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Minutes for September 15, 1959.

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.1/

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. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin _____

Gov. Szymczak _____

Gov. Mills _____

Gov. Robertson _____

Gov. Balderston _____

Gov. Shepardson _____

Gov. King _____

1/ Meeting with Federal Advisory Council.

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the Board Room of the Federal Reserve Building in Washington, D. C., on Tuesday, September 15, 1959, at 10:30 a.m.

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

Mr. Sherman, Secretary
Mr. Landry, Assistant to the Secretary

Messrs. Brace, McCloy, Sienkiewicz, Hays, Alfriend, Sibley, Livingston, McDonnell, Murray, McClintock, Jacobs, and Frankland, members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively

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

Before this meeting the Federal Advisory Council had submitted to the Board a memorandum setting forth its views on the subjects to be discussed. The topics, the Council's views, and the discussion were as follows:

1. The Board would appreciate receiving the views of the Council regarding the current business situation and the prospects for business activity during approximately the next six months, along with reports from the individual members of the Council regarding current or prospective developments in their districts having special significance to the total picture for the country as a whole.

The economy is currently operating at a high level, and it is probable that business will continue to be good during the next six months. However, conditions are not uniformly good in all industries. Agricultural income in some districts is down. Residential construction seems to be leveling off and may decline. Labor surplus areas persist in a few sections of the country. There is some uneasiness regarding the outcome of the steel strike and the possible inflationary repercussions which the economy may ultimately experience as the result of the strike. Foreign products are becoming increasingly competitive with American goods, both from the standpoint of quality and price. There likewise is concern among some businessmen regarding the impact of a gradually tightening money market and rising interest rates on business and on the debt management problems of the Treasury.

In response to Chairman Martin's suggestion that Council members concentrate their reports on the business situation on matters of especial importance in order to permit more time for discussion of items 4 and 5 on the agenda, President Livingston remarked that there was extraordinary uniformity at this meeting in the Council's over-all appraisal of current and prospective domestic business conditions. Under the circumstances, he suggested that individual reports on business developments be dispensed with, and, with Chairman Martin's concurrence, he proceeded to the next topic.

2. The Board would appreciate the Council's views on the strength of the current demand for credit and the prospective demand for bank loans during the remainder of this year.

All members of the Council report a strong demand for credit with the expectation that the demand for bank loans is likely to increase more than seasonally during the remainder of the year. The increase in loan demand is reflected in all categories of loans including term credits. The larger city banks report that they are receiving an increasing number of requests from correspondent banks for participations in their loans.

President Livingston said that the Council felt strongly about this prediction. It was related to the Council's comments on topic No. 3 and, if the answer was correct, it had considerable bearing on the appropriate credit policy and on the availability of access to the discount windows at the Federal Reserve Banks. He added that he was fully aware that references to the discount window had been irritating to some members of the Board from time to time but that because of the present situation the Council wished to make its views clear at this time.

3. The Board would be glad to have the views of the Council regarding appropriate credit policy between now and the next meeting of the Council.

The Council believes that appropriate credit policy between now and the next meeting with the Board would be to maintain the present degree of credit restraint. In the absence of events which the Council can not now foresee, it does not believe further tightening of credit would be desirable. However, the character of the settlement of the steel strike may have significant consequences on public psychology and business expectations that may require modifications in credit policy.

With the money market already tight, the banking system is confronted with an increasing seasonal demand for loans by business and the financing requirements of the Treasury. In these circumstances, the banks may (1) further liquidate their U. S. Government bond portfolios at substantial losses; (2) borrow from the Federal Reserve Banks; or (3) decline to finance the Treasury and the credit requirements of business. In this situation, access to the discount window is essential. Inability to borrow from the System would accentuate the present difficulties in the government bond market and would seriously affect the entire economy.

President Livingston said that topics 2 and 3 posed the basic question of what the optimum and ideal monetary policy ought to be between now and the time of its meeting in November.

Chairman Martin asked that Governor Mills comment on this topic in view of the work he had done in connection with the Board's Regulation A.

