To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on February 21, 1956.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below to indicate that you approve the minutes.

Chm. Martin	WMM
Gov. Szymczak	
Gov. Vardaman	
Gov. Mills	
Gov. Robertson	R
Gov. Balderston	CCB.
Gov. Shepardson *	ecs

*Governor Shepardson was not present at this meeting. The initials indicate that he has seen the minutes.

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 in Washington on Tuesday, February 21, 1956, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary

Messrs. Ireland, Massie, Mitchell, Denton, Fleming, Kimball, Livingston, Miller, Kemper, Matkin, and King, Members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively

Mr. Ueland, President, The Midland National Bank of Minneapolis

Mr. Korsvik, Acting Secretary of the Federal Advisory Council

President Fleming reported that at its earlier separate meeting, the Federal Advisory Council elected Mr. Fleming as President of the Council, Mr. Denton as Vice President, and Mr. Korsvik as Acting Secretary. Messrs. Massie, Ireland, and Livingston were elected to serve, with Messrs. Fleming and Denton, ex officio, as members of the executive committee of the Council.

Chairman Martin said that the Board of Governors was glad to welcome the newly elected members of the Council to this meeting and that he wished to tell them that the Board's meetings with the Council were among the most useful of all the meetings it had.

President Fleming said that the new Council had re-indorsed the efforts previously made by the Council to have legislation enacted which would provide more nearly adequate salaries to the members of the Board of Governors. The Council was hopeful, he said, that Congress would take proper steps to recognize what he termed as the most important body having responsibility for monetary and credit conditions and the maintenance of satisfactory economic conditions.

Before this 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 topics, the Council's views, and the discussion with respect to each of the subjects were as follows:

1. The authority of the Board of Governors of the Federal Reserve System to establish maximum terms on consumer credit ceased in 1952. In view of the statement of President Eisenhower on page 36 of the Economic Report, and the recommendations on pages 93 and 94, the members of the Council should like to have the question of the possible reenactment of Regulation W into law discussed at the next meeting of the Council and the Board. The Council should consider its own position as to whether or not Regulation W should be reenacted into law, as well as to obtain the views of the Board of Governors respecting its attitude regarding this legislation.

All members of the Council favor a comprehensive study of the subject of consumer credit as urged by the President in the Economic Report. However, at present, the majority of the Council is opposed to the enactment of legislation which would permit the imposition of a regulation to control consumer credit, except in the event of an emergency. A minority favors the passage of such legislation and its inclusion in the Federal Reserve Act, as a standby power.

President Fleming said that this topic was put on the agenda because of the reference made in the President's Economic Report to possible reenactment of authority for regulating consumer credit. While all members of the Council would favor a study of the subject, no member of the Council would be in favor of imposing controls over consumer credit at the present time if such authority were available.

Chairman Martin referred to the exchange of correspondence which he had had earlier this month with Mr. Burns, Chairman of the Council of Economic Advisers, relating to the proposed study of consumer installment credit, and at his request copies of such correspondence were distributed to the members of the Council.

2. The President's Economic Report on page 79 calls for federal regulation to be extended over all mergers of banking institutions. What are the views of the Board of Governors on this proposal and on legislation heretofore introduced and pending on this same question?

The Council unanimously believes that the power to deal with all bank mergers and consolidations, whether accomplished by purchase of stock, acquisition of assets, or otherwise, should be vested solely in the appropriate bank supervisory agencies.

President Fleming stated that the Council's view that power to deal with bank mergers and other matters covered by H. R. 5948, (Celler Bill) passed by the House of Representatives on February 6, 1956, should be vested solely in the appropriate bank supervisory agencies, involved the belief that there was no historical knowledge in the Department of Justice which would assure that that agency would be prepared to act on matters relating to bank mergers or consolidations with the speed that occasionally was necessary in emergency situations, when action was needed almost immediately in the best interests of the economy. The Council would also dislike giving the Department of Justice any "veto power" over mergers and consolidations.

Chairman Martin commented briefly on the testimony which he and Governor Robertson had given before Congressional committees regarding bank merger legislation, stating that one of the problems with which the Board had been struggling was the difficulty of administering section 7 of the Clayton Act in the light of the decision of the Third District Court in Philadelphia in the matter of Transamerica Corporation. He then asked that Governor Robertson state the position which the Board had taken with respect to proposed legislation governing bank mergers.

