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 May 14, 1957.

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, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x M	
Gov. Szymczak	x MS	
Gov. Vardaman	x	
Gov. Mills	x	
Gov. Robertson	x R	
Gov. Balderston	x CCB	
Gov. Shepardson		x CWS

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 on Tuesday, May 14, 1957, 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. Brace, Massie, Mitchell, Denton, Fleming, Kimball, Livingston, Miller, Baird, Kemper, and King, members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, and Twelfth Districts, respectively

Mr. George G. Matkin, President, The State National Bank of El Paso, El Paso, Texas, alternate member from the Eleventh District

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

President Fleming stated that the Council was favorably impressed with the statement made before it yesterday afternoon by Mr. Young, Director of the Board's Division of Research and Statistics. He said that the Council hoped that the statement, with such editorial changes as seemed desirable, could be made available to the members of the Council. It was believed that the statement would be helpful in disseminating information as to the policies of the Board, with which the Council was in agreement, to persons in the business community with whom they came in contact.

Before this meeting there had been sent to the members of the Board a memorandum prepared by the Federal Advisory Council regarding topics that had been placed on the agenda for the joint meeting. The statement of topics, the comments by the Council, and the discussion of the respective topics are set forth below:

1. What are the views of the members of the Council regarding the economic outlook for the approximate period mid-May to mid-autumn of this year? While all major phases of the economy should be covered in this review, the Board would like particularly to have comments on the programs of operative builders for construction of houses during the next year, and how the aggregate demand for residential mortgage credit will compare with funds available for that purpose.

Despite some soft spots, practically all districts anticipate the continuation of a high level of business between now and mid-autumn. Some districts expect that the volume of business may even increase during this period.

Residential construction has declined in all but two districts in comparison to a year ago. The decrease is largely attributable to the unrealistic terms of V.A. and, to a lesser extent, F.H.A. loans. In addition, in some areas the existing supply of new homes seems adequate to meet present demands. Credit is generally available to meet the demand for conventional mortgages.

President Fleming said that only one member of the Council believed that business might decline between now and mid-autumn. All others believed that it would move sideways or increase. All members of the Council were satisfied that business sentiment currently was much better than at the time of the Council's meeting in February.

Mr. Denton said that he had become somewhat concerned about business continuing to be as good as it is now. This concern grew out of the disappointing automobile sales, the reduced level of residential building, and the shrinkage of inventories. He was not talking about any great depression. However, there had already been some slackening in the rate of business activity, and his personal view was that business would not continue at its present level during the period from now to mid-autumn.

Mr. Brace said that in New England there was some feeling that the majority of the textile business that that area would lose had already been lost. The area was benefiting from growth of a diversified group of activities. He rather felt that the shrinking spell was pretty well over and that on the whole business was on a fairly solid basis. Generally speaking, Mr. Brace felt that the trend of business in New England would be upward between now and mid-autumn. There was a problem of profits, but volume of business was expected to be satisfactory.

Mr. Mitchell felt that business would be good until autumn of this year. The soft spots were in automobiles, housing, and the running off of inventory. These influences, however, had been more than offset by industrial construction and governmental spending, including spending by municipalities and States. Business sentiment was now much better than earlier in the year. Freight carloadings were down considerably but that seemed to be the result of the running off of inventories. This would make for a healthier situation later in the year. Mr. Mitchell said that his feeling was that the corrections that had taken place earlier this year would make for better business in the balance of the year.

Mr. Livingston said that he was one of those who shared the optimistic feeling. In the Seventh District, business was good except in the automotive industry and in the South Bend area where there was a labor surplus. On the average, business was good, employment was good, and workers had a feeling of job security. They were making good money and were willing to spend it. This was manifested by the fine tone of retail sales. In the Midwest there was, of course, the farm implement situation, which was not good. The suggestion had been made that the Soil Bank payments might have caused poorer sales of farm implements, although others would argue that such payments would increase purchases of farm implements. Whatever the reason, farm implements were not selling well. Personally, Mr. Livingston said that he looked for a continuation of the high level of business from now until autumn of this year and perhaps some improvement.

Mr. Kemper said that he, too, was one of those who was very optimistic about the next six months. The Tenth District had full employment, retail sales were up, and there had been rains over the entire area which had helped growing crops, filled water storage facilities, and improved grazing conditions for livestock. The outlook for both farming and cattle-raising had improved. The Tenth District was one of the few districts that in the first three months of this year had a larger amount of residential construction than in the corresponding period of last year. On the other hand, public construction declined 14 per cent during the first quarter of this year. As a whole, Mr. Kemper believed that economic conditions in the Tenth District for the next six months should be very good.