Governor Mills said that, as all in this room knew, one of the principles of Regulation A was that use of the discount window was a privilege accorded member banks rather than a right, and that the discretionary use of the window was a direct responsibility attaching to operations of the regional Federal Reserve Banks. As he would interpret the Council's comments, the Council was placing before the Board the question whether Reserve Bank credit should be available to the banking system via the discount window or via the medium of the open market. This presented a choice and he would sense from the Council's comments that there might be some concern that the availability of reserves in one way or the other might not match the supply that the Council would consider adequate to finance demands during the remainder of the year.

President Livingston responded that this was correct, adding that he would like to have Mr. Brace comment on a situation in Boston.

Mr. Brace reported that Boston commercial banks were getting certain requests from correspondent banks that, in effect, represented a transfer of demand for loans from the Reserve Bank to the member banks. These loans were entirely satisfactory from the standpoint of the commercial banks, but he doubted that they accorded with the principles stated in the Board's Regulation A.

President Livingston remarked that the Council members knew of no instances in which member banks had been denied loans for proper purposes. There was a growing uneasiness, however, accentuated by the increasing tightness, regarding their needs for the rest of the year. Granting that access to the discount window was a privilege and not a right, this situation made the Council uneasy. The purpose of bringing this to the Board's attention was to point up the importance to a member bank of being denied the use of the discount window. He commented that there was a great deterrent to borrowing from the Federal Reserve Banks and that when a member bank had to borrow it wanted to get out as soon as possible. Referring to the comments by Mr. Brace, President Livingston said that it seemed evident that the regional Reserve Banks were not concerned with regional Federal funds borrowing: it was not the fact that a bank was indebted that concerned them, but rather it was the fact that the bank was indebted to the regional Federal Reserve Bank. He went on to say that the matter was not one of cataclysmic importance but that, because of the presently loaned up positions of the banks, the members of the Council wished to mention it to the Board in this formal way.

Chairman Martin said that it was important for the Council to mention the subject. The Board wanted the Council's views on all market matters. It was a cardinal principle that money should be available at all times, he said, but the administration of the discount

window was a difficult matter. There were always a few who wanted to spread panic and that only complicated the problem further. One of the difficult problems he had to meet in appearing before Committee hearings during the past summer was the view that raising reserve requirements would be an effective means under present conditions for restricting credit. Some members of Congress felt that increases in reserve requirements would cause banks to reduce lending, but his own judgment was that at the present time it would cause them to sell securities. In a time of strong demand for credit such as the present, there would always be a number of persons who would feel there should be some means of forcing liquidation of credit. This was something with which the Board must concern itself at all times. The Federal Reserve was not trying to liquidate credit, but it was trying to keep the expansion of credit within bounds. The Chairman then referred to term loans, saying that he had run into situations where long-term financing of construction projects was being done with short-term funds, and the builders, by one means or another, were persuading the banks they were entitled to that kind of credit. If the System and the banks didn't encourage savings for these purposes, we were likely to end up with bank credit being used. To him, this was at the heart of the interest rate problem and he felt it important that the members of the Council point up the situation in the banking community. The

Chairman noted that this matter had been discussed at length in meetings of the Open Market Committee and that it would be taken up again at the next meeting.

President Livingston observed that his bank had been a pioneer in making term loans. It had no loans for financing long-term programs; it had many loans in connection with construction, all of which had definite take-out provisions. With regard to whether there was short-term borrowing from the commercial banks awaiting a more favorable time for borrowing on a long-term basis in the market, his observation was that there was less of this at the present time than in some past periods. Borrowers would say that present rates were high, but if they needed the money they would go ahead and get it.

After Chairman Martin commented that this was encouraging and that he hoped this situation would continue, Governor Robertson stated that he felt it appropriate for the Council to present to the Board its apprehensions regarding the discount window because the Board should know exactly how the Council members felt. On the other hand, he believed there was an opportunity for members of the Council in their individual capacities to prevent the spread of misunderstandings that might result from a member bank being turned down at the discount window. There were bound to be cases where a bank would be told that the window was open but on a restricted basis. Such comments could be picked up and spread in the banking community, generating a feeling that was not correct.

