MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

1956

MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

February 19-21, 1956

May 20-22, 1956

September 16-18, 1956

November 18-20, 1956

and of the

EXECUTIVE COMMITTEE

October 31, 1956

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1956

OFFICERS:

President, Robert V. Fleming
Vice President, Frank R. Denton
Director, William D. Ireland
Director, Adrian M. Massie
Director, Homer J. Livingston
Acting Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

Robert V. Fleming
Frank R. Denton
William D. Ireland
Adrian M. Massie
Homer J. Livingston

MEMBERS:

William D. Ireland	District No. 1
Adrian M. Massie	District No. 2
William R. K. Mitchell	District No. 3
Frank R. Denton	District No. 4
Robert V. Fleming	District No. 5
Comer J. Kimball	District No. 6
Homer J. Livingston	District No. 7
Lee P. Miller	District No. 8
Julian B. Baird	District No. 9
R. Crosby Kemper	District No. 10
George G. Matkin	District No. 11
Frank L. King	District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

The Officers of this Council shall be a President, Vice President, three Directors and a Secretary, all of whom, except the Secretary, shall also serve as the Executive Committee.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council, and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

The Executive Committee, as indicated in Article I of the by-laws, shall consist of the President, Vice President, and the three Directors.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with their regulations and promulgations, and to communicate the same to the members of the Council, and to suggest to the Council, from time to time, special matters for consideration.

The Executive Committee shall have the power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

The Executive Committee shall have full power, as officers of the Council, to act for the Council between meetings of the Council.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum, and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 19, 1956

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 19, 1956

The first and organizational meeting of the Federal Advisory Council for the year 1956 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on February 19, 1956, at 2:00 P.M.

Present:

William D. Ireland	District No. 1
Adrian M. Massie	District No. 2
William R. K. Mitchell	District No. 3
Frank R. Denton	District No. 4
Robert V. Fleming	District No. 5
Comer J. Kimball	District No. 6
Homer J. Livingston	District No. 7
Lee P. Miller	District No. 8
Arnulf Ueland, Alternate for Julian B. Baird	District No. 9
R. Crosby Kemper	District No. 10
George G. Matkin	District No. 11
Frank L. King	District No. 12
Daniel W. Bell, Alternate	District No. 5
William J. Korsvik	Acting Secretary

Absent: Julian B. Baird — District No. 9

Mr. Robert Fleming was elected Chairman *pro tem* and Mr. William J. Korsvik, Acting Secretary *pro tem.*

The Acting Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1956.

The following officers were nominated and unanimously elected:

Robert V. Fleming, President
Frank R. Denton, Vice President
William D. Ireland, Director
Adrian M. Massie, Director
Homer J. Livingston, Director
William J. Korsvik, Acting Secretary

On motion, duly made and seconded, the salary of the Acting Secretary was fixed at $2,250 annually.

On motion, duly made and seconded, the Council approved the by-laws, copies of which are a part of these minutes.

The Secretary presented his financial report for the year 1955, which had been audited by Mr. J. Carl Sommer, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the printed minutes for the meetings of the Council held on February 13, 14, 15, 1955; May 15, 16, 17, 1955; September 18, 19, 20, 1955; November 13, 14, 15, 1955; and the mimeographed notes of the meeting held November 13, 14, 15, 1955, copies of which had been sent previously to the members of the Council, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Secretary to ask each Federal Reserve bank to contribute $450.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1956, and to draw upon it for that purpose.

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 8 and 9.

The meeting adjourned at 6:20 P.M.

WILLIAM J. KORSVIK
Acting Secretary

REPORT OF THE ACTING SECRETARY
OF THE
FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1955

Balance on hand, December 31, 1954	$ 8,150.00	Salaries	$ 2,700.00
		Conference Expense	1,384.36
		Printing and Stationery	426.80
Assessments— 12 Federal Reserve Banks	5,400.00	Postage, Telegrams and Telephone	10.95
		Balance on hand, December 31, 1955	9,027.89
	$13,550.00		$13,550.00

Chicago, Illinois
February 1, 1956

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Acting Secretary of the Federal Advisory Council for the year ended December 31, 1955, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO
(Signed) J. Carl Sommer
Assistant Auditor

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 20, 1956

At 10 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C., the President, Mr. Fleming, in the Chair.