Mr. Massie said that the weakest spot in the Second District was in residential building which was off about a third from last year, compared with a decline of about 18 per cent for the country as a whole. This was offset by large nonresidential construction, which had shown a year-period increase of 25 per cent in recent months. This included a great deal of activity in connection with plant expansion in different parts of the district. The employment situation had been mixed, with some bad labor difficulties in the automotive and electrical industries, but this situation had now been corrected. The service industries were active but not quite as strong as they had been a few months ago. They had absorbed labor released from the textile and cutting-up trades, and total employment was high. For the period from now until autumn, Mr. Massie felt that business should be sustained at quite a high level. Demand for money was terrific. This demand was not so large during the tax payment period, but shortly afterwards the demand had increased very sharply and had been particularly strong since April 1. There was no letup at the present time.

In response to a question from Governor Vardaman, Mr. Massie said that finance companies, which had had substantial amounts of paper outstanding that was due between March 10 and 15, had been among the heavy users of credit. He estimated that today such companies were using a higher percentage of their lines of credit than ever before: about 72 per cent, compared with a historical high of about 50 per cent unless the situation was unusual. These companies were growing and tended to need more money. A number of the large well-known companies, which did not ordinarily borrow substantial amounts from New York banks with which they had lines of credit, had come in recently to obtain funds.

Mr. Matkin commented on the recent rains in the Dallas District, stating that they had largely broken the drought that had persisted for a number of years. He assessed the rains as doing a great deal more good than harm. Farmers and cattlemen are in much better position and are looking forward to much better times as a result of the rains. Mr. Matkin expressed the personal view that business would continue on a high level during the next six months, with possibly some increase. There was still some complaint from parts of the building industry as to a lack of mortgage funds. However, Mr. Matkin felt that legitimate demands for such credit were being taken care of.

Mr. King said that economic activities in California and the Twelfth District for the first time in several years seemed to be leveling off with the rest of the nation. For a number of years, growth in the Twelfth District had exceeded that of the rest of the country. In commenting on the housing situation, Mr. King said that unsold houses were not a distressing problem. Some of the weaker builders had gone out of business, and the stronger ones were still building houses. The present VA rate had caused some building to be deferred, but there had been renewed activity in FHA-financed building since the rate had been increased. There was enough money available for those who wished to build and who should be building, Mr. King commented. Employment was full in the Twelfth District, but there was some concern about the elimination of overtime in connection with defense contracts because of the effect it might have in the important aircraft industry. This in turn might affect department store sales. Automobile registrations in California during March were higher than at any time since January 1956, although in Oregon and Washington they declined. The steel industry was operating at 100 per cent capacity and some of the West Coast facilities were being expanded. Mr. King said that loans of banks in the Twelfth District had increased recently, the increase coming largely from public utilities. Retail sales continued moderately strong. In general, Mr. King believed that business would continue strong until the autumn and, if any change occurred, he would think that an increase would be more likely than a decline.

Mr. Kimball said that in the Sixth District the outlook was somewhat more buoyant than in the rest of the country. He felt it significant that in the last three months there had been a noticeable upsurge in construction, with both residential and nonresidential contracts running at a higher rate than a year ago. Employment was high and consumer incomes were increasing. Consumers were spending these incomes, Mr. Kimball said, although recently sales of furniture and household appliances had fallen off somewhat. Automobile sales in the Sixth District were 8 per cent above those of a year ago. Bank deposits were up and deposit activity in March was the highest in the District's history. The agricultural outlook had been improved by firming of prices both for vegetables and livestock. There had been a decline in borrowings of agriculture, primarily because of a decline in cotton acreage that was going on under the Soil Bank program. This program was proceeding very rapidly, Mr. Kimball said, and the taking of acreage out of production would release additional workers which would help to attract more industries into the District. On the whole, Mr. Kimball felt that the trend in the Sixth District was strong and he could see nothing to change that situation over the next six months.

