

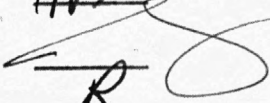
The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Committee on September 17, 1957, which you have previously initialed, has been amended to make a change in paragraph 1 on page 16.

If you approve these minutes as amended, please initial below.

Governor Szymczak



Governor Mills



Governor Robertson



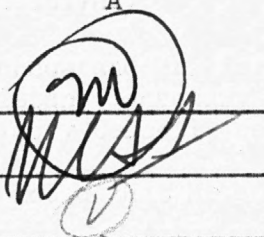
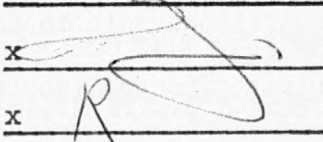
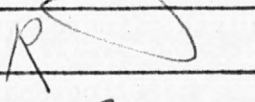
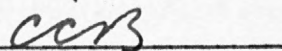
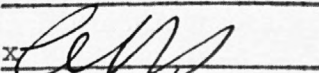
To: Members of the Board

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 September 17, 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  | _____ |
| Gov. Szymczak | x _____ | _____ |
| Gov. Vardaman | x _____ | _____ |
| Gov. Mills | x  | _____ |
| Gov. Robertson | x  | _____ |
| Gov. Balderston | x  | _____ |
| Gov. Shepardson | _____ | x  |

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, September 17, 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, Murray, Kemper, Jacobs, and King, members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth Districts, respectively

Mr. Prochnow and Mr. Korsvik, Secretary and Assistant Secretary of the Federal Advisory Council, respectively

President Fleming noted that Mr. Gordon Murray, President of the First National Bank of Minneapolis, was attending his first meeting of the Federal Advisory Council, having been selected by the Federal Reserve Bank of Minneapolis to succeed Mr. Baird who had resigned as a member of the Council from the Ninth District to accept appointment as Under Secretary of the Treasury.

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

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respect to each of the subjects were as follows:

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

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

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

Mr. Brace said there was considerable variation in activities in the First District, with some decidedly good and some fairly weak. The expectation was for about a level total for the rest of this year. Not much change in total industrial output was expected in the next few months. Retail trade recently had been good, and the average business was continuing at about the same satisfactory level as six to nine months ago. This was expected to continue for the next several months with no new weak spots and with the strong spots having enough momentum to carry on for some time.

Mr. Massie stated that aggregate business in the Second District was at a high level. Employment was at the top but it had been somewhat spotty, with some layoffs in defense industries and strikes in the light metal-working and cement industries. Personal income was up to a new

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high, although there had been some drop-off in overtime. Industrial and commercial construction activity was good, particularly construction of office buildings in New York. Residential building had declined about 31 per cent this year and showed no signs of picking up. Retail trade had not been good in the early months of 1957, but beginning in May sales had risen rapidly and in recent months had been good, with the year to date total about 5.5 per cent above last year. The textile industry reported a fair volume but not much profit. The apparel business was fair and looking for a large pickup this fall, although such a rise had not yet shown up. Bank deposits were down, particularly demand deposits, savings deposits having shown some rise with the increase in the interest rate paid. Loan demand was at a top, with requests coming in in large pieces, and this was expected to continue to the end of the year. Taking the District as a whole, Mr. Massie said that operations were at a high level and he could see no reason why aggregate business should not stay good until the end of this year, even though there were some soft spots.

Mr. Mitchell reported that the Third District was showing about the same pattern as for the last five or six months. The strong spots were the same as earlier--steel, shipbuilding, rubber, and chemicals; and the weak spots also were the same--anthracite coal, residential building, and disappointing sales of automobiles. Residential building awards were 13 per cent under last year, while nonresidential awards were up 7 per cent. Recently there had been some indication that industrial programs were being reduced or postponed, Mr. Mitchell said, but on the other hand State and local government construction was

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increasing and was expected to continue to rise. Agriculture had been hard hit by the drought this year, particularly in vegetable growing areas; dairymen had not been hurt by the drought except that costs had risen because of the need for heavier feed. Personal income was up and employment was about the same as a year ago. Factory pay rolls were up. There was a substantial labor surplus in the Altoona-Scranton area, as had been the case for some time. Money was tight, deposits were down, and loans were the same as a year ago, with banks lending about 57 per cent of their deposits. Borrowings from the Reserve Bank were about the same as a year ago. Mr. Mitchell felt that until the end of this year business should continue at the present high level without much increase or decline and with loans rising seasonally.

