MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 18, 1952

The second statutory meeting of the Federal Advisory Council for 1952 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on May 18, 1952, at 2:20 P.M., the President, Mr. Brown, in the Chair.

Present:

Walter S. Bucklin	District No. 1
Henry C. Alexander (Alternate for N. Baxter Jackson)	District No. 2
Geoffrey S. Smith	District No. 3
George Gund	District No. 4
Robert V. Fleming	District No. 5
Paul M. Davis	District No. 6
Edward E. Brown	District No. 7
V. J. Alexander	District No. 8
Joseph F. Ringland	District No. 9
David T. Beals	District No. 10
De Witt Ray	District No. 11
James K. Lochead	District No. 12
Herbert V. Prochnow	Secretary

Absent:

N. Baxter Jackson	District No. 2

On motion duly made and seconded, the mimeographed notes of the meeting held on February 17, 18, 19, 1952, copies of which had been sent previously to the members of the Council, were approved.

A complete list of the items on the agenda for the meeting, and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* which follows on pages 15, 16 and 17.

The meeting adjourned at 6:25 P.M.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 19, 1952

At 10:00 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C.

Present: Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, Henry C. Alexander (Alternate for N. Baxter Jackson), Geoffrey S. Smith, George Gund, Robert V. Fleming, Paul M. Davis, V. J. Alexander, Joseph F. Ringland, David T. Beals, De Witt Ray, James K. Lochead, and Herbert V. Prochnow, Secretary.

Absent: N. Baxter Jackson.

The Council reviewed its conclusions of the previous day regarding the items on the agenda, and sent to the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 15, 16 and 17, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12:40 P.M. on May 19, 1952.

The meeting adjourned at 12:25 P.M.

HERBERT V. PROCHNOW
Secretary.

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON MAY 20, 1952

1. What are the business and economic prospects over the next six months? What suggestions does the Council have with respect to System credit policies during that period?

Although economic conditions at present are reasonably stable, there is distinctly less optimism now among business men and bankers regarding the business outlook for the next six months than prevailed earlier this year. Employment, personal income, and activity in many lines continue at a high level, but there are weak spots in important industries, such as those engaged in manufacturing household appliances, house furnishings, textiles, shoes and in meat packing. Inventories of most commodities and materials are in ample supply, and shortages have been largely eliminated. Assuming no important change in the international situation and no serious interruption of steel production, the Council does not expect either a severe decline or a sharp upward trend in business during the next few months. The majority of the Council thinks a slight recession in business activity is more probable than an upturn. The volume of bank loans has been declining. Considering the country as a whole, it appears at present that, apart from normal seasonal swings, the volume of bank loans will decline slightly in the balance of the year.

Unless conditions change materially, the Council favors a continuance of the current rediscount rate and of open market operations which will make the rediscount rate effective and thus provide a reasonably firm money market and an orderly and flexible market for government securities. The Council approves the action taken relative to the suspension of the Voluntary Credit Restraint program and of Regulation W, in view of the decline in loans which had occurred and evidence of deflationary tendencies. If inflationary forces again become clearly evident, and assuming the Defense Production Act is extended by Congress, the Council recommends that the Voluntary Credit Restraint program be reactivated. During the period it was in effect it was an important influence in restraining unnecessary credit.

2. What effect is Regulation X having in the economy at the present time and what, if any, action should the Board take with respect to liberalization or suspension of the Regulation?

Under present conditions, Regulation X no longer serves any useful purpose as regards non-government guaranteed real estate credit. The regulation has not had a marked effect on the financing of lower-priced houses. It does result in hampering the construction and sale of higher-priced houses, and causes much needless irritation and injustice. The Council is unanimous in recommending that the Regulation now be suspended.

3. The Board would appreciate any comments that the Council might wish to make relating to the Bank Holding Company legislation discussed in Chairman Martin's recent letter to Congressman Spence, Chairman of the House Banking and Currency Committee. A copy of the letter is attached.*

*A copy of the letter and enclosures can be obtained at the Office of the Secretary of the Board of Governors.

The Council, as constituted from time to time in the past, has repeatedly expressed itself in favor of bank holding company legislation. In a letter to the Board of Governors on February 20, 1950, the Council approved bank holding company bill, S. 2318, then before the Committee on Banking and Currency of the Senate, with certain amendments which the Council understood were acceptable to the then Board. This bill had met the general approval of the bank holding companies with one important exception. No action was taken on S. 2318 by the Committee on Banking and Currency of the Senate, to which it had been referred, and the bill died with the 81st Congress.

In view of the widespread operations of the various bank holding companies in different parts of the United States, the Council believes that a bank holding company bill should be initially drafted by the Board of Governors and the provisions of the draft fully discussed by the Board with the principal holding companies and others affected, before the Board urges the passage of any bank holding company legislation.

The Council believes that the proposed bases for legislation stated in Chairman Martin's recent letter to Congressman Spence should be discussed with the various bank holding companies and with bankers' associations. Pending their being embodied in the draft of a bill and so discussed, and an opportunity given to consider their effect, the Council does not feel it can express an intelligent opinion about them.

4. The Board will also be glad to consider with the Council any questions which the members of the Council might have with respect to the study of the check collection system being undertaken under the auspices of the Federal Reserve System with the cooperation of the American and Reserve City Bankers Associations.

The members of the Council are pleased that a comprehensive and exhaustive study of the check collection system is being undertaken under the auspices of the Federal Reserve System and with the cooperation of the American and Reserve City Bankers Associations. The Council is also glad to note that the Federal Reserve System is not suggesting the study for the purpose of encroaching upon or weakening the correspondent bank relationships of the commercial banks, but solely for the purpose of reducing expenses and increasing efficiency. It is important that any proposals growing out of the study be thoroughly analyzed and fully discussed if they are to meet with the general approval of the banks, without which there is little chance for their adoption. As the committee makes preliminary reports, the Council will welcome the opportunity to discuss them with the Board.

5. What legislative or other actions might be taken to improve the capital positions of banks and encourage increases in bank capital including actions that might be suggested by the study of excess profits taxes of commercial banks? For example, what should be the attitude toward the issuance of preferred stock or capital debentures by member banks as a means of raising new capital?

In connection with the Excess Profits Tax, the Council recommends that the Board strongly support favorable legislative action on the proposal of the special committee on excess profits tax of the American Bankers Association. In brief, this proposal provides that a bank be entitled to treat as borrowed capital six and two-thirds per cent of its deposits, other than United States Government and domestic inter-bank deposits. The proposed formula would lessen the present injustice to banks which are not allowed to include any portion of their principal indebtedness, that is, their deposits, in computing their invested capital base. Other corporations are allowed a high percentage of their total indebtedness if they use the invested capital base. Except for the smaller banks, almost all banks find it necessary to used the invested capital method. The proposed change would not only enable banks to make highly desirable additions to their capital out of retained earnings, but would make it easier for them to sell additional common stock.