Mr. Baird said that he was one of those who believed that business would continue at a high level and perhaps show a moderate increase over the next six months. He based this on the belief that the rolling readjustment would continue for another six months. Full employment and high incomes were being reflected in widespread spending on a variety of soft goods and services. There was a much more optimistic feeling in the Ninth District than in February of this year. Mr. Baird recalled that at the preceding meeting he had indicated that some of the Mid-west drought was reaching into the Ninth District. This had now been changed with good rainfall during April over most of the area, even though subsoil moisture was still lacking in some sections. The out-look for crop production this year was good, and psychology in general was good.

Mr. Miller said that in the Eighth District business could be expected to continue at a satisfactory level from now until mid-autumn. He could see nothing to change that outlook. Psychologically, the situation was better than in February. This might be because there had been no more statements from high officials in Washington about "hair curling" depressions. The soft spots were not affecting the Eighth District particularly. Department store sales were up and soft goods generally were selling well. The coal situation was good. Unemployment was at a satisfactory level. All in all, Mr. Miller looked for a continuation of good business during the next six months.

President Fleming said that in the Fifth District the over-all economy was good. The soft spots were automobile sales, residential building, and textiles. Industrialization of the District was continuing, with new plants being constructed. Shipbuilding was active. Public and industrial construction increases were more than offsetting the drop in housing. Farm prices were better than they had been earlier. President Fleming said that he expected the present level of business to continue until mid-autumn. Bank loans were down somewhat. Demand deposits also were down, but savings deposits were showing an increase.

President Fleming said that he believed that the specific question that the Board had asked about plans of operative builders had been fairly well covered in the above comments. He noted that some months ago, the Federal Reserve Bank of Richmond had brought to his attention an estimate that housing starts this year would total one million units; it was now apparent, he said, that the year's total would be considerably under that figure.

2. The Board would like to have the members of the Council comment on the attitude of the business community toward the level of prices and the cost of living. That is, how do businessmen really feel about a rising price level such as has been experienced in recent years? Do they believe that in the years to come a rising price level is necessary as an alternative to unemployment? Do they understand and favor the vigorous use of credit and fiscal measures to maintain a dollar of relatively stable purchasing power?

There is no one attitude toward the level of prices and the cost of living which may be said to characterize all businessmen. However, from discussions with a number of businessmen, the members of the Council are of the opinion that the business community views with concern the rising price level and the increase in the cost of living. Nevertheless, in a period of strong and sustained demand for goods and services, there is a tendency to consider only the immediate future and to grant wage increases, especially if they can be absorbed largely or entirely by higher prices. Moreover, under these conditions, there is also a reluctance to risk idling plant and equipment as a result of strikes growing out of the resistance to wage demands.

The Council is of the opinion that most businessmen do not believe a rising price level is necessary as an alternative to unemployment. On the other hand, if confronted with a choice, they probably would choose a moderately rising price level to widespread, prolonged unemployment. Most businessmen would prefer stable prices and a high level of employment.

To the extent that businessmen understand the vigorous use of credit and fiscal measures to maintain a dollar of relatively stable purchasing power, they favor such measures. However, a broad educational program directed toward the business community would be greatly helpful in providing the needed understanding and support of these measures over the business community generally.

President Fleming said that the Council believed that the top level personnel in the banking world were conversant with and understood thoroughly the policies of the Federal Reserve System and what the System was endeavoring to accomplish. The Council believed that in some of the larger business corporations that also was true. It did not believe that the average businessman on the lower level really understood the policies of the Board. This was why the Council felt that Mr. Young's statement yesterday on creeping inflation would be educational when these men came to talk with members of the Council. President Fleming referred to these as the second and third level of smaller businessmen who complained about tight money and who did not understand the System's credit policies that, in the Council's opinion, had been well executed and had contributed to holding down inflation. He felt that this was the area where education was necessary. For members of the Council and their associates, a statement such as that by Mr. Young would be more helpful than some of the pronouncements coming from the Board itself or from Government. These second and third level businessmen just did not understand the mechanics of what the System was trying to do, President

Fleming said, and many of them would say that money was too tight.

Chairman Martin said that this was the heart of the problem confronting the System. As long as tight money was being discussed as much as it was, not only by the public but also in Congress, the problem of how to educate the public was very much with the System. If the System embarked upon an active program of education, it might be accused of being in the political area.

Mr. Mitchell said that he had found that after a little explanation businessmen were pretty unanimously of the view that they wanted a stable dollar and stable prices. They also were unanimously of the view that the Federal Reserve had done an excellent job in the last four or five years and that it was essential that the System retain its independence. They thought that it would be difficult to hold prices, Mr. Mitchell said, but they did not want the Government to meddle with wages, either up or down. This was almost unanimously the view after the businessman understood the problem, Mr. Mitchell said, but it was quite true that at the start he had very little knowledge of monetary policy.