Governor Robertson noted that the Celler Bill, H. R. 5948, would amend section 7 of the Clayton Act to make it applicable to bank mergers through acquisitions of assets as well as acquisitions of stock. It would make no change otherwise in the present situation, under which the Board has the responsibility for the enforcement of section 7 insofar as it is applicable to banks, with a concurrent jurisdiction in the Attorney General. Governor Robertson stated that this was not in accordance with the views the Board had expressed in its statements favoring legislation on this subject. He explained why a requirement which would oblige the Board to pass on every merger under the proposed bill, even though it already had been approved by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or a State supervisory agency would create an almost impossible position for the Board. Governor Robertson also commented that while competition was of importance in a proposed merger, other matters also were of primary importance and the Board believed that the supervisory agency having jurisdiction over the bank was in the best position to make a decision in such matters in connection with any proposed merger.

In commenting further on the enforcement of section 7 of the Clayton Act, Governor Robertson noted that at present the Department of Justice has authority to step into any case in which it feels there possibly may have been a violation of either the Clayton Act or the Sherman Anti-Trust Act. In connection with the proposed legislation, the Board had recommended that all jurisdiction for enforcement of the Clayton Act as to banks should be vested in the Attorney General but that the banking agency should have discretionary authority to refer doubtful cases to the Attorney General, and that unless he indicates an absence of objection, he should not be deprived of his jurisdiction under the Clayton Act.

In response to a question from President Fleming, Mr. Robertson commented that he did not think that legislation along the lines favored by the Board would lead to slowing up most mergers or consolidations. However, if a supervisory agency did not wish to take responsibility for making decisions, delays might occur. His own view was that in the great bulk of cases the supervisory agency would take action on a proposed merger without referring the matter to the Department of Justice.

In response to a comment by Mr. Ueland, Governor Robertson said that while there was no requirement in the proposed legislation that the Department of Justice give consideration to a determination by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the Board of Governors that a specific merger was not in violation of the statute, it was his opinion that the Department of Justice would have a duty to take into consideration such a decision by the supervisory agency.

After further discussion of the proposed legislation, President Fleming said that Governor Robertson's explanation had clarified the understanding of the members of the Council a great deal. However, he, and he was sure other members of the Council, still felt that it would be preferable for the authority over mergers and consolidations to be vested solely in the bank supervisory agencies. He also noted that the bill which had passed the House of Representatives was obviously not in accord with the views of the Board as expressed by Governor Robertson, and he assumed that the Board would make its views known when the bill was considered by the Senate.

3. What are the views of the Council with respect to the prospective business situation during the period from now until mid-1956? Is there any indication of unhealthy inventory accumulations? Does it seem likely that wage and price adjustments will reflect or cause inflationary pressures that would call for further credit restraints? Are there any indications of slackening in demand pressures that would permit relaxation of restraints?

The members of the Council believe that business will be good during the period from now until mid-1956. Some accumulation of inventories is taking place, but with the exception of automobiles and certain agricultural commodities, the accumulation does not appear to be a problem of immediate concern in relation to the present volume of sales.

Under the new minimum wage requirements, the entire wage structure, including adjustments in current labor contracts, may move upward with resultant inflationary pressures, unless the wage advances are accompanied by equivalent increases in productivity. Further credit restraints should not be imposed unless clearly called for by the effects of possible wage adjustments. The members of the Council report no indication of a general slackening in demand pressures that would permit a relaxation of restraints now, although there are some mixed trends in the economy which require constant watching.

President Fleming said that, generally speaking, all members of the Council expected good business during the first half of 1956, and he asked that individual members express their views.

Mr. Ireland said that at present, signs pointed to "better than good" business in New England during the first half of this year. The outlook for commercial and industrial construction was very good; the textile industry is in a better position than it has been for some time, both as to prices and as to volume; and the paper industry is favorably situated, with a shortage of paper to meet demand, and with some imported papers selling a little above the domestic price. Sales of consumer goods are very satisfactory, and the conditions in the shoe industry are better than ever before. An increased demand for bank credit was indicated.

Mr. Massie said that the Second Federal Reserve District might have moved less rapidly forward than some other districts, but the specific industry and trade statistics he presented indicated a generally high level of activity. The biggest problem in that area, he said, was that bank deposits have been under pressure and there has been a very strong demand for credit. Mortgage money is adequate but tight, and there is much more selectivity in granting credit to borrowers than there was earlier.

Mr. Mitchell said that, while conditions in the Philadelphia District were improving and 1956 should be an active period during the first six months of the year, activity would not expand at the rate that had taken place during 1955. Banks had been meeting credit demands, partly through liquidation of Government security holdings, but some have been borrowing rather consistently from the Reserve Bank.