All members of the Council are agreed that action on the Excess Profits Tax is the immediate and pressing need, if the banks are to meet the problem of increasing their capital. If favorable action is taken on the Excess Profits Tax, the question of the issuance of preferred stock or capital debentures tends to become less important. Particularly if there is no relief on taxes, it may be necessary for the banking supervisory agencies to change their attitude on the approval of the issuance of preferred stock or capital debentures by banks.

6. Do the members of the Council have any comments on or suggestions with respect to the Patman hearings?

The members of the Council commend the Chairman and members of the Board and the Presidents of the Federal Reserve Banks for the able manner in which they prepared and presented the answers to the questions submitted to them by the Patman Subcommittee, and on their testimony before it. The Council hopes that these answers and the hearings generally will promote a more intelligent and widespread understanding of the functions, duties, and problems of the Federal Reserve System. The Council will be pleased to discuss the final report of the Patman Subcommittee if the Board desires to do so after the report is released.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 19, 1952

At 2:35 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, Henry C. Alexander (Alternate for N. Baxter Jackson), Geoffrey S. Smith, George Gund, Robert V. Fleming, Paul M. Davis, V. J. Alexander, Joseph F. Ringland, David T. Beals, De Witt Ray, and Herbert V. Prochnow, Secretary.

Absent: Messrs. N. Baxter Jackson and James K. Lochead.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors, discussed the subject, "A Year of Flexible Credit Policy."

The meeting adjourned at 4 P.M.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

May 20, 1952

At 10:30 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Wm. McC. Martin, Jr.; Governors M. S. Syzmczak, R. M. Evans, Oliver S. Powell, A. L. Mills, Jr. and J. L. Robertson; also Mr. S. R. Carpenter, Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, Henry C. Alexander (Alternate for N. Baxter Jackson), Geoffrey S. Smith, George Gund, Robert V. Fleming, Paul M. Davis, V. J. Alexander, Joseph F. Ringland, David T. Beals, De Witt Ray, James K. Lochead and Herbert V. Prochnow, Secretary.

Absent: Mr. N. Baxter Jackson.

The President of the Council read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* as printed on pages 15, 16 and 17 of these minutes.

A discussion followed in which members of the Council and the Board participated.

The President of the Council read the second item on the agenda and the conclusions of the Council given in the *Confidential Memorandum* mentioned above.

There was an off-the-record discussion of Veterans' Administration loans.

President Brown then read the third item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum* mentioned above.

Governor Robertson at Chairman Martin's suggestion commented on this item.

President Brown read the fourth item on the agenda and the conclusions of the Council as stated in the *Confidential Memorandum* previously mentioned.

Governor Mills outlined the program and some of the preliminary plans in detail.

President Brown read the fifth item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum* referred to above.

The sixth item on the agenda and the conclusions of the Council as recorded in the *Confidential Memorandum* attached were then read by President Brown. Chairman Martin said that the Board would like very much to discuss the subject again with the Council after the final Patman report is published.

The meeting adjourned at 1:05 P.M.

HERBERT V. PROCHNOW
Secretary.

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

H. V. P.

The Secretary's notes on the meeting of the Federal Advisory Council on May 18, 1952 at 2:20 P. M. in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Council were present except Mr. N. Baxter Jackson. Mr. Henry C. Alexander, President, J. P. Morgan & Company, Inc., New York, served as alternate for Mr. Jackson.

The Council approved the Secretary's notes for the meeting on February 17-19, 1952.

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WHAT ARE THE BUSINESS AND ECONOMIC PROSPECTS OVER THE NEXT SIX MONTHS? WHAT SUGGESTIONS DOES THE COUNCIL HAVE WITH RESPECT TO SYSTEM CREDIT POLICIES DURING THAT PERIOD?

Brown reads Item 1 on the agenda and suggests that each member of the Council express his views regarding the item.

Bucklin. Some units of the textile industry are coming back. Other than seasonal changes, the volume of bank loans will probably not show any increase. The immediate business outlook depends to a large extent on the steel decision and labor problems. It would be most unfortunate if we slipped back into an easy money policy. Bucklin favors a continuance of the current rediscount rate and open market policy.

Henry Alexander presents a summary of information provided by the Federal Reserve Bank of New York staff relative to business conditions. The view expressed in this summary was that the remainder of 1952 would probably be one of stability and of a gradually rising economy. Alexander personally feels that the trend may be a little more deflationary than inflationary. He favors a continuance of the present rediscount rate and open market policies.

Lochead asks Alexander's views regarding the future trend of interest rates in New York City.

Henry Alexander states there is no cutting of interest rates, but there is some stretching out of terms. The volume of bank loans will probably show some seasonal fluctuations, but Alexander does not expect any real increase in the volume of loans. The loan volume of his bank is down since December.

Fleming asks whether the 3 per cent rate has been broken on the Pacific Coast.

Lochead says he knows of no cases where this rate has been broken.

Vance Alexander thinks that the increase in bank costs should help to keep banks from cutting interest rates.

Smith reports that his views on the business and economic situation are substantially similar to those of Henry Alexander. A summary of economic conditions prepared by the Federal Reserve Bank of Philadelphia expressed the view that the economic situation would probably remain about as it is at present with no major change up or down. Smith says sentiment among bankers is somewhat mixed. There are some who feel that the economic situation will stay about as it is at present, but he is inclined to share the views of those who are more pessimistic.

Brown. The Board has the most complete figures on the business and economic situation, but the members of the Council are probably closer to day-to-day business and have a better understanding of business psychology and the general outlook.

Smith. In general, business men in his district are inclined to be somewhat pessimistic. He favors a continuance of the present rediscount rate and an open market policy of keeping money reasonably tight.

Gund. Industrial activity in his district is at a high level. There are some sections here and there in which there have been cut backs in production, but these are not especially noticeable in his district. The loans of his bank were increasing but are now down slightly. Time deposits are up. If capital expenditures, private and public, hold up, business should continue to be reasonably good. Gund doubts very much if the present prime rate will hold. He is inclined to believe that by late October it will be down to 2-3/4 per cent. He favors a continuance of the present rediscount rate and open market policy.