Chairman Martin inquired whether the public was growing increasingly cynical about the possibility of resisting inflation, and to this question Messrs. Mitchell, Livingston, Fleming, and others indicated that such a tendency was developing. Chairman Martin went on to say that this compounded the difficulties confronting those who would resist inflation.

President Fleming stated that this was partly because none of the businessmen wished to be faced with a situation like the Westinghouse strike. With full employment and with earnings high, there was a tendency to accept the demands of labor for higher wages rather than to risk a strike.

Mr. Kemper said that it seemed to him that some of the cynicism toward the ability of the Federal authorities to control inflation stemmed from the fact that most people think that labor unions enter into the problem to a very large degree. This was a political situation, he said, and as long as many of those running for public office wanted the labor vote, not much control would be put on labor. Mr. Kemper also thought that as long as there was a rising wage scale, which everyone anticipated, it was going to be very difficult to control inflation.

Governor Vardaman stated that during the past six months he had observed that the below-the-top level businessmen did not understand the Federal Reserve System and were not sympathetic with what they called the tight money policy. Neither did they wish to give to the Board sufficient power to control inflation. It was Governor Vardaman's view that if the System was going to get at the problem, it would have to go below the level of the top businessmen or the Reserve City Bankers group and start a real educational program with such groups as Rotary Clubs and so forth.

President Fleming said that Mr. Matkin had had an interesting experience along this line, and at his request Mr. Matkin commented on his experience in being requested to talk before the Rotary Club in El Paso, and to describe the functions and operations of the Federal Reserve System. Mr. Matkin said that with the assistance of the Federal Reserve Bank of Dallas he prepared a statement which was presented before the Rotary Club and, later on, before the Associated General Contractors of that city, and in both cases he found a great deal of interest in the Federal Reserve and its policies.

Governor Mills said that the problem the discussion had been exploring was the wage-price spiral. He noted that if the spiral moved upward, more credit obviously would be needed to support a higher price level. The antidote was a monetary and credit policy that would restrain growth in the money supply. Governor Mills inquired what problem might come out of an economically proper monetary and credit policy that might, however, bear inequitably as between various business and social groups.

President Fleming responded that he did not see how this question could be solved. It was necessary for the System in limiting the volume of credit to deal across the board.

Governor Mills commented further that if there was such control over the volume of credit when a demand for credit was exerting pressure to bring prices up, and if the supply of credit did not then expand to meet that pressure, the available supply of credit would have to be spread among a greater number of claimants. He wondered what the effect of such a situation would be.

President Fleming stated that the effect of this development had been that banks had been a little more selective in their granting of credit.

Mr. Kemper raised the question whether it might be possible to relate wage increases to the cost of living index.

Governor Vardaman did not think the problem should be approached through labor. Labor had not been the sole cause of the increase in demand for money, he said, and he felt there had been a tendency to overemphasize the part wages played in the increased costs of production. He felt that more talks like those by Mr. Matkin would be most helpful.

Mr. Kimball reported that he had been asked to speak before the Miami Manufacturers Association on the subject of tight money and that, following this talk, he had also received a request to speak on the subject before the Kiwanis Club. He felt that an effective job of educating larger groups of businessmen could be done by accepting invitations of this type. In response to a suggestion by Mr. Kemper that some of this should be done by the businessmen rather than by bankers, Mr. Kimball stated that in his view the business people expected the bankers to make such talks and welcomed having them do so.

Mr. Mitchell said that businessmen would have to be sold on the whole idea before they could be expected to make speeches along these lines. He felt that a great deal of progress had been made in educating bankers, not only at the top level but at other levels. If the same thing could be done with businessmen over the next year or two, it would represent real progress. A great deal of effort on the part of every member of the Federal Advisory Council would be required to get businessmen to go out and really explain this problem, Mr. Mitchell said, adding that the Reserve Banks could be expected to help in such a program. Mr. Mitchell also expressed the opinion that a great many businessmen were reconciled to a creeping inflation.

Chairman Martin commented that the problem was obvious, but the solution was still obscure.