Mr. Denton said that the boom was continuing in the Fourth District. Reductions in automobile schedules had made it possible for steel companies to divert some of their production to other uses, to the benefit of industries that were in short supply. He could see no problem of inventory accumulation in the Clevaland District except possibly in the case of new automobiles which were in ample supply. Substantial price increases seemed probable in the steel and glass industries, Mr. Denton said, and the steel industry was faced with a large demand for wage increases. In response to a question from Governor Balderston as to whether the increased inventories to which reference had been made had come about voluntarily or involuntarily, Mr. Denton said that as of the present time the increases were voluntary, but that he expected such increases to become less voluntary by the end of the second quarter of the year.

Mr. Fleming said that Fifth District business was good. Agricultural prices have moved up a little, and retail merchants are doing splendidly. Mr. Kimball said that within the past year the South had made further great strides in increasing its relative position in the economy of the nation. He contrasted the present situation with that of the early 1930's, when, he said, the South was referred to as the number one economic problem of the nation, and he commented in some detail on phases of economic activity in that area which had been responsible for bringing per capita income in the southeast part of the nation more nearly up to the level for the nation as a whole. He felt that the district would continue to grow during the first half of 1956, but at a reduced rate as compared with that of the first half of 1955.

In response to a question from Governor Vardaman, Mr. Kimball also commented on developments in the cattle industry in Florida, stating that for the first time prime beef was being produced in the State of Florida and that improvements in the quality of beef animals were taking place very rapidly. He noted that at present there is very little meat packing in Florida, in which State the largest growth in cattle production in the Sixth District has taken place.

Mr. Livingston said that notwithstanding the temporary unemployment in the Chicago District because of cut backs in automobile production, the outlook for the district for the next six months was excellent. Activity in Chicago is at a particularly high level with virtually no unemployment. Steel mills are literally "bursting at the seams", construction is at a very high level, money is extremely tight and some of the banks are borrowing rather continuously at the Federal Reserve. The outlook for the first six months of this year was that loan demand would be very heavy. In response to a question from Governor Vardaman, Mr. Livingston said that there was some evidence of further increase in instalment credit, with repayments taking care of any credit extensions.

Mr. Miller said that in the Eighth District the outlook was for continued good business during the first six months of this year. Loans at banks have not run off to the degree they usually do with the liquidation of the tobacco crop, although the total volume had leveled off. Mr. Miller said that he felt no concern about consumer credit at the present time or for the first half of this year. Mortgage money is tight. He was optimistic but was trying to be cautiously optimistic, Mr. Miller said, and he was confident that over-all business activity would be maintained at or a little above the 1955 level.

Mr. Ueland said that the Ninth District was having very good business. The district is relatively stable, and agricultural problems affect it more than some other districts. Moisture conditions are good, which means that the outlook for crop production is good. Loans had not declined as usual in the first quarter of the year. However, deposits are very "soft" and that has been a matter of concern, with some bankers feeling that tightness of credit may be more acute at present than has been experienced up to this time.

Mr. Kemper said that business in the Tenth District was good despite drought conditions, which had been only partly remedied by recent snows. Problems in the district included large inventories of wheat and low cattle prices. Wheat plantings are up 2-1/2 from last year, however, and Mr. Kemper indicated that good crop yields would only accentuate the wheat problem. On the other hand, retail business is good. Bank deposits have fallen off somewhat, Mr. Kemper said, while demand for credit continues strong. Money conditions continue tight. On the whole, Mr. Kemper felt that the outlook for the district was good.

Mr. Matkin said that 1955 had been as good a year as the Dallas area had ever had. Cattlemen and some farmers were suffering and were not sharing in the prosperity that the balance of business was experiencing; however, production of farm products was good. Bank money is tight, he said, and deposits are not as high as they have been, while loans are higher than ever before. While the district had some problems, he felt that all indications were favorable for the next six months.

Mr. King said that business in the Twelfth District fitted well into the pattern that had been described by others. Especially significant was the shortage in some categories of labor. There was less pressure for long terms in consumer credit than some months ago, Mr. King said, and there had been some slowing of mortgage credit for housing construction. Mr. King thought that residential building was being limited by the amount of mortgage money available from insurance companies, mutual savings banks, savings and loan associations, etc.