Mr. Sibley said that the apprehension that had been referred to came from a number of articles that had appeared in the press, particularly one article emphasizing that the use of the discount window was a privilege, not a right. This public emphasis on the "privileges" of the discount window, rather than any individual cases, was the cause of the current apprehension.

Mr. McDonnell inquired whether the Board felt that the regional Federal Reserve Banks were trying to control the use of the discount window or whether they were trying to control the use of credit, to which Chairman Martin responded that all Board members would say that the purpose should be to control the use of credit. This went back to the comment that Mr. Brace had made, the Chairman said, and in his view each member of the Council in his report to the directors of his Federal Reserve Bank would do well to discuss this point.

Mr. McDonnell went on to say that correspondent banks were borrowing not for the purpose of making loans but for the purpose of avoiding selling Government securities. He felt there was a distinction between borrowing for this purpose and borrowing to expand total credit. The banks would be glad to avoid borrowing if they were in a position to sell their Governments without too much loss.

Mr. McCloy recalled the aversion of bankers to discounting paper in the old days, commenting that this was something that had become a lost art. The desire of banks to avoid the sale of Government securities

was very prevalent throughout the country and resulted in many banks seeking accommodation on Government securities.

Governor Balderston referred to President Livingston's comment on the reluctance of banks to be in debt to the Federal Reserve, adding that administration of the discount window relied a good deal on this reluctance. He wondered whether this was diminishing, particularly in view of the fact that during the past summer borrowings from the Fed rose unseasonably and had now gone up to over $1 billion.

President Livingston responded that his observation would be that there was not the slightest decline in the reluctance of commercial banks to borrow. If anything, that reluctance had increased. It was evident that with the Government bond market in its present state bankers were not reaching for loans. If they had customers who called upon them, the bankers felt an obligation to take care of the customers' needs. He said he did not disagree with what apparently was the party line in the System, that is, to have the President of the Federal Reserve Bank indicate an interest in the use of the discount window. The Council members were not bothered by this attitude, but they wanted to be sure that the degree of interest was not such as to indicate that access to the discount window would be discontinued. He then commented that perhaps the Council had labored this point too much, but its members believed the matter was one of real concern in the light of what they could see ahead during the rest of this year.

4. The Council is familiar with the current status of proposed legislation relating to interest rate ceilings on Treasury bonds and United States Savings Bonds. The Board would be interested in any views that the Council may have regarding this matter.

The Council is pleased to note that the Congress has approved an increase in the interest rate on U. S. Savings Bonds and the President's request for nonrecognition of loss or gain on prior refundings. However, the Council very much regrets that the Congress did not remove the interest rate ceiling on Treasury bonds. The 4-1/4 per cent coupon limitation on Government bonds not only increases the difficulties of managing the federal debt but also complicates the administration of monetary policy.

Chairman Martin remarked several of the members of the Council were in London last May at which time he had pointed out that the President was more or less winning the battle on the concept of balancing the budget but that the real battle ahead was on interest rates. Now, he said, not only had the battle on interest rates not been won, but he had not realized the degree of ignorance at all levels on the subject of interest rates. He felt that all of those in the room had a real job ahead in explaining the significance of interest rates. He doubted that anyone could have worked harder than the Secretary of the Treasury in explaining this operation, but we all knew what the result had been. To separate political from economic considerations was difficult, but in the Chairman's opinion all of the members of this group would have to continue along with their associates to face up to the problem of the interest rate. The same persons who shudder at the thought of price controls and wage controls seemed to think that the price of money

was something that could be controlled with mirrors, and they failed to recognize that the interest rate has anything to do with the savings process. Chairman Martin said he felt it important for all members of this group to try to get the thinking of the banking community in line on this problem. Otherwise they would find that the savings process had been damaged and this country would have before it some of the problems that other countries had already experienced. In some of these other countries--Germany, France, England, Austria--the people who understood the problem recognized that they had not yet found a means of handling their Federal finances other than in the orthodox way. If the unorthodox people could find a way that would work, it was time for them to come forward, but so far none of those countries had found it and it was clear that in this country we were struggling with the problem in the same way. Chairman Martin emphasized that he did not want anyone to think that the battle on sound fiscal policy had been won. It was just beginning.

