government bond portfolios. President Brown also said that the Council appreciated the fact that the System was "walking a tight rope" in keeping restraint on the boom and still making it possible for the Government to refund maturing securities and avoid a collapse in the Government bond market: it probably was the hardest problem the System had faced except in wartime.

Mr. Fleming commented on prospective Treasury financing and the delicate problem posed for the Federal Reserve during the next few weeks. He felt mass psychology could play an important part in developments in the Government bond market, and he supported what President Brown had said regarding the need for having the discount window freely available so

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that the banks could use it during the very tight period they would find themselves in in December and possibly in January.

Governor Robertson said that the fear expressed about the discount window might be widespread, but that it should be stated that there is no intention whatsoever to restrict the use of the discount window. He did not know what, if anything, could be done to allay such fears.

Mr. Alexander said that he agreed with the views President Brown had expressed. This was a very difficult period for the Board and the Open Market Committee. The Council and the banks wanted to try to help as much as possible. Certainly it was desirable to try to restrain the boom. Mr. Alexander thought that, in general, we liked booms but dreaded what came after them. He felt it clear that the policy should be one of restraint on the one hand, and yet on the other side none of those determining policy wanted to bring about a period of liquidation and panic. He referred to the coming Treasury financing, stating that presumably a good part of it would be met by the banks. This meant the banks must have reserves. In addition, during the fall season banks would be called upon to supply funds for crop movements and many other seasonal activities. These needs must be taken care of and banks would have to meet them in one way or another. He felt it perfectly proper for President Sproul, in the absence of selective controls, to make the plea which he had made regarding warehousing loans. He did not interpret Mr. Sproul's recent

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statement as indicating that the discount window would be closed for seasonal operations or for proper seekers of Reserve Bank credit. Mr.

Alexander did not like the implication of the term "denial of credit".

The System could make credit more expensive, and he thought that a rise in interest rates would be the mildest form of paregoric the System could give in the form of restraint. A rise in interest rates might influence banks to discourage the kinds of excesses in borrowings that should be avoided. Mr. Alexander did not say what these areas might be: even in the case of consumer credit, he did not know whether the total volume now was too high or too low, but it had moved up very rapidly; and warehousing of real estate loans had moved up at a time when most banks were unaware of the extent to which this kind of credit had grown. Summing up, Mr. Alexander felt the needs of the economy must be met and the whole period must be handled so that the market did not feel that money was "unavailable", but he thought it proper to make the banks pay more for the reserves they needed as a means of discouraging credit extensions in certain areas.

Governor Szymczak noted that Mr. Alexander referred to a rise in the discount rate mainly in terms of its effect on the cost to member banks. He went on to say that when the discount rate rises, it affects the liquidity position of banks through the tendency for bond prices to decline; it affects the willingness of member banks to become indebted to the Reserve Bank; and it affects the cost of credit to business which,



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particularly in the case of longer-term credit, is a factor determining whether to employ credit. Thus, a rise in the discount rate not only affects the cost of borrowings from the Federal Reserve but is restrictive in all three of the ways mentioned.

Mr. Alexander agreed with this comment, particularly with the point regarding the restrictive effect of a decline in value of bond portfolios. His point, he said, was that commercial banks should not be gotten to a position where they are forced to sell bonds at a loss - there is a difference between possessing a red figure on the books and having to sell the bonds at that figure. Possessing the red figure would not, of itself, cause panicky liquidation of the bonds. The red figure was restrictive, but it was much milder to have a rate rise and have banks feel they could get funds needed "to move the cotton crop" than it would be to force them into panicky liquidation of bonds to meet seasonal needs and other commitments they had made. The period immediately ahead would be a very difficult one and would require most artful management on the part of the System. Mr. Alexander did not see how the System could pursue a policy of restraint and not have higher interest rates and lower bond prices. If, to avoid lower bond prices, the System turned the other way and did not restrain, too much credit would go out and that would be dangerous. As to the level of the discount rate, he said there were those who thought it would be desirable to give a shock by raising the rate to  $3\frac{1}{2}$  per cent. He was not of that school and felt that the System should avoid a shock, which might bring on a panic.

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In response to a question from Governor Szymczak as to the timing for an increase in the discount rate, President Brown said that no increase should be made before October 15 in view of probable Treasury financing, but if an increase were to be made it should come before November 15. He added the comment that such an increase would make the Treasury's December borrowing more expensive.