Fleming. The Fifth District is predominantly agricultural. Cotton, textiles, and coal stocks are high. Retail trade has been disappointing. Construction volume is up but there have been some layoffs of construction employees. Crops will probably be at a near-record high. Tobacco is expected to be the second largest crop on record. Bank loans, except for defense, are down, and total loans are down. Individual demand deposits are down. There is a good deal of pessimism on interest rates. Fleming favors continuing the present rediscount rate and open market policies. He believes the deflationary factors are somewhat stronger now than the inflationary forces. The Council may state to the Board that in view of present conditions it was wise to suspend Regulation W. Assuming the extension of the Defense Production Act is approved by Congress, the Board should reactivate the Voluntary Credit Restraint program if inflationary tendencies reassert themselves. Fleming is not inclined to believe the Treasury will issue a long term 3 per cent bond.

Davis believes business has slowed up although bank clearings are higher. There are some who believe that there may soon be a pickup in the textile industry. The warehouses are full of some type of goods, including cellophane. Bank loans are down and Davis does not expect any real increase in loans, except changes due to seasonal fluctuations. Retail business is off 7 per cent over a year ago. Savings deposits are up. He favors a continuance of the present rediscount rate and open market policy.

Vance Alexander. Demand deposits are about the same as last year. Savings deposits are up. Loans are holding up fairly well. His bank still has some cotton loans. Construction is higher than expected. Action which was taken relative to the Voluntary Credit Restraint program was wise. It is to early to forecast crops in his district, but probably not as much cotton was planted as last year. Interest rates are up over a year ago. Alexander favors no change in the rediscount rate or open market policy.

Ringland. Loans in his bank are off about 15 per cent, but the decline has been offset in large part by the increase in interest rates. The district is largely agricultural. Employment is high. His bank has difficulty finding people to employ. It looks like a good year for business. Department-store sales are 3 per cent behind last year. Ringland favors no change in the rediscount rate or open market policy.

Beals. The district is largely agricultural. Crop prospects are good. Moisture is good. Employment is high. There are good prospects for greater industrial activity in the district. Suspension of Regulation W has brought no real increase in sales. Retail trade is better than the national average. Good crops at lower prices are probable. The packing business is not good. There is some discussion of easier interest rates. Beals favors continuance of the present rediscount rate and open market policy.

Ray states that Beals in his comments also described the situation quite accurately in Ray's district. District Eleven is getting good rains now. Oil and gas are the biggest income producers. Business generally is good. Department store sales are 15 per cent above a year ago, but the profit is not so good. Loans are down from December 31. Loans will probably show some decline until fall when the crop loans are made. Some tendency toward softness in interest rates is apparent. The housing situation is reaching a critical point, because his area is probably over built. Ray favors a continuance of the present rediscount rate and open market policy.

Lochead reports a large carryover of canned goods in his district. The majority of bankers outside Los Angeles are on the pessimistic side, which view he shares. Japanese goods are coming into the Pacific coast. The suspension of Regulation W may result in some pickup for a month or so. Lochead favors a continuance of the present rediscount rate and open market policy.

Brown reports that the bankers and business men in his district are inclined to be pessimistic. He expects that there will be some recession in business activities. The machine tool industry is holding up. Agricultural implement production is being cut. The household appliance business is bad. There has been some curtailment in the crushing of soy beans. Meat packing is having a difficult time. Employment is high. Brown favors a continuance of the present rediscount rate and open market policies. The Council may state to the Board that it feels the situation at present is reasonably stable, but there is bearish sentiment among business men and bankers. Bank loans and business activity are declining. The Council favors continuance of the present rediscount rate and open market policies. Assuming that Congress extends the Defense Production Act, the Council believes that the Voluntary Credit Restraint program should be reactivated if inflationary forces again become strongly evident. The Council approves the action taken in regard to Regulation W, in view of present conditions.

WHAT EFFECT IS REGULATION X HAVING IN THE ECONOMY AT THE PRESENT TIME AND WHAT, IF ANY, ACTION SHOULD THE BOARD TAKE WITH RESPECT TO LIBERALIZATION OR SUSPENSION OF THE REGULATION?

Brown believes Regulation X should be suspended. (All members of the Council concur.)

Fleming reports that the only people who are doubtful about suspending Regulation X are some of the lenders, as Regulation X tends to protect them from additional demands. The builders and suppliers, generally, would like to see the regulation suspended.

Brown. Regulation X seems to have little effect on lower priced houses and it causes a lot of irritation in connection with the construction and sale of higher priced houses.

THE BOARD WOULD APPRECIATE ANY COMMENTS THAT THE COUNCIL MIGHT WISH TO MAKE RELATING TO THE BANK HOLDING COMPANY LEGISLATION DISCUSSED IN CHAIRMAN MARTIN'S RECENT LETTER TO CONGRESSMAN SPENCE, CHAIRMAN OF THE HOUSE BANKING AND CURRENCY COMMITTEE. A COPY OF THE LETTER IS ATTACHED.

Brown traces at some length the historical background of bank holding company legislation and the various bills which have been introduced from time to time.

Ray explains certain problems relative to affiliated banks in Texas.

Ringland believes the whole question of bank holding company legislation is overrated. There is not more than one group, if there is even one, which is trying to "gobble up" banks. Ringland's group is smaller than it was. The Independent Bankers Associations are not just after holding companies; they are after the "big" or "monopoly" banks. The independents say they are against holding companies because they have, in effect, branches. Actually, these banks operate separately.

Lochead favors a bank holding company bill that would prohibit holding companies from owning stock in non-bank corporations. He is not personally so interested in whether they cross state lines.

Brown believes the problem is more complex and cites cases of holding companies where certain types of exceptions in any holding company bill are necessary if legislation is to be satisfactory.

Fleming. Unless Congress finds it necessary to come back for another session because of the steel and labor problems, this legislation does not have a chance now.

Brown believes a discussion of this matter at present is largely academic, but there is pressure for legislation. The Spence Bill does not appear workable, and Brown does not believe the Board's proposals are practical. The Council might reiterate its previous stand, as expressed in its letter on February 20, 1950, approving the bank holding company bill S. 2318 with certain amendments. This bill had been approved by the Board, the Council, bank holding companies and bankers' associations.

Ringland believes the Council could say it does not object to a workable holding company bill, but that no workable legislation has been presented.

Lochead suggests that the Council might go back to its previous position.

Ringland asks whether the Council might not state that it would present its views at the next meeting after a further consideration of this item on the agenda.

Brown replies that the Council has discussed this subject on so many occasions in the past that he is reluctant to make any commitment for the Council to express a definite viewpoint at its next meeting. Definite conclusions can only be expressed after the Council has seen proposals which are in legislative form. Moreover,these proposals should have been examined by holding company groups, bankers associations, and others who are interested. The Council may state that from time to time in the past, it has repeatedly expressed itself in favor of bank holding company legislation. In a letter to the Board on February 20, 1950, the Council approved bill S. 2318, then before the Banking committee of the Senate, with certain amendments which the Council was informed were acceptable to the then Board. This bill had been given the general approval of the bank holding companies, with one notable exception.