Chairman Martin went on to say that he could understand some of the difficulties that the members of the Congress had in connection with the request of the Treasury this year. When senators and congressmen talked with bankers and businessmen who told them that they did not believe the interest rate was important, the legislators could hardly be blamed for taking the attitude that they did. This was a fundamental

problem that had to be licked or this country would have to find an entirely different way of doing business. He noted that this worked into the next topic, that is, the maximum permissible rate of interest on time and savings deposits. In passing to that topic, he wished to note that during the past summer in his appearances before the House Ways and Means Committee he was constantly being asked whether, if the rate of interest permitted on Government securities went up, that would take business away from the savings and loan associations. This was the concern, rather than whether the rate of interest had anything to do with the savings process. He then referred to views expressed specifically by Chairman Wilbur Mills of the House Ways and Means Committee, who said he did not believe that any commercial bank should be permitted to accept any savings deposits. This was a problem about which all of us should be thinking. Assuming that under the new legislation the Treasury would place a 3-3/4 per cent rate on savings bonds, the pressure would increase on the Board of Governors to do something with respect to the permissible maximum rate that may be paid by member banks on savings accounts.

President Livingston said that he was somewhat aware of the battle put up by Chairman Martin and by the Secretary of the Treasury before the House Ways and Means Committee this past summer, having read the hearings. It had been inconceivable to him that with the presentation made the result that finally obtained was obtained. This probably was a result of failure to have adequate support.

Mr. McCloy commented on the problem of marshalling sentiment for the Treasury's proposal, stating that personally he felt very sympathetic to the Treasury's position and that the way the hearings went was frustrating. Among bankers, the view that had been expressed to him was that they could not do anything to support the Secretary of the Treasury because they would be charged with seeking higher interest rates. This was the general attitude of leading bankers whose views he knew, Mr. McCloy said. Turning to the businessmen, their comments were to the effect they did not know, and that their interest was in lower rates. In between these two, the Administration had not gotten the support it should have had. Mr. McCloy said he made a real effort to inquire in this field and was shocked by the responses of both bankers and industrialists. Industry was even more craven than the bankers, he said, but the banking community and industry did not marshall the support for the Treasury's request which should have been there.

President Livingston then read topic 5 and the Council's comments as follows:

> 5. The Board has received communications from numerous bankers in various parts of the country either for or against a change in the maximum permissible interest rates on time and/or time and savings deposits. Would the Council care to express any views on this subject?

The Council does not favor an increase in the maximum permissible interest rate on domestic time or savings deposits. However, the members of the Council believe that the maximum permissible interest rates on the time deposits of foreign central or private banks and of foreign government agencies should be increased. If American banks are to continue to attract and hold these foreign time deposits, the banks must be in a position to offer competitive rates in the world money markets.

President Livingston said that he rather suspected that the Federal Advisory Council's comments on this subject were a bit of a surprise to the members of the Board, that is, the fact that the members of the Council felt that it would be practicable to increase the permissible rates of interest on time deposits of foreign central or private banks and of foreign government agencies and not to increase the permissible maximum rate on domestic deposits. The Council had premised its response on the feeling that the permissible rate on domestic deposits was to some extent a political question rather than a basic economic question. That is, the political aspect was whether it would be improper and inadvisable to increase a rate paid on foreign deposits and at the same time to deprive American workers of at least an equal opportunity for return on their savings. The Council felt that it was inappropriate for it to get into this question. Its appraisal of the economic issues brought it to the conclusion indicated, and it was presenting that comment with the thought that the Board could evaluate the political repercussions of such action. President Livingston added that this view was unanimous on the part of the members of the Council.

Governor Szymczak inquired whether the Council had gone into the legal aspects of this question, that is whether the law would permit the Board to fix a rate on deposits of foreign banks different from the rate on domestic deposits.