Mr. Mitchell said that there had just been two increases in the discount rate. The Treasury financing was coming up in mid-October and he felt that if there was another increase in the discount rate it might be postponed until a couple of weeks or more after the Treasury's financing.

Governor Balderston said that timing of an increase in the discount rate was of vital importance. The System has its primary responsibility for credit policy, but it also has a secondary responsibility to help the Treasury and it is necessary to have a reasonably stable condition around October 15 and again in December in order to assist in the financings. If the discount rate were increased after October 15, could stability be sufficiently restored by the time of the December financing?

Mr. Fleming thought that question could not be answered today. He was satisfied there must be some additions to reserves between now and October 15, and it would be necessary to have some further additions between October and December. More than the cost of reserves was involved, as Governor Szymczak had said. The System would have to watch the situation

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very carefully and observe the cumulative effects of the actions it had already taken. Mr. Fleming did not think that the effect of the recent increases in the discount rate had yet been fully felt.

President Brown noted that seasonally loans reached a peak in December and that deposits tended to go up at the same time and after the loan peak. He suggested that a good time for an increase in the discount rate might be when the tension was slacking off after the loan peak. He also said that it would be necessary to have reserves put into the market at the time of the December financing, if the financing were not to be a failure. How to allay the fear expressed regarding the discount window was a problem, he said, but bankers over the country do fear a repetition of what happened in 1953. Any announcement would probably do more harm than good. The word had gotten around that the Reserve Bank Presidents were just as much opposed to the "closing" of the discount window as were the members of the Federal Advisory Council.

After a brief discussion of how the fears regarding the discount window might be allayed, Mr. Alexander commented that he felt the lending rate of banks was too lethargic, that it did not move around rapidly enough either up or down. Aside from a change in the discount rate, he thought that the lending rate of commercial banks should move up a quarter of 1 per cent promptly. Such a move by commercial banks would help the System in its policy of restraint. This increase would be desirable before the October financing, Mr. Alexander said, and after mid-October another increase in the discount rate might be in order.

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Governor Szymczak said that while a higher interest rate on business loans would have some restrictive effect, in a high-level economy borrowers would pay the higher rate if they could still make a profit.

Mr. Ringland thought that the higher rate would have some restrictive effect, particularly in warehousing of mortgages, and he also thought it would have a restrictive effect in the consumer credit area.

In response to a question from Governor Robertson, President Brown said that he felt that the restrictive credit policy being pursued had undoubtedly had an effect on smaller finance companies because they just could not get additional lines of credit at the present time. How much effect it had had on a number of the very large finance companies was questionable. They were tightening up somewhat and over-all he thought the policy was having some effect on consumer credit, but there had been more effect on real estate credit and on plans for municipal expansion (toll roads, schools, etc.) and other improvements to be financed out of revenue bonds where a 1/2 per cent rise in the rate was quite important.

Mr. Denton felt that there was still a material effect to be realized from the actions already taken by the System, and he was not so sure that additional restrictive measures would be needed after the Treasury's October financing. He was inclined to think the building boom in individual houses had "topped out". Mr. Denton added the comment that he was less sure than some of the other members of the Council that demand



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for money would continue during the first quarter of 1956 at a rate in line with that observed earlier this year.

Mr. Alexander said that he thought perhaps residential construction had topped out. Existing commitments of insurance companies to mortgage bankers would run for twelve to eighteen months ahead, and there had been quite a reaction because of those commitments. He did not look for construction or for mortgage loans to drop suddenly, but we might be approaching a turn. On consumer credit, he had the same impression as that indicated by President Brown, namely, that the small- and medium-sized finance companies would like more money than they were able to obtain. If sales of automobiles next year were at the rate of 1955, the lengthening of terms that had taken place in the past six months would mean that an increase of two to two and one half billion dollars in the volume of credit outstanding would be needed to finance the same volume of automobile sales on the new terms. The question was whether the finance companies could get this money and from whom. The bigger companies had a lot of commercial paper outstanding now but sales of new paper did not flow as easily as had been the case a little earlier.

President Brown stated that both in its written answer and in the discussion of credit policy, the Council had tried to make very clear its views with respect to keeping the discount window open, and that it was delighted to hear Governor Robertson's statement on this point.

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3. Is there any legislation that the members of the Council feel the Board should support or sponsor in the forthcoming session of the Congress?