4. (a) What are the probable changes in volume of commercial and industrial bank loans during the first half of 1956? In agricultural credit? (b) Is there evidence of a leveling off in demand for consumer loans? (c) What is the situation with respect to supplies of mortgage money and demand for such credit?

All districts report commercial and industrial loans at a higher level than a year ago, and most districts anticipate an increase in such loans in the first half of 1956. In respect to agricultural credit extended directly by banks, the volume is likely to be the same or moderately upward, depending on farm production and prices. It appears to the Council that the volume of consumer credit is leveling off. The members of the Council feel that the supply of mortgage money, though tight, is adequate, resulting in increased selectivity. The present tightness may ease somewhat with the anticipated lower level of housing starts.

President Fleming noted that Topic 4 was answered in part by the comments made in connection with Topic 3. He then called upon Mr. Denton for a statement.

Mr. Denton said that the mortgage situation in the Cleveland District continued tight. Total loans of banks have been rising for 20 consecutive months. There was a time when commercial and industrial loans were not rising and the increase in the total was resulting from a growth in consumer and mortgage loans. Consumer loans are no longer rising and for six months have been level. Mortgage loans now are rising slowly. Mr. Denton anticipated that commercial and industrial loans would increase further during the first half of this year.

5. What are the views of the members of the Council with respect to the System's current credit policies and what, if any, changes might be called for by developments during the spring and early summer of this year?

The Council feels that the System's credit policies since the last meeting have been generally good under existing business conditions. The Council does not believe that the current policy of credit restraint should be changed during the spring and early summer unless significant changes occur in the economy, in which event appropriate and prompt action would be required.

It is of the utmost importance that banks continue to have confidence in the availability of the discount window, and that such access should not be restricted or discouraged, as credit for productive uses must be available at reasonable rates.

President Fleming said that the only question raised in the Council's review of credit policy since its meeting last November was in connection with the increase in the discount rate in November. Council members did not feel that that increase had deterred borrowing, but it had had an adverse effect on the Government bond market. However, there had been some recovery in the bond market since that time. The Council recognized the move in the discount rate was a matter of judgment and was the responsibility of the Board.

Chairman Martin said that while he did not think political implications were controlling, the members of the Board would be glad to have suggestions from the Council as to what might be expected in the event the President made an announcement to the effect that he would be a candidate for reelection. His reason for asking the question, he said, was that such an announcement might bring a resurgence of activity and the Federal Reserve might be faced with some difficult problems in its operations.

President Fleming said that while no one knew at the present time what kind of an announcement might come, the Council recognized that decisions of this kind had an important bearing on economic activity. His view was that some improvement in sentiment would result if the President announced that he would run, because many persons would look upon that as a favorable development.

Mr. Livingston thought that the business community already believed it more than likely that the President would run. A formal announcement would result in some forward movement in stock prices. The real significance of such an announcement would be found in capital expenditures. Many large corporations have already made plans for further capital expenditures, and an announcement by the President that he would seek reelection would make certain that these programs would go forward. If he decided in the negative, there might be some cut-backs in these plans because of a fear of a less favorable climate for business.

Mr. Ireland suggested that another important factor in the outlook which might or might not appear during the first six months of this year had to do with the labor situation and the success of workers in obtaining their demands, possibly through strikes. This might have considerable bearing on the outlook for the remainder of this year.

Mr. Massie said that one force to be observed was the impact of increased spending on the banking situation. Most predictions for 1956 indicated a sizable increase in total payrolls. Many industries are operating at capacity. Raw materials prices are strong. If additional spending should be stimulated by a feeling of confidence growing out of a decision by the President that he would seek reelection, this might have a strong influence toward higher prices. Bank credit is now at a very high level, and liquidity of banks is low. If the banks are called upon to finance any substantial part of the March tax payments, and if spending is increased because of a spread of confidence, a difficult banking situation might develop which could have an effect on the whole economy. The need might be for more restraint rather than less.

Chairman Martin said that this pointed up the possible need for appropriate and prompt action, in the event of such an announcement by the President. He had no idea what the future held. If the President determined to run, the System's problem might be less acute than otherwise.

President Fleming referred to the new minimum wage law which would become effective in March, stating that it would have considerable effect in increasing labor costs of some industries, and those effects would spread throughout the wage structure.