Mr. Denton described conditions in the Fourth District as having the same pattern as that expressed for other Districts. He expected a high level of business for the rest of this year, although he would qualify that statement with the comment that industrial concerns he was in touch with were more pessimistic than comments at this meeting. Business of many concerns was down a little, and the atmosphere was not as good as formerly. Forecasts for the coming year were lower than for the current year. This was true in basic steel, alloy steel, and firms supplying trim for the automobile trade. Orders for heavy electrical equipment were far below anticipations earlier this year. The chemical trade was burdened by oversupplies of materials with which it made products, and the storage problem was becoming acute. The oil industry was in long supply, but if the coming winter turned out to be cold it

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would help the fuel oil situation. Coal production was expected to be about the same as last year. Orders for railroad equipment were slack. On the other hand, Mr. Denton reported that consumer buying was strong and retail trade high, with demand for consumer credit in the automobile field substantial. Loan demand showed no slackening. Next year would see the beginning of payoffs on loans to expand facilities and there should be some relief. Some companies were feeling that they had moved ahead in expanding facilities before they were needed. Demand for money continued steady and strong; deposits were running higher than last year but were not as much above as earlier in 1957. Despite the qualifications he had given, Mr. Denton said that business was good even though the atmosphere was not as optimistic as it had been.

Chairman Martin noted that there had been marked swings in psychology in the business community in relatively short periods of time and he inquired as to the reasons for these sharp changes in feelings.

Mr. Denton said that the recent shift in feelings of the businessmen to whom he had referred probably reflected the fact that they had really anticipated earlier this year a bulging fourth quarter. While the fourth quarter had not yet arrived, business had not approached their expectations. For example, the coal industry had anticipated a 5 per cent gain but instead sales were at about the same level as a year ago and the price structure was weak. There was an accumulation of such feelings and they were being reflected in the stock market, Mr. Denton said, or perhaps developments in the stock market were being reflected in the feelings of these businessmen.

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President Fleming commented that he felt the Congressional Hearings of the past summer had been confusing to the public and thus affected psychology.

Mr. Livingston expressed the view that the longer a boom ran, the more sensitive the businessman got and thus the sharper his reaction to psychological factors that came along.

In response to a question from Governor Balderston as to whether the members of the Council were concerned over the foreign situation and its future impact on the domestic situation, President Fleming commented that this was a factor. Inflation was a problem in most parts of the world, he noted, and the situation in countries such as France could have an unfavorable effect on U. S. export trade, particularly if the amount of foreign aid extended by the United States were cut down.

Mr. Livingston said he anticipated a continuing deterioration in the French situation but he doubted that this would have a major effect on the economy of the United States. He would apply substantially the same comments to the remainder of Western Europe.

Mr. Massie doubted that the full impact of the French exchange adjustment would appear for some time. He said that in recent months corporations exporting to Western Europe had had a sharp decline in their business and were finding it very difficult to compete with European-made products being produced at lower cost. While the percentage of total business of United States firms represented by exports to Western Europe had been small, it had been very desirable.

President Fleming said that the Fifth District was keeping on an

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even keel. There were some bright spots and some not so good. There had been a cutback of military personnel. Bank loans were up and continued strong demand was expected. Deposits had increased slightly where banks had increased the rate of interest payable on savings deposits, but demand deposits were down a little. Construction of industrial and commercial buildings was strong, particularly of apartment and office buildings. The bituminous coal industry was a bright spot, but lumbering and paper products were down. Transportation equipment was down except for a new large atomic powered airplane carrier. Tobacco and cigarette production was up slightly and an increase was expected for the fourth quarter. The textile industry continued to be depressed. Farm income was up slightly but had been badly hit by the drought. Residential construction was down. VA loans were practically not being made. The recent increase in rate on FHA loans ultimately would result in an increase in such mortgages but at present there was a lag in getting commitments. Retail trade was strong, having shown a sharp increase since the first of September. This was expected to continue during the fall with a record volume of Christmas trade.