The Council does not at this time have any suggestions as to legislation that the Board might support or sponsor in the forthcoming session of the Congress. If the Board has any questions about legislation now pending or suggested, the members of the Council will be pleased to discuss them.

President Brown stated that the Council had a copy of a report prepared by the American Bankers Association on the present status of various bills affecting banking. The Council was still strongly in favor of an increase in salaries of the members of the Board of Governors, President Brown said, one result of which it hoped would be a correction of the inadequate salaries paid some of the Board's staff.

Mr. Fleming said that this was not a matter on which the Board could take the initiative, and that some of those in commercial banking had to pursue this legislation. While he did not like the postponement of action on the executive salary bill until the next session of Congress, Mr. Fleming said he did not think the matter was held up because of controversy, but rather because the bill came in late in the session and, with some differences of opinion, it was not feasible to complete action before adjournment. Mr. Fleming also commented that he felt it important that members of the Council and other bankers explain to members of Congress the real function of the Board of Governors so that they could understand better the inappropriateness of salaries now authorized for members of the Board.

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President Brown referred to other bills which had been introduced in Congress which would affect banking, noting particularly holding company legislation. The Council had been much interested in such legislation in the past and had devoted a great deal of time to its consideration. It did not like the bill passed by the House (H.R. 6227) during the recent session: it much preferred the bill (S. 2577) which Senator Robertson had sponsored, which the Council assumed had come out of the regulatory agencies, but it was not entirely satisfied with that proposal. President Brown also commented that there was no single opinion within the Council regarding holding company legislation.

Governor Balderston stated, in response to a question from President Brown, that the Board did not now contemplate proposing any legislation for the next session of Congress.

Mr. Fleming referred to the Celler bill (H.R. 5948) which he understood would require the Department of Justice to clear mergers or consolidations of banks prior to their becoming effective. As he understood the situation, the Department of Justice would have to approve such mergers in advance. He felt strongly that this would not be desirable and that the matter should be kept within the jurisdiction of the Federal banking supervisory agencies. Mr. Fleming said that Chairman Martin's testimony in June before subcommittees of both the Senate and House Committees on the Judiciary was being interpreted as supporting the proposal for the Department of Justice to pass advance opinion on such mergers, and he

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expressed the hope that if this was not a firm position, the Board would give serious consideration to the danger of having the Department of Justice placed in a position of passing upon such mergers in advance.

Governor Robertson said that the understanding of Chairman Martin's testimony as described by Mr. Fleming was erroneous, that the Chairman's testimony was not in favor of legislation which would provide that the Department of Justice pass upon mergers and consolidations in advance. Rather, Chairman Martin had expressed the view that the position of the Board and of the Department of Justice should remain the same under any proposed legislation as it is today. The only change would be that, in case of doubt, the Federal bank supervisory agencies which were considering a proposal for merger or consolidation could request an advance opinion from the Department of Justice.

Mr. Fleming stated that he was glad to hear this comment but that he still was fearful of any authority which could be used by the Department of Justice in a manner which would mean that mergers and consolidations could be delayed pending a decision from that Department as to whether they would violate the Anti-trust Laws. He also requested that he be furnished with a copy of Chairman Martin's testimony on this subject last June.

Governor Robertson pointed out that the right of the Federal bank supervisory agencies to ask the Department of Justice for an opinion in advance in doubtful cases would serve both as a means of protecting the



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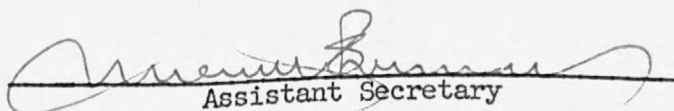
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banks affected and the supervisory agency. It was his view that only in rare cases would a bank supervisory agency ask an opinion from the Department of Justice, if such legislation were passed.

Mr. Alexander stated that even if Congress were to leave the decision in such cases to the three Federal bank supervisory agencies and if the position of the Department of Justice were not changed at all, he felt it would be a mistake to establish as a test of the legality of a merger or consolidation the "lessening of competition". Mergers might well involve some lessening of competition, but the test of their desirability should be broader and should be whether the merger, taken as a whole, was in the public interest; lessening of competition should be only one of the elements to be considered.

President Brown stated that the next meeting of the Council would be held on Sunday, November 13, 1955, and that unless there were objection it would plan to meet with the Board on Tuesday, November 15 at 10:30 a.m. It was agreed that this date would be satisfactory.

Thereupon the meeting adjourned.

  
Assistant Secretary