3. The Board would appreciate comments as to the experience of banks generally regarding
   (a) whether, as the result of paying higher interest rates, savings and other time deposits have increased since January 1, 1957;
   (b) if so, whether and to what extent the increase reflects a shift from demand deposits and from funds formerly in savings and loan associations; or whether it reflects entirely new savings;
   (c) whether the cost of the higher interest rates announced on savings and time deposits has had an effect on operating policies of the banks.

The Council believes that the experience of banks generally may be described as follows:

(a) Banks which raised their savings interest rates to 3 per cent on January 1, 1957 have experienced a material increase in savings deposits. The increase in rates also has been helpful in holding other time deposits. Some banks which increased their savings rates to 2 or 2-1/2 per cent in 1956 report that this action has tended to stabilize their savings deposits.

(b) The increase in bank savings deposits thus far seems to reflect primarily a shift from other forms of savings rather than entirely new savings. It appears that the largest proportion of the increase can be accounted for by shifts from savings and loan associations and other institutions and from savings bonds, with only a small transfer from demand deposits. Over the long run, higher savings interest rates should be helpful in increasing new savings.

(c) Where interest rates on savings have been raised, there is evidence that banks have endeavored to obtain higher rates on their earning assets which in some instances has resulted in a shift in the types of assets. The payment of higher interest rates to savings depositors also has tended to increase service charges.

President Fleming stated that his bank was one that had gone to a 3 per cent rate on savings and time deposits up to $10,000, and to 2 per cent across the board. Passbook savings since the first of the year appeared to have increased 8.6 per cent, he said, and he felt this experience was generally true of other banks.

On (b) of the above question, President Fleming said that it was almost impossible to determine whether savings bonds had been cashed and the funds placed in savings deposits. He did know, however, that a considerable amount of funds that had been in savings and loan associations paying 3-1/2 per cent had been placed in savings accounts at banks because, with that margin of difference, the owners of the funds preferred to have them in banks.

As to (c) above, President Fleming said that the increase in savings deposits would have to be much greater than it had been thus far in order to compensate for the increase in the rate paid on such deposits. He noted that there had been a tendency to try to offset the higher interest costs to the banks by adjustments in mortgage rates and to some extent by higher service charges. In response to a question from Governor Balderston, President Fleming said that he had not been surprised at the substance of the responses made by the Federal Advisory Council members to these questions regarding the increase in rates of interest on savings and time deposits in recent months. One feature that had surprised him, however, had been the fact that there had not been a large proportion of funds transferred from demand deposits to time deposit categories. President Fleming commented that when the rate on time deposits was increased from 1 per cent to 2 per cent some time ago, there had been a greater transfer of funds from the demand deposit category.

Mr. Kimball suggested that the degree of shift from demand to time deposits depended upon the degree of the increase in the rates paid on such deposits. He noted that in Miami the rate had been increased at the beginning of this year from 1 per cent to 2-1/2 per cent. This had been accompanied by an increase in the time and savings deposit category, of which he estimated about 40 per cent represented transfers from demand deposits.

Mr. King expressed the view that deposits of business firms were less likely to be shifted from the demand to the time deposit category than were deposits of individuals. He also said that he had been surprised at the continuing increase in savings deposits that had taken place. Approximately three-fourths of the banks in the Twelfth Federal Reserve District were now paying 3 per cent on time and savings deposits, he noted, and increases in such deposits were continuing right up to the present time, which was surprising at this time of year.

Mr. Denton stated that his bank had increased the rate payable on time and savings deposits from 1 per cent to 2 per cent last July. There had been a slight drain on savings deposits prior to that time, particularly at the downtown offices where savings and loan associations were located nearby. Since last July, there had not been a week during which the savings deposits of his bank had failed to increase.

President Fleming suggested that it was too early to determine whether the change in the yield on Series E bonds was sufficient to change the tendency for holders to redeem the bonds. He also noted that funds placed in F and G Series bonds were to be looked upon as investment money, rather than as savings deposit money.

Mr. Denton stated that while there had been increases in savings deposits as a result of the higher rates being paid on them, he could cite several examples in which the increase in the income derived from savings deposits had caused the owners to reduce the total amount of their savings where such owners were simply interested in obtaining a specified amount of income from the savings.

Mr. Kemper stated that the 3 per cent rate seemed to be the magic rate and that it had caused a good-sized increase in savings deposits. He described the situation in his own city where rates had been increased to 2 per cent by the downtown banks, while outlying banks had increased their rates to 3 per cent. The result was that the latter group of banks was experiencing an increase in savings deposits which had totaled almost 15 per cent since January 1, whereas the downtown banks were having very slight increases. Mr. Kemper felt that if the 3 per cent rate were paid generally, there would be a marked increase in savings deposits.