Mr. Kimball said that the over-all Sixth District picture was still generally quite strong but there was a trend toward increasing diversity by States. If Florida were taken out of the picture, the Sixth District would not look so strong. Over-all employment showed a slight upward tendency. The textile, lumbering, wood products, and paper and allied products industries were tending downward with the textile

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industry reporting a work week of 37 hours compared with 40 hours a year ago. Food processing, transportation, and metals continued to show a rise in employment. Construction was exceptionally vigorous showing an 11 per cent gain in the first seven months of 1957 compared with 1956. Retail sales were holding up extremely well, department store sales having turned strong in July after showing slackness earlier this year. Loans and deposits continue to inch up, Mr. Kimball said, with the food processing and metals firms largely responsible for the increased loan demand. Loans to the textile industry have risen more than seasonally. Gross cash income of agriculture was about matching last year, but net agricultural income would be smaller than 1956 because of increased costs. Over all, Mr. Kimball concluded, the picture was still bright, particularly because of the strong trend in Florida.

Mr. Livingston said that business in the Seventh District continued very good and he expected it to continue good until the end of the fourth quarter. Employment was high although there was some unemployment in Detroit and Flint because of the automobile situation. Crops have been good in the Seventh District this year, moisture having been more than adequate. Hog and cattle prices were very good but the packing industry, as is usual when prices of hogs are high, was unprofitable. Residential construction in the Seventh District was down sharply from a year ago. Commercial construction was down less sharply and industrial construction was up. The farm implement business continued poor. Mr. Livingston said that the most significant thing in the

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Seventh District was the remarkable buoyancy in retail sales. This was true all over the country but it was particularly evident since the first of September in the Seventh District.

Mr. Miller stated that the picture in the Eighth District was similar to that described for the rest of the country: business would continue at a fairly high level to the end of this year. Demand for money was strong and a little larger than a year ago. Deposits were down but not drastically, most of the decline having come in tax and loan accounts. Retail sales in the Eighth District were similar to the picture given by Mr. Livingston. The tobacco crop was good and prices were good, Mr. Miller said, noting that this was a large cash crop in much of the Eighth District. Residential building was down but commercial and industrial construction was being well maintained. It was expected that road construction would continue at a high level. Mr. Miller said that while there was no wave of optimism in the Eighth District, he had not heard as much in the way of pessimism as was indicated by comments of some others.

Mr. Murray described business in the Ninth District as good, adding that he expected this to continue for the balance of the year. Being largely agricultural, the Ninth District had been more fortunate than some other parts of the country as a result of the ample moisture this year. Crops were good in almost all areas and farm prices were up. This bright picture balanced the soft spots that had appeared. Residential construction was down and this had affected the lumber industry unfavorably. Commercial and industrial construction was holding at a good level.

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The paper business was weak, and the small amount of textile business in the Ninth District was feeling the effects reported for the industry generally. The tourist trade, which was fairly important in the Ninth District, had been good during the past summer. Retail sales were strong as in other parts of the country, and retailers looked forward to very satisfactory business in the coming months, particularly during the Christmas season. Money was tight, Mr. Murray said, and loans were reaching new peaks. Banks generally were not borrowing quite as much as earlier in the year.

Mr. Kemper reported a good level of business in the Tenth District, better than a year ago. This reflected good rainfall this year. Excepting winter wheat, all crops were substantially better than in 1956 and, in addition, the soil bank payments had been a factor adding to agricultural income. Mr. Kemper suggested that taking agricultural lands out of production had very little effect on the total volume of production because of the added use of fertilizer and more intensive farming of the better lands. Generally, farmers were prosperous and Mr. Kemper anticipated that this would be increasingly true. Country banks were getting liquidation of their loans. Retail sales were much better than last year, including even the farm implement business. Automobile sales were still poor. Residential construction was 11 per cent below a year ago but this decline was more than offset by increased construction of public works, office buildings, and highways. Employment was 1 per cent above a year ago. Loans were higher than last year while deposits were off. Mr. Kemper stated that from now to the end of this

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year he expected excellent business in the Tenth District.

Mr. Jacobs said that Eleventh District department store sales, particularly sales of durable goods, were very strong, having reached a record high for this time of year. Employment was good and construction contract awards reached a peak in June. Nonresidential awards were 28 per cent above the 1956 figure. Housing awards showed a smaller gain, but for the seven months period they were above the previous year in all parts of the District except New Mexico. Agricultural production was greatly improved as compared with last year. Rains had been good and the cotton crop was expected to be about 6 per cent above the 10 year average. Good grain and hay crops were reported, and soil bank payments were running about three times as high as last year. Live stock prices were up and some restocking was noted. Bank deposits and loans were rising and loans were expected to expand for the rest of this year. Although production of crude oil had been cut back, the adjustment was not sufficient to prevent a substantial building up of stocks. Mr. Jacobs said that business as a whole had been very good in the Eleventh District, although he found more and more businessmen were becoming puzzled at their inability in the face of increasing sales to make any money. A good part of the public was becoming increasingly alarmed at the high cost of the things they buy, even though they don't understand inflation and its impact.