Mr. McCloy responded that this was a matter for interpretation but that counsel in which he had confidence felt that the law was broad enough to permit such action.

President Livingston said that this was not an open and shut matter. However, an overwhelming number of commercial bankers in this country in the savings account business were strongly opposed to any increase above 3 per cent in the rate on savings deposits.

Chairman Martin said that this might well be true, but he wondered what the logic of that position might be. Many banks were not now paying the maximum, which was a permissive rate. An increasing number of banks were seeking permission to pay in excess of 3 per cent. The Board was in the posture of wanting to encourage savings. The Board did not wish to damage the banks or their earnings, but this was a matter for judgment by management to some extent. There also was the competition of the savings and loan associations and other financial institutions that held savings. The Chairman said that he found difficulty in the logic of saying, by regulation, that the present rate was a level beyond which no bank could go even when its management desired to pay a higher rate on savings. Referring to the origin of the legislation in the '30s,

he said that question could be raised as to whether there should be a prohibition against payment of interest on demand deposits although in his view there was a fair rationale in prohibiting interest on those accounts. This represented, of course, an interference with free enterprise. However, the Board had the law to administer and it was in the position now where all interest rates were rising, where the Treasury was setting a higher rate on savings bonds, and where the Board had the problem of analyzing what should be permitted in the way of rates on time and savings deposits. He reported an inquiry from a senator who wanted to know why the banks put the prime rate up so promptly a few days ago while the Board held down the rate permitted on savings deposits. The inquiry was along the lines that the Board could not logically deny a bank that wanted--perhaps unwisely--to pay a higher rate on savings deposits, when that bank wanted to increase its rate and felt that it properly could do so in order to compete with others for the savings. While the Board had not discussed this in terms of action to be taken, it had received numerous requests for a change in the rates, as well as numerous letters opposing a change, and it desired the views of the Council members since it shortly would have to consider the question.

Mr. Sienkiewicz then commented on the approach he had taken in trying to analyze this question. He stated that the large city banks favored an increase in the ceiling, believing that interest rates paid

depositors should bear some relation to the market rate for money. They also made a strong point that an increase in the maximum rate would help commercial bankers compete for savings accounts with building and loan associations, credit unions, and mutual savings banks. They further claimed that a higher rate would stimulate savings. On the other hand, a large number of commercial banks outside large cities strongly opposed any further increase in interest rates on savings. In most cases their savings accounts represented two-thirds of their total deposits and any increase in the rate would be burdensome. Most of their earning assets were invested at rates between 5-1/2 to 6 per cent and, with virtually no margin to increase their earnings, and with the drastic depreciation in their Government bond accounts, the possibility of adding to capital funds from earnings would become very slim. Many also feared a repetition of the competitive bidding for deposits of the '20s when commercial banks were paying as high as 4 per cent or more on savings.

Mr. Sienkiewicz said that it could be argued that in a free market there should be no ceiling on rates paid but that this market was not free because Congress had decided to regulate it in view of competitive abuses during the '20s. Supervisory authorities were adamant, he said, in the view that there should be a ceiling in order to protect the safety and solvency of banks. While the present ceiling of 3 per cent might not be realistic under present money market

conditions, rates on savings accounts were not as flexible and as easily adjustable as were the rates charged on commercial loans. Mr. Sienkiewicz felt that the soundness and solvency of the banking system as a whole should be of prime importance to the supervisory authorities and he doubted that the argument of competitive advantages that would result from a higher ceiling, even though strong, would be in the public interest or in the interest of a prudent and strong banking and credit system. He felt that it would be advisable to continue the present 3 per cent maximum.

Mr. Sibley commented that if the maximum permissible rates were moved higher, banks would tend to be forced into higher risk assets, and this was a main point of concern.

Mr. Jacobs felt that there was a great difference between the thrift accounts held in the savings division of a commercial bank and what he termed as "investment" accounts that were seeking a higher return. If banks raised the rate on these thrift accounts, the savings and loans were likely to do the same. He doubted that an increase in the rate would create any more savings and he wondered whether the banks or the country would gain anything by an increase in the rate, particularly since it would increase the difficulty of selling savings and other Government bonds.