President Fleming reported a recent discussion that he had had with members of the Association of Reserve City Bankers who had indicated that approximately one-third of the banks had made no change in their rates on savings deposits, approximately one-third had made some increase, and approximately one-third had gone to 3 per cent.

4. In the observation of members of the Council, what effect has reduced liquidity had on the availability of bank loans within their respective districts? Do the banks aim at maintaining any set ratio of liquidity as between loans and holdings of U. S. Government securities, etc.? In regulating their liquidity positions, is there any difference in the policies of banks in
(a) central reserve cities
(b) reserve cities
(c) areas outside (a) and (b).

The reduced liquidity of banks has resulted in greater selectivity in the extension of credit. While most banks watch the ratio of loans to holdings of U. S. Government securities, deposits, capital funds, etc., the Council does not know of any fixed formula widely used by bankers of the country. In regulating their liquidity positions, the Council does not believe there is any real difference in the policies of banks in (a) central reserve cities, (b) reserve cities or in areas outside (a) and (b).

President Fleming said that the deposit structure of a bank had to be examined in order to judge the specific policy to be followed in terms of liquidity. One bank might have a greater proportion of time deposits which would affect its liquidity needs. The volume of foreign deposits would also affect the liquidity needs of the bank. Bankers watched the ratio of their loans to deposits, President Fleming said, but he knew of no fixed formula governing the liquidity position of banks, and he knew of no member of the Council who knew of any fixed formula for that purpose.

Mr. Denton said that many banks gave some attention to the various formulas established by major depositors. After commenting upon the requirements of some of these depositors, he stated that many of the smaller banks in the Fourth District used the studies of the Federal Reserve Bank of Cleveland covering member bank operating ratios as a guide in determining their liquidity position.

5. What is the Council's view of an appropriate credit policy for the period from the time of this meeting until mid-autumn of 1957?

The members of the Council approve the credit policies currently being pursued by the System.

Assuming, as we do, that the present high level of business continues, the Council believes that the current degree of restraint should be maintained. However, additional reserves will in all probability be required for the June tax needs, Federal fiscal requirements in the early summer months and other seasonal factors.

President Fleming said that most of the members of the Council felt that the situation of the Treasury and particularly the heavy attrition experienced in the latest refunding might cause the Treasury to have to obtain new money earlier than had been expected. He would not expect this before July.

Mr. Denton referred to the first topic discussed and to the feeling he had expressed of some skepticism as to the level of business during the period until next autumn. If the situation were to turn out to be as he felt, it might then be advisable for the System to consider credit policy in the light of those conditions, which might call for less restraint. In response to a question from Chairman Martin as to whether more restraint would be called for if the situation did not turn out that way, Mr. Denton responded that in that event he would say there should be at least as much restraint as at present; he was not happy with a rise in net borrowed reserves to a figure as high as $600 million, but he thought $200 or $300 million would be all right.

Mr. Mitchell said that he would hope, when and if business sentiment deteriorated, that the Board and the System would not be too quick to inject reserves into the money market. It was very easy to put money in, he said, and very difficult to bring it back out as was demonstrated by the 1953 experience.

President Fleming said that some of the members of the Council were curious as to the situation that had developed in a recent three-week period in which net borrowed reserves ran in the $600-700 million range. He said that one suggested explanation had to do with the Chicago tax date on April 1.

Chairman Martin said that the tax date was one of the elements. Likewise, he recalled that in an earlier period the market had gotten considerably easier than was called for by the policy the System had been following. He noted that the System used projections of reserves and that in certain periods these projections were not very good. If the System were to do nothing simply because the projections were not very good, the situation might get even worse. What the System had to deal with was such words as color, tone, feel, and behavior of the market. The Chairman went on to say that there might be a period in which net borrowed reserves were $600-800 million and the market did not seem to be tight. A little later with a small shift in reserves, the market might become much tighter. He pointed out that the Manager of the System Account had an extremely difficult job: the Manager must try to satisfy the individual members of the Federal Open Market Committee, and at the same time he must try to interpret policy in the light of day-to-day developments in the market.