Mr. King said the Twelfth District showed the pattern expressed for other districts. Weak spots included lumbering in the Northwest, which had been weak for some time because of the residential building

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situation. Aircraft also was weak with substantial layoffs of workers. However, those laid off apparently had been absorbed in other industries and unemployment in southern California was less than in other parts of the country even after the layoffs in the aircraft industry. Aircraft companies are quite pessimistic for the foreseeable future. Construction was following the national pattern with residential building down and public and utility construction very strong. There was considerable slow-down because of lack of demand for houses at the prices and terms at which they were offered. Loans were up, particularly in the commercial field, but real estate mortgages were down for the first time in some period. Much of the increase in deposits had come in savings accounts, Mr. King said, and he noted that banks in California were now generally paying three per cent on such deposits which had risen 10 per cent during the first six months of this year. The rate of increase in savings deposits had slowed down since July 1, Mr. King noted. He believed that retail sales would be strong during the rest of this year. Automobile dealers were reasonably optimistic and believed that new model automobiles were likely to be well accepted. Mr. King said he looked for strong business in the Twelfth District for the rest of this year.

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

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

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event, the seasonal pattern of loan liquidation may be diminished to some extent.

In response to a question from Governor Balderston as to whether steel stocks had been increasing during the past two months, Mr. Denton stated that this had not been the case. He also reported that persons in the steel industry believed that inventories were being reduced substantially during the present quarter, that this process would be largely completed by the end of the current quarter, and that changes in inventories of steel during the fourth quarter of 1957 would be relatively small.

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

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

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

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

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President Fleming said that his attention had been directed to a Washington newsletter that commented on the outlook for changes in the price level over the next several years. He felt that such forecasts had a danger in that they focused attention on inflationary possibilities without giving the readers, who were concerned with increasing prices, the slightest idea of what was causing such advances.

Chairman Martin said that the nature of the problem we were dealing with was becoming more and more apparent to the public but at the same time the answer was becoming more confusing. He doubted that any real progress had been made in persuading people that the hard way was the necessary way for combating the inflationary price rises. The Chairman then referred to a memorandum that had been prepared recently by Mr. Riefler, Assistant to the Chairman, presenting comments on some of the questions that had been raised by critics of System credit policy in the hearings before the Senate Finance Committee this past summer, and President Fleming stated that Mr. Riefler had distributed copies of this memorandum to the members of the Council yesterday afternoon. He was amazed at the virulence of the idea expressed by some of these critics that the way to stop inflation was to print more money. He also mentioned a meeting that he attended in New York last evening at which a number of persons connected with the United Nations organization expressed the conviction that the measures taken in Western Europe had failed to stop the inflation, and they stated the belief that there would be no problem if we would just increase the money supply. The Chairman felt it important that the Council and all parts of the Federal

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Reserve System combat the idea that we could "spend ourselves rich by listening to the siren song of the printing press."

Mr. Denton said that the atmosphere in industry had shifted to some degree in recent months and that businessmen with whom he had talked do not now seem to have as sure a feeling that creeping inflation is inevitable as they had three months ago. He also felt that the recent decline in the stock market had had an influence in this direction.

Mr. Mitchell said that there was a difference in the feelings of businessmen as between long-term inflation and short-term inflation. An increasing number of businessmen believed that there would be poorer business in the next year or two, but almost everybody felt that over a period of a generation or a hundred years there would tend to be a rise in prices. He added that this tendency probably had been true for the last thousand years.

Governor Balderston questioned the latter comment, noting that while the price level had advanced sharply during periods of war, there subsequently had been offsetting declines.

Mr. Mitchell responded that while there had been ups and downs between wars, he thought it probable that over a long period of time there had been a rising tendency in the price level.

Chairman Martin commented on the importance of having the public understand that purchasing power of the currency, as well as maximum employment and production, was important. In his judgment, the full employment concept could be the most revolutionary idea of the past few

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decades if it was misunderstood and misapplied. In England, a defeatist attitude seemed to have developed to the point where many believed that no readjustment in the economy could be permitted because of the interpretation the political elements put on the concept. All of us should be studying the problem to determine whether there was a way of dealing with an idea as vast and potentially serious as that being advanced under the full employment concept.