No action was taken on S. 2318 by the Committee on Banking and Currency of the Senate, to which it had been referred, and the bill died with the 81st Congress.

In view of the widespread operations of the various bank holding companies in different parts of the United States, the Council believes that a bank holding company bill should be initially drafted by the Board of Governors and the provisions of the draft fully discussed by the Board with the principal holding companies and others affected, before the Board urges the passage of any bank holding company legislation.

The Council believes that the proposed bases for legislation stated in Chairman Martin's recent letter to Congressman Spence should be discussed with the various bank holding companies and with bankers' associations. Pending their being embodied in the draft of a bill and so discussed, and opportunity given to consider their effect, the Council does not feel it can express an intelligent opinion about them.

THE BOARD WILL ALSO BE GLAD TO CONSIDER WITH THE COUNCIL ANY QUESTIONS WHICH THE MEMBERS OF THE COUNCIL MIGHT HAVE WITH RESPECT TO THE STUDY OF THE CHECK COLLECTION SYSTEM BEING UNDERTAKEN UNDER THE AUSPICES OF THE FEDERAL RESERVE SYSTEM WITH THE COOPERATION OF THE AMERICAN AND RESERVE CITY BANKERS ASSOCIATIONS.

Brown reads Item 4 and states the Council has been informed there is no desire by the Federal Reserve System to encroach upon the correspondent bank business. It will take a number of months to work out this study and "sell" it to the banks. The Council may state it is pleased the study is being undertaken.

Vance Alexander. The Administrative Committee of the American Bankers Association at its recent meeting at White Sulphur Springs agreed that this study should be undertaken. Alexander believes the Council should approve the study and state it understands the study is not being undertaken for the purpose of encroaching upon the correspondent bank relationships of the commercial banks.

Brown believes that the Council should approve the study and should mention that it understands the study was not meant to weaken the correspondent bank relationships of the banks. Any study along the lines suggested must be thoroughly analyzed and discussed, if it is to meet the approval of the banks. As the Committee makes preliminary reports, the Council will be pleased to have the opportunity to see them.

WHAT LEGISLATIVE OR OTHER ACTIONS MIGHT BE TAKEN TO IMPROVE THE CAPITAL POSITIONS OF BANKS AND ENCOURAGE INCREASES IN BANK CAPITAL INCLUDING ACTIONS THAT MIGHT BE SUGGESTED BY THE STUDY OF EXCESS PROFITS TAXES OF COMMERCIAL BANKS? FOR EXAMPLE, WHAT SHOULD BE THE ATTITUDE TOWARD THE ISSUANCE OF PREFERRED STOCK OR CAPITAL DEBENTURES BY MEMBER BANKS AS A MEANS OF RAISING NEW CAPITAL?

Fleming had originally felt that this year was not a good time to seek tax relief. He did not feel there would be a general tax bill this year. He understands now there may be a fifty-fifty chance of getting some tax relief for the banks. (At this point there were off-the-record comments).

Brown. In connection with the excess profits tax, there is politically no chance of getting all deposits deducted. The Council may state that it recommends the proposal of the special committee on the excess profits tax of the American Bankers Association. The Council may recommend that action be taken on this proposal. (Off-the-record comments on preferred stock for banks). There is some objection to preferred stock and debentures because insurance companies require a sinking fund. Banks are, therefore, not really building their capital permanently if they have a sinking fund.

Fleming states he does not think it would be wise for banks to go back to the issuance of preferred stock, in view of the previous use of preferred stock at the time of the depression. The public psychology may be bad.

Brown. A bank cannot increase its capital without the consent of the Comptroller, so the Comptroller can actually prevent the issuance of preferred stock.

Vance Alexander. Preferred stock does not have to be sold with a sinking fund feature.

Brown. National banks cannot sell debentures.

Fleming believes that if bankers advocate the issuance of preferred stock and debentures, they will not get tax relief.

Ray. If banks do not get tax relief, how can they adequately build their capital?

Davis. The Council may state it would prefer to see tax relief before recommending the issuance of preferred stock or capital debentures.

Fleming. (Off-the-record comments).

Brown. All members of the Council are agreed that action on the excess profits tax is the immediate and pressing need to meet the problem of increasing bank capital. If that problem can be solved, the issuance of preferred stock and capital debentures becomes less important. In the event there is no relief on taxes, it may be necessary for the banking agencies to change their attitude regarding the issuance of preferred stock and capital debentures.

DO THE MEMBERS OF THE COUNCIL HAVE ANY COMMENTS ON OR SUGGESTIONS WITH RESPECT TO THE PATMAN HEARINGS?

Brown states that the Council may commend the Chairman and members of the Board and the Presidents of the Federal Reserve banks for the competent way in which they prepared and presented the answers to the questions submitted to them by the Patman Subcommittee. The Council hopes the hearings may promote a more intelligent understanding of the problems and functions of the Federal Reserve System. The Council will be pleased to discuss the final report of the Patman Subcommittee with the Board when the report is released. (The members of the Council agree with this summary by Brown).

Smith. The President of the Federal Reserve Bank of Philadelphia has raised the question of whether it may not be possible to prepare a simplified statement of the Patman hearings. The published statements of the answers to the questions and of the hearings are long and involved, and bankers and the public generally may not receive the full benefit of the material prepared and the discussions at the hearings.

Brown believes that it would not be desirable to publish a statement before the final Patman report is available. Perhaps the Board would be interested in preparing a statement at that time.

The meeting adjourned at 6:25 P. M.

THE FEDERAL ADVISORY COUNCIL CONVENED AT 10:00 A.M. ON MAY 19, 1952, IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D. C. ALL MEMBERS OF THE COUNCIL WERE PRESENT, EXCEPT MR. N. BAXTER JACKSON. MR. HENRY C. ALEXANDER SERVED AS AN ALTERNATE FOR MR. JACKSON.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on May 20, 1952. The Memorandum was delivered to the Secretary of the Board of Governors at 12:40 P. M. It will be noted that each item of the Agenda is listed together with the comments of the Council.

The meeting adjourned at 12:25 P. M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON MAY 20, 1952

1. What are the business and economic prospects over the next six months? What suggestions does the Council have with respect to system credit policies during that period?