6. (a) The Board would appreciate receiving any comments the members of the Council may have as to the Bank Holding Company

Act of 1956. (As suggested by Chairman Martin at the meeting on February 19, this topic will be carried on the agenda regularly until the spring of 1958.)

(b) What are the views of the members of the Council as to whether all special exemptions from the definition of a bank holding company should be eliminated from the Bank Holding Company Act of 1956?

As the Board knows, the Council has consistently supported sound regulation of bank holding companies. The Council believes that while sound in its fundamental approach, the Act of 1956, contains exemptions that may result in possible abuses. The Council believes it desirable that these exemptions be eliminated.

Some members of the Council who have special knowledge of bank holding companies, have proposed in writing certain technical amendments to the Act which they believe will contribute to the better administration of the Act within its avowed purposes.

The Council is of the opinion that the suggestions mentioned above merit the consideration of the Board.

President Fleming noted that not all members of the Council were experienced in the operations of holding companies. The members of the Council had read the proposals for amendments to the Bank Holding Company Act of 1956 that had been submitted by Mr. Baird, copies of which had been sent to the Board, and the Council approved the consideration of these proposals.

Mr. Baird stated that he had been examining another section of the Bank Holding Company Act very closely and that he expected within the next few days to submit an additional proposal for the consideration of the Board and the members of the Council.

Governor Robertson said that he felt that some of the suggestions that members of the Council had made were very good and were backed up by sound reasoning. He had originally hoped that the Board would come up with suggestions for the Congress at an early date but it now appeared that it would not be desirable to submit suggestions until the spring of 1958. In the meantime, he hoped that the members of the Council would feel free to submit additional suggestions and comments regarding the legislation.

President Fleming said that all of the members of the Council would continue to study the legislation and to submit to the Board any suggestions they might have. He suggested that any such proposals be sent by the individual members direct to the Board, with copies to the Secretary of the Federal Advisory Council for distribution to all of the Council members.

7. The Board would like to have a further discussion of the problem of "window dressing" by banks for purposes of inflating deposits and reducing figures of bank borrowing at times of the regular reports of condition.

The Council will be pleased to discuss this item with the Board.

President Fleming said that he had discussed the question of "window dressing" by banks with the Comptroller of the Currency. He found that for several years the matter had been under active consideration by the Comptroller and that the Comptroller had been working with the Board. He also understood that this was not a practice that was widespread but rather was one which was used in isolated areas, and that Texas seemed to be one of the areas in which the practice was engaged in extensively.

Mr. Matkin said that while the practice apparently was not widespread except in Texas, he would predict that it would spread to other areas if something was not done to stop it. He thoroughly approved of active interest on the part of the Council and the Board. Banks which did not initially wish to engage in window dressing found themselves under a great deal of pressure to do so, Mr. Matkin said, when competitors engaged in the practice, and it was difficult for the first group to continue to be honest. Mr. Matkin felt that, if necessary, laws should be passed to stop window dressing. He had discussed the matter with the Comptroller of the Currency as well as with individual bankers, he said, and felt that something could be done to end the practice.

President Fleming said that the Comptroller of the Currency had indicated the belief that within a year the practice would have been eliminated in the Southwest, except that the Comptroller was not certain as to one city. The Comptroller had been asked whether he had written letters to the boards of directors of the offending banks, President Fleming said, and had responded that this had not been done but that it would be done if the problem could not be worked out with the managing officers of the banks.

Governor Balderston expressed the hope that this could be worked out without needless trouble, inconvenience, and expense to all banks.

He wondered whether it would help if, instead of requiring reports of condition as of a single date, averages of deposits were required to be reported.

During the ensuing discussion, the comments of the members of the Council made it clear that they were in favor of taking steps to bring an end to what they believed to be a bad practice. Several comments seemed to favor direct action with individual banks as the most effective procedure. They also indicated that this procedure would avoid burdensome requirements for banks as a whole.

Governor Robertson stated that he hoped this problem would not be ballooned out of proportion to its importance. He felt that beneficial results would come out of these discussions and that the problem would be solved. The supervisory agencies had wished to avoid tarring all banks of the country with the sins of just a few banks. When there were a few large banks that did not wish to stop the practice, it was not possible to ask the smaller ones to do so. The problem was one that could best be solved by the banks themselves, he felt, and he suggested that as soon as some of the large banks that were following the objectionable practice could be persuaded to change, the smaller banks would follow their lead. In response to a question from President Fleming as to whether discussion of the problem at conventions of State bankers' associations would be helpful, Governor Robertson expressed the opinion that such a procedure might have an unfortunate effect on banking generally. Recently there had been a tendency for newspapers to become interested in this problem, he said, and if it got into the press there would be a tendency for all banks to become suspect.