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

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

President Fleming said that the effects of payments of higher interest rates on savings deposits had been tapering down. At his suggestion, Mr. King presented the results of a survey made in the Twelfth District which indicated that in 1957 there had been relatively greater growth in savings deposits in commercial banks than in funds placed in savings and loan associations or in savings bonds.

Mr. Kemper said that while banks in Kansas City were still paying 2 per cent on savings deposits, there had been discussions of an increase in the rate and if any change were made it would seem that 3 per cent would be the magic rate which would produce a substantial increase in savings deposits at commercial banks.

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

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

President Fleming said that the Council's opinion as of today was that System credit policies were appropriate and constructive. At the time of the meeting to be held in November the Council might have a different view, but for the present the unanimous appraisal of the members of the Federal Advisory Council was that the degree of restraint being exercised by the System's credit policy should remain unchanged.

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

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

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

The Council continues to believe that legislation should be enacted at the next session of Congress which will permit (1) tax deduction of more adequate bad debt reserves for banks, and will provide for (2) a general revision and reduction in reserve requirements. While the Council recognizes that a

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reduction in reserve requirements would not be appropriate at present, it favors the enactment of legislation now.

President Fleming commented that the Council realized that passage of legislation with respect to reserve requirements might take time and he wondered whether the Board could report progress in its studies of reserve requirements.

Chairman Martin responded that he could not say that there had been any change in the status of this question at the Board since the preceding meeting of the Council.

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

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

There was no discussion of this topic.

President Fleming then stated that the members of the Council would be happy to have Chairman Martin comment on the hearings before the House Banking and Currency Committee and the Senate Finance Committee at which the Chairman had appeared this summer.

In his comments, Chairman Martin said that perhaps 20 per cent of the questions presented to him at the hearings before the House Banking and Currency Committee had something to do with the Financial Institutions Act, while 80 per cent were not related to the proposed legislation but were concerned with the Federal Reserve Act, the Banking Act of 1933, and the Banking Act of 1935. The dominant theme, which was not new, related to banker domination of the Federal Reserve System and a possible conflict

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of interest. The Federal Advisory Council had been mentioned on a number of occasions, he said, adding that the meetings the Board had been having with the Council had been of benefit.

As far as banker domination of the System was concerned, Chairman Martin felt that this showed up largely as a myth, although this might be only his impression. On the whole, he did not think that the hearings had been particularly impressive. There had been an opportunity in the House Committee hearings to place the history of the Federal Reserve System in perspective, and there had been a fairly good opportunity in the Senate Committee hearings to clarify monetary and credit policy. While he had found these hearings to be quite harmless, the Chairman noted that a great deal of time was required to prepare for and appear at them.

Chairman Martin also referred to the report to the Congress, issued on June 26, 1957, by the Subcommittee on Fiscal Policy of the Joint Economic Committee, of which the Honorable Wilbur D. Mills is Chairman. This report was well worth reading, he felt, because of the views it expressed concerning the fiscal policy implications of the economic outlook and budget developments.

In concluding his comments, Chairman Martin stressed the importance of looking upon the Federal Reserve as a System. The System differs from a department of the Government headed by a single individual, he noted, adding that he had tried to impress this difference on the committees of the Congress before which he had appeared. There were differences of opinion in the Federal Reserve System and he had no desire to present another point of view, but he felt it important that in the end

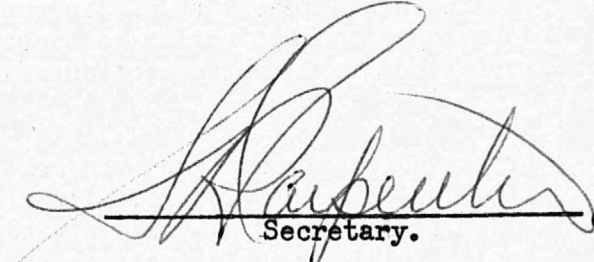
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there was a System point of view, even though it was reached through a cumbersome process.

President Fleming stated that the next meeting of the Federal Advisory Council would be held on November 17-19, 1957, if convenient to the Board, and it was understood that the meeting would be set for that time.

Thereupon the meeting adjourned.



Secretary.