Chairman Martin said he had listened to this argument all his life and that he could not be persuaded that interest rates did not

have a significance. Under certain conditions the effect might be almost imperceptible, but, like prices, there was an effect. He had had real difficulty with the point that Mr. Sibley and others had made regarding the extent to which banks might go into the riskier assets and, of course, as Congressman Mills had indicated, perhaps commercial banks should not be soliciting savings accounts. Since they do, the problem that the Board must come to grips with was how to encourage savings. He did not think this was a problem that would just disappear. It was very difficult for the Board to explain to the Congress or to the public that it was all right for interest rates to adjust upward under demand pressure but that when it came to permitting a higher interest return to the small saver, it was not all right because it was necessary to protect the banking system. For himself, he was seeking clarification on this problem.

President Livingston said that he was convinced that the fact that commercial banks did not want an increase in the ceiling above 3 per cent was not an expression that they do not aggressively seek savings. Banks like his own were aggressively seeking savings accounts. Personally, he was basically a free market man, but on this question he was motivated by the rationale that Mr. Sibley had expressed. The competition for savings and the reaching for higher yields on earning assets represented a danger for every bank in the country. Some banks had had their capital almost entirely wiped

out by depreciation in their bond accounts. They were struggling to keep paying at least the dividends they have been paying. If they were confronted with the necessity for paying a higher rate on savings deposits, in most cases without too much gain in deposits, they would face a very difficult problem. President Livingston said that his own point of view was heavily weighted by the safety factor and the soundness of the commercial banking system.

Mr. Brace observed that public resentment at a failure to raise the maximum permissible rate on savings deposits might be justified if the commercial banks were a monopoly, but the fact was that savers were not deprived of a higher return on their savings because of the 3 per cent ceiling at commercial banks. There were the mutual savings banks and there were United States Government savings bonds, as well as savings and loan associations, some of which were readily available to savers in all parts of the country.

Governor Szymczak asked Mr. McCloy to explain his position on the payment of higher interest on foreign time deposits.

Mr. McCloy stated that as of the end of 1958 the New York central reserve city banks held $1.8 billion of such deposits, equivalent to 7 per cent of their total deposits, and that foreign time deposits constituted 84 per cent of total time deposits throughout the country at that time. He further indicated that the average period these time deposits remained with the big New York banks was as follows:

50 per cent between one and three years, about 15 per cent between three and five years, and nearly 40 per cent for longer than five years. Much of these deposits represented reserves of foreign central banks or other governmental deposits. Although they had a nominal three-months' maturity, they were regularly rolled over on previous notice of intent to do so from the foreign depositor. In conclusion, he urged that some means be found to permit the interest rate paid to these large foreign depositors to be separated from the maximum rate permissible to be paid to savings depositors.

Governor Szymczak then commented that Mr. McCloy had differentiated not only between savings and time deposits but also between domestic and foreign, and the specific proposal was one that would permit payment not only to foreign central banks but to foreign private banks and others at a rate higher than would be permitted on any domestic deposits.

Mr. McCloy responded that the proposal for a higher rate on foreign private bank and individual deposits could be dropped so as to make it easier in considering an increase in the ceiling. He also said in response to a question from Governor Shepardson that the bill rate was a competitive factor. Foreign time deposits might move out of the banks into Treasury bills, but to some extent they might move out of the country to other markets and thus result in an appreciable loss to this country. For example, within recent months some deposits had been

moving from time accounts in New York City banks to Canada, Germany, and Switzerland.

In response to a question from Governor Shepardson, President Livingston said that he would not regard as a satisfactory substitute for the interest rate ceiling under Regulation Q action that might be taken by supervisory authorities to discourage banks from paying higher rates than they could afford on time or savings deposits. He went on to say that he found himself in a very uncomfortable position from the standpoint of his own bank. Personally, he might argue for no ceiling at all, but the memorandum had expressed the Council's collective opinion regarding what would be best for the banking system as a whole, namely that an increase in the maximum permissible rate on savings deposits would present a very real risk with respect to the security of the banking system.