Although economic conditions at present are reasonably stable, there is distinctly less optimism now among business men and bankers regarding the business outlook for the next six months than prevailed earlier this year. Employment, personal income, and activity in many lines continue at a high level, but there are weak spots in important industries, such as those engaged in manufacturing household appliances, house furnishings, textiles, shoes and in meat packing. Inventories of most commodities and materials are in ample supply, and shortages have been largely eliminated. Assuming no important change in the international situation and no serious interruption of steel production, the Council does not expect either a severe decline or a sharp upward trend in business during the next few months. The majority of the Council think a slight recession in business activity is more probable than an upturn. The volume of bank loans has been declining. Considering the country as a whole, it appears at present that, apart from normal seasonal swings, the volume of bank loans will decline slightly in the balance of the year.

Unless conditions change materially, the Council favors a continuance of the current rediscount rate and of open market operations which will make the rediscount rate effective and thus provide a reasonably firm money market and an orderly and flexible market for government securities. The Council approves the action taken relative to the suspension of the Voluntary Credit Restraint program and of Regulation W, in view of the decline in loans which had occurred and evidence of deflationary tendencies. If inflationary forces again become clearly evident, and assuming the Defense Production Act is extended by Congress, the Council recommends that the Voluntary Credit Restraint program be reactivated. During the period it was in effect it was an important influence in restraining unnecessary credit.

2. What effect is Regulation X having in the economy at the present time and what, if any, action should the Board take with respect to liberalization or suspension of the Regulation?

Under present conditions, Regulation X no longer serves any useful purpose as regards non government guaranteed real estate credit. The regulation has not had a marked effect on the financing of lower-priced houses. It does result in hampering the construction and sale of higher-priced houses, and causes much needless irritation and injustice. The

Council is unanimous in recommending that the regulation now be suspended.

3. The Board would appreciate any comments that the Council might wish to make relating to the Bank Holding Company legislation discussed in Chairman Martin's recent letter to Congressman Spence, Chairman of the House Banking and Currency Committee. A copy of the letter is attached.

The Council, as constituted from time to time in the past, has repeatedly expressed itself in favor of bank holding company legislation. In a letter to the Board of Governors on February 20, 1950, the Council approved bank holding company bill, S. 2318, then before the Committee on Banking and Currency of the Senate, with certain amendments which the Council understood were acceptable to the then Board. This bill had met the general approval of the bank holding companies with one important exception. No action was taken on S. 2318 by the Committee on Banking and Currency of the Senate, to which it had been referred, and the bill died with the 81st Congress.

In view of the widespread operations of the various bank holding companies in different parts of the United States, the Council believes that a bank holding company bill should be initially drafted by the Board of Governors and the provisions of the draft fully discussed by the Board with the principal holding companies and others affected, before the Board urges the passage of any bank holding company legislation.

The Council believes that the proposed bases for legislation stated in Chairman Martin's recent letter to Congressman Spence should be discussed with the various bank holding companies and with bankers' associations. Pending their being embodied in the draft of a bill and so discussed, and opportunity given to consider their effect, the Council does not feel it can express an intelligent opinion about them.

4. The Board will also be glad to consider with the Council any questions which the members of the Council might have with respect to the study of the check collection system being undertaken under the auspices of the Federal Reserve System with the cooperation of the American and Reserve City Bankers Associations.

The members of the Council are pleased that a comprehensive and exhaustive study of the check collection system is being undertaken under the auspices of the Federal Reserve System and with the cooperation of the American and Reserve City Bankers Associations. The Council is also glad to note that the Federal Reserve System is not suggesting the study for the purpose of encroaching upon or weakening the correspondent bank relationships of the commercial banks, but solely for the purpose of reducing expenses and increasing efficiency. It is important that any proposals growing out of the study be thoroughly analyzed and fully discussed if they are to meet with the general approval of the banks, without which there is little chance for their adoption. As the committee makes preliminary reports, the Council will welcome the opportunity to discuss them with the Board.

5. What legislative or other actions might be taken to improve the capital positions of banks and encourage increases in bank capital including actions that might be suggested by the study of excess profits taxes of commercial banks? For example, what should be the attitude toward the issuance of preferred stock or capital debentures by member banks as a means of raising new capital?

In connection with the Excess Profits Tax, the Council recommends that the Board strongly support favorable legislative action on the proposal of the special committee on excess profits tax of the American Bankers Association. In brief, this proposal provides that a bank be entitled to treat as borrowed capital six and two-thirds per cent of its deposits, other than United States Government and domestic inter-bank deposits. The proposed formula would lessen the present injustice to banks which are not allowed to include any portion of their principal indebtedness, that is, their deposits, in computing their invested capital base. Other corporations are allowed a high percentage of their total indebtedness if they use the invested capital base. Except for the smaller banks, almost all banks find it necessary to use the invested capital method. The proposed change would not only enable banks to make highly desirable additions to their capital out of retained earnings, but would make it easier for them to sell additional common stock.

All members of the Council are agreed that action on the Excess Profits Tax is the immediate and pressing need, if the banks are to meet the problem of increasing their capital. If favorable action is taken on the Excess Profits Tax, the question of the issuance of preferred stock or capital debentures tends to become less important. Particularly if there is no relief on taxes, it may be necessary for the banking supervisory agencies to change their attitude on the approval of the issuance of preferred stock or capital debentures by banks.

6. Do the members of the Council have any comments on or suggestions with respect to the Patman hearings?

The members of the Council commend the Chairman and members of the Board and the Presidents of the Federal Reserve Banks for the able manner in which they prepared and presented the answers to the questions submitted to them by the Patman Subcommittee, and on their testimony before it. The Council hopes that these answers and the hearings generally will promote a more intelligent and widespread understanding of the functions, duties, and problems of the Federal Reserve System. The Council will be pleased to discuss the final report of the Patman Subcommittee if the Board desires to do so after the report is released.

THE FEDERAL ADVISORY COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:35 P.M. ON MAY 19, 1952. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSRS. LOCHEAD AND JACKSON. MR. HENRY C. ALEXANDER SERVED AS AN ALTERNATE FOR MR. JACKSON.

Dr. Woodlief Thomas discussed the subject, "A Year of Flexible Credit Policy". An outline of Dr. Thomas discussion follows:

A YEAR OF FLEXIBLE CREDIT POLICY

Policy guides

Objective of Federal Reserve policy is repeatedly stated to be to assist stable economic growth.

Mechanism is to influence supply, availability, and cost of credit in a manner that will contribute to that end.

Tests of effectiveness or of need for change in policy are:

(1) Rate of growth in output

Relation to capacity

Relation of components to probable demand

Is expansion too great in some important areas?

(2) Employment, unemployment, and income

Is unemployment increasing?

Are employment demands pressing so hard on labor supply as to stimulate general increases in wages?

Are wage and salary increases adding to incomes in excess of goods available for purchase?