Mr. Baird said that he doubted the directors of the banks involved had had the problem brought to their attention in a way that indicated that window dressing was an unethical practice and something that they would not countenance with borrowers from their banks. He felt that the directors probably had been lulled into accepting the practice on the grounds that this was a competitive device that had been used for years. He did not see why in aggravated cases a letter directed to the board of directors criticizing the practice should not be written.

Governor Robertson responded that there was a good deal to this suggestion, and the discussion concluded with a statement by President Fleming that the members of the Council were concerned with the problem and would continue to keep it in mind.

> 8. The Council would like to know what progress the Board of Governors has made in their study of reserve requirements. In particular, the Council would like to know if the Board has come to any conclusion on the reserve requirement proposal advanced by the Economic Policy Commission of the ABA.
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> The Council would welcome any comments the Board wishes to make on this study.

President Fleming said that the Council would like to know what progress the Board had made in studying the reserve requirements proposals that had been submitted by the American Bankers Association.

Chairman Martin said that the Board welcomed an opportunity to discuss the matter and that it wished to keep the Council informed of what it was doing in this area at all times. The Board had not come to any conclusion on reserve requirement proposals up to the present time, the Chairman stated. It welcomed the study the ABA had made and thought it an interesting and worth-while addition to knowledge in the field. The Board was actively endeavoring to work out something on the problem.

Continuing, Chairman Martin said that he reflected the views of the Board in stating that we were dealing with a very difficult and insidious case of inflation that was already with us: it was not something that we were only talking about; we now have it. He hoped that the members of the Council would bear this major problem in mind. He was on record and he believed very firmly that reserve requirements were too high. In the present atmosphere, however, it was necessary to consider all aspects of the situation. The problem was one which should be considered in terms of assistance to banking generally. The Chairman noted that various comments were being made along the line that the bankers would like to have their reserve requirements reduced and that they were already making more money because of higher interest rates. He felt that it would be difficult to justify a reduction in reserve requirements under existing circumstances.

With respect to the ABA proposals, Chairman Martin said that he had had a sufficient number of comments from individual bankers to know that not all bankers agreed with the proposals that the ABA committee had made. This was not surprising. He wanted the Council members to know that the Board takes this problem very seriously and that it was considering all of its aspects. The Board had recently authorized, under the direction of Governor Mills, a review of the various proposals for reserve requirement changes with the purpose of ascertaining the effect of the various proposals on banks as a group and individually at different times. It would be the Board's intention to discuss this matter with the Council as soon as it was able to come to any definite conclusion.

President Fleming stated that this was as much as the Council could hope for, adding that he too thought that it would be unwise to propose legislation in this field at the present time.

Chairman Martin stated that there had been considerable discussion of the consumer credit study that the Board had made at the request of the President's Council of Economic Advisers. He wished to inform the Federal Advisory Council that the Board had not taken any position on the question of authority for regulating consumer credit but that it was hoping to arrive at some means of utilizing the study shortly.

Governor Mills noted that from time to time the Council had commented on the experience of member banks at the discount windows of the Federal Reserve Banks. He noted the absence of comment at this meeting and stated that he judged this was an indication that the experience was satisfactory.

President Fleming noted that this comment had been eliminated at the preceding meeting because the members of the Council were satisfied with the pronouncement that Chairman Martin had made to the effect that the discount window would be kept open for all legitimate purposes.

Mr. Livingston said that he had been the member of the Council who had raised this question from time to time and that bankers with whom he discussed the matter were being well taken care of.

Mr. Denton said that he concurred with the remarks of Mr. Livingston.

Mr. Massie said that banks generally had been borrowing too much. However, the pressures had come onto them rapidly and they had not had an opportunity to make the needed adjustments. These were being made, but they required time.

Mr. Mitchell commented on discussions that the Federal Reserve Bank of Philadelphia had had with certain banks that had borrowed continuously, stating that whatever had been done by the Bank on that problem had been done well.

It was agreed that the next meeting of the Council would be held on Sunday, September 15, 1957, and that the joint meeting of the Board and the Council would be held at 10:30 a.m. on Tuesday, September 17, 1957.

Thereupon the meeting adjourned.

Secretary