In response to a question from Governor Balderston, President Livingston said that he felt that a few commercial banks could afford to pay a higher rate on savings accounts. Mutual savings banks were able to pay a higher rate because they were in a different position from the commercial banks, as were savings and loan associations, because of lower reserve and liquidity requirements. Mr. Hays added that the latter had more favorable tax provisions.

Mr. McDonnell returned to the point mentioned earlier that the saver was not without a choice in case he did not wish to put his funds

in a commercial bank, because other institutions referred to were ready and anxious to receive his savings and pay a somewhat higher rate. When the loss to commercial banks of savings deposits became very large, then the ceiling probably should be increased, but he did not think we were at this point. As to the problem of the New York banks, it appeared that they were about to lose large amounts of foreign deposits and they had reached the point calling for action. As for savings accounts, he felt that so long as the American saver had a choice of places to put his funds and get a higher rate, he was not being discriminated against.

Governor Balderston cited a syndicated newspaper article by J. A. Livingston asking how a public body could justify refraining from permitting banks to pay more than 3 per cent on savings deposits, when many banks felt they could afford to pay more. Was it logical that these banks should not be permitted to do so, thus depriving the small saver of a higher return just for the purpose of protecting bankers against themselves?

President Livingston said that this got down pretty much to the basic question that had been discussed. Some banks could pay as much as 4 per cent on savings accounts, particularly if they were to cut their dividend rates, but there was the problem of encouraging other banks to go into riskier assets and undermine the soundness of the entire banking system. In response to a question from Governor

Robertson as to the effects that might be anticipated if the ceiling were raised by, say 1/2 per cent or 1-1/2 per cent, President Livingston said that he would guess that an increase to 3-1/2 per cent would result in more banks feeling that they should go above the present ceiling than would be the case if the ceiling were set at, say, 4-1/2 per cent. The former figure might be taken as an indication to commercial banks that they should go to that level, whereas the 4-1/2 per cent figure would be so far out that many banks might decide to make no change. This, however, was purely a guess.

After some further discussion, during which Governor King inquired about a comment that Mr. Sienkiewicz had made as to the difficulty of reducing rates on savings deposits in a period of reduced interest rates generally, President Livingston stated that for years it had been an axiom of the savings end of the commercial banking business that when the rate paid to savings depositors was increased, it could not be reduced except in a national emergency without attrition. The present feeling was somewhat different, he said, and he shared the belief that if there were a recession in business and interest rates generally went down there could be a reduction in the rates paid on savings deposits without serious attrition for the commercial banks. This, however, was something that the banks would have to deal with when the time came. One other thought he wished to express was that if the ceiling on savings deposits were to be raised for commercial banks, one effect might be to

cause the savings and loan associations to push their rates up still farther for competitive reasons and thus impair the security of this very important segment of the financial community.

6. The Board would be glad to receive any expressions that the Council might care to make with regard to problems arising under Regulation U as amended June 15, 1959.

The Council believes that the amendments to Regulation U which became effective on June 15, 1959, are obscure and the resulting situation unsatisfactory. The wording of the amendments in some instances makes it virtually impossible to determine when the Regulation is being violated, thereby unreasonably exposing those subject to its provision to criminal prosecution.

President Livingston said that he was prepared to leave the Council's answer about where it was, except to observe that when a regulation required a 29 page booklet to explain it partially there must be something wrong. He added that he understood the Board was now considering another interpretation of "carrying" although neither the Council nor his bank had received any request for comment.

Chairman Martin stated that representatives of the New York Clearing House Association had requested an opportunity to meet with the Board to discuss the definition of "carrying" and some "working principles" that the Clearing House had prepared and planned to issue to their members. He added the comment that the Board had not yet clarified the problem to its own satisfaction.

President Livingston stated that the next regular meeting of the Council was scheduled for November 16-17, 1959.

Thereupon the meeting adjourned.

Secretary