(3) Rate of credit and monetary expansion

Relation to business activity

Liquidity needs of public

Sustainability

(4) Changes in prices

Major test of balance between demand for goods and available supply - not sole guide.

Rising prices indicate excess of demand; falling deficiency

Some fluctations desirable to permit market adjustments

None of these tests should be considered as absolute or unchanging guides. Their use requires high degree of judgment.

Charts

Developments in past year

Prices

1. Price rise ended, with marked declines in some items. Most significant indication of abatement of inflationary pressures.

Basic
Wholesale
Consumer

Declines represent principally reactions from excessive and speculative advances.

Major price indexes are now 10 to 12 per cent above June 1950

A year ago varied from 2 or 3 per cent to over 50 per cent increases

Now more balanced price structure

No further inflation

2. Production continued at high level with further expansion in some lines. Contraction in some others.

Industrial production index rose to 222, now about 215

Total GNP up about 20 billion, or 6 per cent (less than half represents higher prices)

G.N.P.
Principal
Components

In real terms total output a new high

Defense output--including services of military establishment and related governmental activities--increased by nearly 20 billion dollars, annual rate.

Business expenditures for plant and equipment also increased--about 5 billion annual rate. Currently all time high.

Housing reduced moderately.

Commercial construction reduced substantially.

Substantial decline in rate of inventory accumulation--slight liquidation in business inventories recently.

Consumption expenditures practically unchanged.

Selected
Business
Indicators

Substantial decline in durable goods about offset by increase in others.

Production picture shows considerable diversity--near capacity in some lines, while others have unused capacity. Supplies generally ample, no pressure for expansion except in some defense and related activities.

3. Employment, unemployment and income

Additional 500,000 supplied to armed forces in past year, total of 2,000,000 since June 1950

Decrease in unemployment to about 1.6 million - close to mimimum

Charts

3. Employment, unemployment, and income (continued)

Chart Book pp. 53 & 54

Employment less than a year ago--which was all time high.

Increase in productivity.

Average hourly earnings continued to increase

Up 5 per cent in past year

14 per cent since mid-1950, compared with 10 per cent for consumer prices.

Personal income

Income continued to grow until late 1951. Little change since.

Disposable income (after taxes) reduced slightly this year.

Consumers contractual obligations for debts, insurance, etc., increased--uncommitted income rose less than cost of living from mid-1950 to spring 1951. Some improvement in past year.

Consumers reduced expenditures relative to income, also reduced credit expansion, increased liquid savings.

Better off now than a year ago.

Potentially inflationary.

4. Credit developments

Loans - bank and nonbank - continued to expand, but at slackened pace.

Holdings of Government Securities

Nonbank lending more closely related to current savings.

Liquidation of Government securities diminished. Partly absorbed by other investors.

Loans Commercial Banks

Bank loans

Persistent growth in defense borrowing, presumably needed for expansion in output, some slackening recently.

Changes in Loans by Industries

Largely seasonal fluctuations in other business

Greatly slackened increase in real estate and consumer loans.

Some banks increased holdings of Government securities

Funds in excess of loan demand

Desire for more liquidity

Attraction of rates

Private money supply expansion in past year

At record peacetime rate - $10 billion, against 5 billion in previous 12 months

Charts

4. Credit developments (continued)

Made possible by continued increase in bank loans and securities other than U.S., at diminished rate (6-1/2 billion)

Bank purchases of Government securities (1 billion)
Increase in gold stock (1-1/2 billion)
Decrease in Treasury balances (1-1/2 billion)

Deposits and Currency

Would appear to indicate failure of policy as restraint on inflation

Examine nature of expansion

Time deposits up 2-1/2 billion vs. decline--these are savings

Currency up 1-1/4 billion - 5 per cent

Some savings, some increased business needs, etc.

Demand deposits up 5 billion, slightly less than last year.

Only 6 per cent - about same as G.N.P.

Turnover of deposits reduced.

Reflects working needs plus desire for liquidity, in view of reduced liquidity of Governments.

Evidently not inflationary currently, but potentially so.

Role of Federal Reserve in past year

Required reserves increased by 600 million since early April 1951

Little net increase since November

Member bank reserves and related items

Ceased to supply reserves through purchase of Government securities

Decreased by 800 million since April 11, 1951

Purchases in periods of Treasury refunding and in December offset by other sales.

Reserves absorbed by currency increase - 1-1/4 billion

Total of 2.6 funds needed to meet drain on reserves and increase in required reserves.

Reserves supplied by gold inflow and decrease in foreign balances - about 1-3/4 billion

Other factors vary from day to day

Excess reserves reduced - 400 million - but change considerably

Member bank borrowings at Federal Reserve increased

Varied from below 200 million to over 1 billion

Role of Federal Reserve in past year (continued)

Occasionally larger than excess reserves

Treasury balances and float have varied considerably.

These have important temporary effects on money market.

Operation of policy of neutrality

Long-run effectiveness of Federal Reserve policy depends on long-run factors not temporary variations.

Net additions to bank reserves permitted should be as close as possible to minimum needed to maintain balanced economy.

Difficult to measure - some increase may be needed.

Short-run variations met by advances to member banks.

Treasury bill rates and member bank borrowings

When banks do not need to borrow, evidence of lax money situation

When borrowings induce undue liquidation of credit, evidence of undue stringency.

Would be reflected in money rates, before reflection in credit expansion or contraction.

Relation of borrowings and money rates.

Affected also by distribution among banks of reserves, borrowings, and loan demands.

Considerable day to day shifting.

Federal Reserve intervention needed only in case of these extreme situtions.

Problems for 1952

To meet Treasury deficit - 4 or 5 billion for whole year
9 billion for last eight months

Borrowing needs probably over 10 billion for next 8 months (including redemptions of bonds)

Probably 4 billion or more from corporations

Maybe some from individuals and institutions

Banks and Federal Reserve need to buy some - have decreased 2-1/2 billion so far this year.

Large volume of new issues of securities

Corporate issues probably more than last year.

State and local government issues still large

Mortgage demand expected to decrease but may not.

Problems for 1952 (continued)

Consumer credit a question - ?

Business credit should be less than last year - less inventory expansion, more tax accruals.

Some net increase

Some further expansion in money supply - should be less than last year.

Much depends on Treasury's ability to borrow from individuals and institutions.

Will need to compete against other demand - perhaps strong ones.

The meeting adjourned at 4 P.M.

ON MAY 20, 1952, AT 10:30 A.M., THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. N. BAXTER JACKSON. MR. HENRY C. ALEXANDER SERVED AS ALTERNATE FOR MR. JACKSON. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, GOVERNORS SZYMCZAK, EVANS, POWELL, MILLS AND ROBERTSON. MR. CARPENTER, SECRETARY OF THE BOARD, AND MR. MERRITT SHERMAN, ASSISTANT SECRETARY OF THE BOARD, ALSO WERE PRESENT.