Mr. Denton said that he agreed with Mr. Livingston's analysis of the reaction to an announcement by the President that he would run. Most businessmen have been expecting that he would run, and the effects of an announcement would be more of a temporary stimulus in the stock market, rather than an influence that would carry through industry in the form of additional expenditures for plant and equipment. He would minimize the danger on the up-side. There was, however, a very real problem in the wage prospects: it was very difficult not to pay higher wages when industry could raise prices and sell the goods at the higher prices. Offsetting that, there was the question of inventory accumulations and the agricultural picture. Mr. Denton did not think the announcement that might come from the President would have much effect on the real estate picture or speculative building activity.

Mr. King said that credit was the controlling factor in speculative building in the 12th District. If the Board could do anything to bring about a cut-back from 30-year loans with almost no downpayment, to loans with a 25-year maturity and some downpayment, such action would be very effective.

Mr. Livingston said that the Council was in agreement that the System's credit policies recently have been exceedingly wise. However, he would think that the next move would be in the opposite direction from any additional restraint.

Mr. Ueland said that many of the 14,000 bankers were reluctant to encourage new loans and that this was an important psychological influence. He thought it much more likely that the System would need to encourage expansion of credit, rather than that it would need additional restraint.

Mr. Mitchell thought it would not be desirable to encourage people to go into debt the moment there was a little dropping off in the economy.

He would be inclined to take more prompt action in the event there was an addition to the boom than he would if there was some slight reduction in business activity.

Chairman Martin concluded this part of the discussion by remarking that it was helpful to think out loud, and that it was necessary to "play by ear" on something like this.

With reference to the last paragraph of the Council's comment on Topic 5, Chairman Martin said that he would like to know of any instances in which Council members might feel that administration of the discount facilities at the Federal Reserve Banks had been faulty.

Mr. King said that he knew of none in the 12th District.

Mr. Denton said that the Council liked the statement it had made, that it had made it before, and that its inclusion in this memorandum was not meant as criticism.

Governor Balderston referred to Mr. Massie's remark that bank liquidity was low, and President Fleming said that nearly all banks were in that position. Deposits are not up, loans are up, and many banks have sold securities. The discount window gives the banks liquidity, but President Fleming said he thought bankers generally were being quite selective in extending credits.

Governor Balderston said he gathered that the Council expected credit to tighten further this spring, and President Fleming said that was correct, that it expected an increase in loan demand, and that security holdings of banks were already down. He added the comment that he was fearful that any legislation which might be enacted at this session of Congress would be more on the inflationary side than otherwise.

6. The Board would be glad to have a discussion of the proposal in the memorandum dated December 2, 1955, distributed to members of the Federal Advisory Council early in January 1956, with respect to a proposed amendment to Section 19 of the Federal Reserve Act to authorize the Board of Governors to permit member banks to count vault cash as reserves.

All members of the Council have previously expressed their views on this matter in written communications which are in the hands of the Board of Governors. Although a large majority of the Council favor the general objectives of the proposed amendment, it is suggested that the actual implementation of this proposal occur at such time as the Board of Governors feels that the effect therof on the money market would be in the interests of the economy.

President Fleming called on Mr. Massie for comment on this subject, in view of the fact that Mr. Massie had taken a position that it would not be desirable to amend the law at this time to permit vault cash to be counted as reserves of member banks.

Mr. Massie said that the Council voted 11 to 1 against him on this point. The proposal was put up under the guise of a defense measure to get currency scattered through the country, he said, and he doubted that, with 14,000 banks, it would result in much improvement in the supplies of currency in an emergency. He referred to views expressed by New York banks that a complete study of reserve requirements would be desirable, on the grounds that existing requirements did not fit present conditions. Mr. Massie said he felt that a change in the vault cash provisions might be dealt with as part of that whole problem. He knew of no immediate need for the change regarding vault cash, and there would be the problem of how to make such a change effective so as to offset the effect of roughly $2 billion of reserves that would be freed. He suggested that the proposal not be taken up with the Congress at this time.

Chairman Martin said that the problem of reserve requirements was a difficult one, that it did not look as though an over-all revision of such requirements was likely to progress far in the near future, and that the Board had thought the piece-meal approach might be suitable. The Board would have to explore legislative possibilities and give further consideration to the entire matter.

Governor Robertson said, in a reference to Mr. Massie's comments, that all but one or two of the Reserve Banks and Branches were in target areas and that it was believed that the proposal for dispersing currency would be helpful in the event of an enemy attack, although it would be only one way of dealing with the problem.

7. What are the views of the Council on the proposed amendment to Section 25 of the Federal Reserve Act? The amendment would permit the Board of Governors to issue regulations which would authorize foreign branches of American banks to exercise such further powers beyond

those permitted by the present law as may be usual in connection with the transaction of the business of banking in the places where foreign branches are located. A memorandum prepared by the Board Staff discussing the proposal, dated January 18, 1956, together with a draft of the proposed legislation is attached.

The Council believes that the general objectives of the proposed amendment to Section 25 have merit, but a thorough and careful study of the implications of the amendment is desirable. For example, the amendment to the Statute should provide assurance that foreign branches of American banks would not be permitted to engage in practices such as investment banking and manufacturing. The Council would be interested in considering a proposed statute including such limitations.

Mr. Ireland said that he had no direct knowledge of the need for the proposed amendment to the Federal Reserve Act, although he had a constituent who was interested in it. He subscribed to the answer that the proposed amendment to the law had merit. Mr. Ireland went on to say that his understanding was that it was not contemplated that investment banking and manufacturing would be permitted to foreign branches of American banks. As an individual member of the Council, Mr. Ireland said he felt some amendment should be passed that would provide relief so that American banks might compete more freely with banks in various countries where some have branches. There probably should be some limitation on the authority and it should not be left entirely to the Board of Governors as a matter of regulation. Mr. Ireland said that this did not imply a lack of confidence in the Board, but he was looking ahead for years in connection with an amendment to the law. He concluded his remarks by reiterating that some relief should be allowed along the lines proposed.

Mr. Massie commented on the interest of banks in the Second Federal Reserve District in the proposed legislation and on some of the powers as well as limitations which might be incorporated in the authority. He said that it seemed to him that the banks which were seeking further powers in connection with foreign branches must have a good reason for wanting them. The Council had discussed the difficulty of writing an amendment to the law which would provide the limitations suggested, and still have the law workable in different countries.

Chairman Martin said that Mr. Massie had put his finger on one of the problems that had been bothering the Board. The Board had no desire for more power and would be delighted if the law could provide specific limitations. The difficulty, however, was that it seemed almost impossible to spell out the limitations in a law which would apply to the operation of foreign branches in various countries.

Mr. Szymczak reviewed the study made by a special system committee over a period of the past two years, which had included discussions with Edge corporations and agreement corporations as well as individuals connected with banks operating foreign branches. Some of these organizations had brought out the fact that they were not, under the present law, in a position to compete with local institutions in foreign countries in which branches were operated. Mr. Szymczak also commented on the difficulties of writing into legislation limitations that could be applied satisfactorily in various countries.

Mr. Kimball reported an instance in which a foreign bank sought to establish a bank in Florida recently and, when not successful in doing so, it attempted to purchase a local bank. Mr. Szymczak commented to the effect that whenever a foreign banking corporation wished to establish an office in the United States, it was a practice to clear the matter with the Department of State.

Mr. Livingston said that he felt foreign branches of American banks should be enabled to compete successfully with the foreign banks. That was desirable. However, he did not think a statute should be enacted which gave the Board of Governors the power to specify what business the branches could conduct without limitations being put into the statute as a guide. That did not indicate a lack of confidence in the Board, but he felt legislation that did not contain such limitations was improper legislation in principle. The view of the Council, he said, was that if nobody was smart enough to put restrictions into the law then the proposed amendment should not be adopted. Mr. Livingston added that he thought it possible to write limitations such as were suggested, giving authority to the Board to prescribe certain additional limitations or restrictions. The Board itself, he noted, had suggested that there should be no investment banking and no manufacturing activities. If suitable limitations could not be placed in the law, then the proposal should be abandoned.

Mr. King pointed out that in the State of California, both Canadian and Japanese banks were authorized to carry on a general banking business.

Mr. Denton expressed the hope that it would be possible to work out an amendment to the law along the lines proposed, believing this was a field in which there was a great need for foreign branches of American banks to be able to operate.

This concluded the discussion of topics on the agenda for this meeting.

Mr. Massie stated that proposed rules and regulations of the Internal Revenue Service relating to employee pension and profit sharing trusts had come to his attention and that his review of them indicated that they might handicap banks in the administration of such funds, and might result in the banks becoming subject to additional supervision by the Internal Revenue Service, rather than by the bank supervisory agencies. After outlining the questions which the proposed rules raised in his mind, Mr. Massie said that he would be glad to know whether the Board was familiar with the rules, and whether his concern was warranted.

Chairman Martin stated that the Board would be glad to have the question looked into, and that he would let Mr. Massie hear from him shortly.

Thereupon the meeting adjourned.

S R Carpenter
Secretary