WHAT ARE THE BUSINESS AND ECONOMIC PROSPECTS OVER THE NEXT SIX MONTHS? WHAT SUGGESTIONS DOES THE COUNCIL HAVE WITH RESPECT TO SYSTEM CREDIT POLICIES DURING THAT PERIOD?

Brown reads item 1 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. The members of the Council are inclined to be more pessimistic about the business and economic outlook than Dr. Woodlief Thomas, who discussed the subject with the Council yesterday. The Council believes business will decline somewhat in the months immediately ahead. A moderate decline would probably be economically healthy. The Open Market operations have been conducted with great skill.

Martin. If the inflationary pressures return, would the Council recommend reactivating Regulation W, or the Voluntary Credit Restraint program, first.

Brown replies that speaking for himself, he would reactivate the Voluntary Credit Restraint program first. There is a large supply of household durables, and Regulation W would not be so important at first.

Powell. In view of Brown's comment, how should the finance companies be handled? The finance companies were a "sticky" spot in the Voluntary Credit Restraint program. Powell took the view that the finance companies were restricted by Regulation W in the Voluntary Credit Restraint program.

Davis believes the finance companies will tend to regulate themselves and will not go too far on weakening terms.

Powell. We are, of course, talking in a vacuum in which the immediate prospects of reactivating Regulation W or the Voluntary Credit Restraint program are remote.

Martin thinks the public and many Congressmen are so convinced that the Voluntary Credit Restraint program was an outstanding success that they wonder whether Regulation W could not be made voluntary too. Some of these people believe that Regulation W expresses a desire of the Board to control the economy.

Fleming believes it might be advisable for Martin to appear before the House committee and urge the extension of the Defense Production Act as it relates to banking and credit.

Brown believes that authority for the Voluntary Credit Restraint program and Regulation W should be extended. He is not so certain that it would be advisable to extend Regulation X or the control over prices and wages.

(Fleming makes some off-the-record comments).

Martin asks whether any member of the Council believes there will be a major upturn or a serious decline in the economy.

Lochead expects a decline, but not a major downward trend.

Martin asks how much of the concern about the business outlook is due to the coming election.

Lochead believes the economic situation would be worse if there were no election in the offing.

Beals. The bankers are divided into two groups. The ultra conservative bankers are very pessimistic, and they expect the decline to grow more serious. The other group believes the present situation is one of levelling off and is not a major decline. Crop prospects are good. Department store business in his district is good. It is difficult to tell to what extent the views on the business outlook are colored by political opinions.

Ray. The situation in District 11 is substantially similar to that described by Beals in his district. However, the largest cash "crop" in District 11 is oil. The district is now getting rains. Department store sales are up, but management tends to be pessimistic because profits are not so good. Business believes there will be a change in Administration and so is inclined to look at the election outlook optimistically. There is no unemployment in the district, and it is difficult to hire people.

Lochead asks whether Ray's bank is open on Saturday.

Ray reports that they are open until noon on Saturday.

Lochead replies that being open on Saturday may make it more difficult to get employees.

Ringland states that bankers and business men in his district are not optimistic. Loans in his bank, which is the largest bank in the district, are off fifteen per cent.

Gund. There is a feeling in his district that there will be some business decline, but that it will not go too far.

Vance Alexander. Even with high priced cotton, costs are going up, so that profit margins are narrowed. As a whole, the feeling in his district is that they can look forward to good business in the South.

WHAT EFFECT IS REGULATION X HAVING IN THE ECONOMY AT THE PRESENT TIME AND WHAT, IF ANY, ACTION SHOULD THE BOARD TAKE WITH RESPECT TO LIBERALIZATION OR SUSPENSION OF THE REGULATION?

Brown reads Item 2 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. The Council does not know whether there are any legal problems involved if Regulation X is suspended.

(There was an off-the-record discussion regarding Veterans' Administration loans).

Evans thinks that Regulation X has had a restraining influence on Veterans' Administration loans. Evans would be glad to have the opinions of the Council regarding housing in their respective districts.

Lochead reports there are a number of higher priced apartments available in his area.

Ray. There is no housing shortage in Dallas. There are about 8,000 unoccupied apartments, according to the real estate people. The area appears overbuilt.

Beals. The situation Ray describes is not true in Beals' district. The older houses are sticky, but small houses are selling.

Gund. There is a housing shortage which will probably be corrected by Fall. The higher priced and older houses are sticky.

Bucklin. There is some surplus housing in his district.

Smith thought the housing situation was sticky in his district, but a survey did not reveal this condition. However, he thinks the housing situation is reaching a point where the market will be saturated.

Davis reports that in his district the smaller, lower priced houses are selling, but higher priced houses are not selling, in part because of Regulation X. He believes housing has reached the saturation point.

Henry Alexander reports that he is not thoroughly familiar with the housing situation because he has not made a special study of it. However, he believes that the scramble for apartments is over, and that the supply of housing units is more nearly equal to the demand now.

Vance Alexander. Fewer higher priced homes are being built in his district. Building materials are in ample supply, and the need for additional housing is much less pressing.

Ringland. Many companies in the housing industry which were borrowing are now out of debt. Housing is tending to reach a saturation point.

Brown. In Chicago proper, houses are still being built and sold, but the sale is slow and the market is less active.

THE BOARD WOULD APPRECIATE ANY COMMENTS THAT THE COUNCIL MIGHT WISH TO MAKE RELATING TO THE BANK HOLDING COMPANY LEGISLATION DISCUSSED IN CHAIRMAN MARTIN'S RECENT LETTER TO CONGRESSMAN SPENCE, CHAIRMAN OF THE HOUSE BANKING AND CURRENCY COMMITTEE. A COPY OF THE LETTER IS ATTACHED.

Brown reads Item 3 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. He states that the Council cannot discuss bank holding company legislation on the basis of general principles. The Council has on many occasions recommended the passage of bank holding company legislation. A great deal of work was done on bill S. 2318, which everyone approved, except one important holding company. It is necessary actually to see proposed legislation in order to pass upon it intelligently. Brown is inclined to believe that the test set up for ownership in Chairman Martin's letter to Congressman Spence is not a satisfactory test.

Lochead states that the most important point to him is the question of the ownership of other businesses, that is, non-bank businesses. The next question is the one of expanding over state boundaries. It is probable that the independent bankers will not have much money to promote bank holding company legislation until some specific legislation is presented.

Martin asks Robertson to comment on the subject, as he has studied it a great deal.

Robertson. The Spence Bill was an attempt to tie a holding company bill to a branch bill. It is felt that all agencies have to be behind bank holding company legislation. Consequently, the Board and its staff worked out a set of proposals as the basis for legislation. They believed that all existing laws failed to cover (1) unrestricted expansion, and (2) the acquisition of non-banking businesses. The proposals are made to cover the present situation, and not to anticipate developments which are years in the future. No one can say now to whom the bill will finally apply. The Federal Reserve System is not interested in who administers any bank holding company law which may be enacted. The proposal for ownership would cover all bank holding companies now.

Lochead asks how a certain large holding company would be covered with its low percentage of ownership in many banks.

Robertson states that the particular holding company would, as of a certain date, be declared a holding company, as the test of ownership set up in the proposals covers that company. This particular company would thereafter be considered a holding company.

Ringland states that most of the agitation for bank holding company legislation comes from two Independent Bankers Associations. These associations are not only against holding companies, but they are against "big" banks generally. Ringland believes the power under such legislation should not be in both a federal agency and the state banking supervisory authorities, as the state authorities have frequent turnovers in office.

Robertson replies that the power would be in the federal agency, but that the states would have the right to legislate reserved to them.

(Lochead and Ringland discuss off-the-record how bank holding company legislation would meet a specific situation).

Brown cites illustrations which show that it is necessary to have a definite legislative proposal, if discussion on this subject is to be worthwhile.

Szymczak believes there are three important points to keep in mind. First, it is advisable to get some legislation, or later a bad bill may be passed; two, it is advisable to get support from all interested holding companies, bankers associations, and other groups which are concerned with the legislation; three, it is advisable to get agreement of the federal banking agencies.

THE BOARD WILL ALSO BE GLAD TO CONSIDER WITH THE COUNCIL ANY QUESTIONS WHICH THE MEMBERS OF THE COUNCIL MIGHT HAVE WITH RESPECT TO THE STUDY OF THE CHECK COLLECTION SYSTEM BEING UNDERTAKEN UNDER THE AUSPICES OF THE FEDERAL RESERVE SYSTEM WITH THE COOPERATION OF THE AMERICAN AND RESERVE CITY BANKERS ASSOCIATIONS.

Brown reads Item 4 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. Brown emphasizes that the Council understands that the Board is not interested in anything but increasing the efficiency of the check collection system and lowering costs. In the past there have been those in and out of the Federal Reserve System who believed in doing away with correspondent banking relationships, but Brown does not believe the present Board holds those views.

Martin states the Board is pleased with the Council's comments on this item and agrees with the statements expressed as the view of the Board regarding the purpose of the study.

Mills. The Conference of Federal Reserve Bank Presidents suggested studying this subject. Preliminary plans have been made, and it is hoped soon to have questionnaires submitted to the principal interested banks through the American Bankers Association, the Association of Reserve City Bankers, and the Federal Reserve System. A coordinating engineer is to be brought in. An enormous field is to be covered. Mills reads the statement of the Board which indicates that the purpose of the study is to improve the efficiency of the check collecting system and not to encroach upon correspondent banking relationships. The Federal Reserve System will bear the expense of the coordinating engineer.

Vance Alexander understands that the American Bankers Association Administrative Committee voted at its recent meeting at White Sulphur Springs that the coordinating engineer was not to have a vote on the committee which is to study the check collecting system.

Mills replies that this is the kind of information which the Federal Reserve System wishes to have as its proceeds with the study.

WHAT LEGISLATIVE OR OTHER ACTIONS MIGHT BE TAKEN TO IMPROVE THE CAPITAL POSITIONS OF BANKS AND ENCOURAGE INCREASES IN BANK CAPITAL INCLUDING ACTIONS THAT MIGHT BE SUGGESTED BY THE STUDY OF EXCESS PROFITS TAXES OF COMMERCIAL BANKS? FOR EXAMPLE, WHAT SHOULD BE THE ATTITUDE TOWARD THE ISSUANCE OF PREFERRED STOCK OR CAPITAL DEBENTURES BY MEMBER BANKS AS A MEANS OF RAISING NEW CAPITAL?

Brown reads Item 5 of the agenda and the conclusions of the Council as expressed in the Memorandum to the Board attached. Brown says the Council is familiar with the proposal of the Special Committee on Excess Profits Tax of the American Bankers Association, and he assumes the Board is familiar with this proposal. Brown states he will be pleased to give the Board the wording of the proposal, if the members of the Board do not have it. He feels that many banks in the excess profits tax are not making risk loans they would normally make. If they make money, the excess profits tax takes a large sum; if they lose money, they do not gain proportionately and the loss may not be taken for years. The

Council hopes the Board will lend their support to the legislation. Preferred stock is not the most satisfactory method of raising capital, particularly with a sinking fund.

Fleming understands that the American Bankers Association proposal has a good legislative possibility of acceptance this year. Fleming believes public psychology might be bad if banks had to issue preferred stock, in view of the fact that preferred stock was last issued in the depression of the 1930's. Fleming hopes the Board may support the proposed legislation.

Powell reports that if all excess profits taxes had been turned back into capital, it would take fifty years of excess profits taxes to increase the capital of banks one per cent. Powell believes the problem is a much larger one. The banks affected by the excess profits tax are small in number. Nor is there any clustering of banks with earnings just below where they would have to pay an excess profits tax.

Vance Alexander asks Powell how he obtains these latter figures. A bank may turn down a borrower simply because it would subject the bank to an excess profits tax and there would be no figures to reveal that situation.

Powell. The Board could not know such facts, but the Board does know there is no clustering of banks now just below the excess profits tax level.

(Martin comments off-the-record on the views of one or two Congressmen on the excess profits tax).

Martin does not know whether it is wise for the Board to back any tax proposal just at the close of a session. His opinion, as an individual, is somewhat skeptical.

Fleming hopes the Board will continue the study, as he believes 1952 will give more evidence of the need for relief from the excess profits tax.

DO THE MEMBERS OF THE COUNCIL HAVE ANY COMMENTS ON OR SUGGESTIONS WITH RESPECT TO THE PATMAN HEARINGS?

Brown reads Item 6 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. Brown states that the position of the Board and the Federal Reserve System is now stronger than it was before the Patman hearings. All members of the Council are opposed to the "super duper" Committee or Council idea suggested at the Patman hearings.

Martin believes that the Patman Subcommittee hearings may be only the beginning of the discussion, and the Board would like very much to discuss with the Council what steps should be taken after the final Patman report is published.

The meeting adjourned at 1:05 P.M.

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The next meeting of the Federal Advisory Council will be October 5, 6 and 7, 1952.