Present: Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Frank R. Denton, Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Arnulf Ueland, Alternate for Mr. Julian Baird; Messrs. R. Crosby Kemper, George G. Matkin, Frank L. King, Daniel W. Bell, Alternate from the fifth district, and William J. Korsvik, Acting Secretary.

Absent: Mr. Julian B. Baird.

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 8 and 9, listing the agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12:15 P.M. on February 20, 1956.

The meeting adjourned at 11:40 A.M.

WILLIAM J. KORSVIK
Acting Secretary

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON FEBRUARY 21, 1956

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. What are the views of the Council on the proposed amendment to Section 25 of the Federal Reserve Act? The amendment would permit the Board of Governors to issue regulations which would authorize foreign branches of American banks to exercise such further powers beyond those permitted by the present law as may be usual in connection with the transaction of the business of banking in the places where foreign branches are located. A memorandum prepared by the Board Staff discussing the proposal, dated January 18, 1956, together with a draft of the proposed legislation is attached.

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

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 20, 1956

At 2:20 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Fleming, in the Chair.

Present: Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Arnulf Ueland, Alternate for Mr. Julian B. Baird; Messrs. R. Crosby Kemper, George G. Matkin, Frank L. King, and William J. Korsvik, Acting Secretary.

Absent: Messrs. Frank R. Denton and Julian B. Baird.

Mr. Frank R. Garfield, Adviser on Economic Research, Division of Research and Statistics of the Board of Governors of the Federal Reserve System, and members of the Staff presented an audio-visual report on "Recent Production, Price and Credit Developments". A brief resume of the conclusions of the report was distributed to the members of the Council.

The meeting adjourned at 3:30 P.M.

WILLIAM J. KORSVIK
Acting Secretary

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

February 21, 1956

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.; Vice Chairman C. Canby Balderston; Governors M. S. Szymczak, James K. Vardaman, Jr., A. L. Mills, Jr., and J. L. Robertson; also Mr. S. R. Carpenter, Secretary, and Mr. Merritt Sherman, Assistant Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Frank R. Denton, Comer J. Kimball, Homer J. Livingston, Lee P. Miller, Arnulf Ueland, Alternate for Mr. Julian B. Baird; Messrs. R. Crosby Kemper, George G. Matkin, Frank L. King, and William J. Korsvik, Acting Secretary.

Absent: Mr. Julian B. Baird.

President Fleming read the first item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* as printed on pages 8 and 9 of these minutes.

Chairman Martin stated that Mr. Arthur F. Burns, Chairman of the Council of Economic Advisers, had been directed by President Eisenhower to request the Board of Governors to undertake a study of consumer credit. Chairman Martin added that the Board obviously had taken no position on the subject of consumer credit, but in its testimony before the Congress would urge that the study be pursued.

The President of the Council then read the second item, and the conclusions of the Council as expressed in the *Confidential Memorandum* previously mentioned.

Governor Robertson replied that the Celler Bill as it stands is contrary to the Board's recommendations on this subject. Governor Robertson added that the Board does not feel that the endorsement of the Clayton Act is an appropriate function of the Board of Governors.

President Fleming then read the third item, and the conclusions of the Council as reported in the *Confidential Memorandum* mentioned above. A general discussion followed, during which members of the Council and the Board participated.

The fourth item of the agenda and the conclusions of the Council were reported by President Fleming.

President Fleming then read the fifth item, and the conclusions of the Council as expressed in the *Confidential Memorandum* cited above. A brief discussion followed.

President Fleming then read the sixth item, and the conclusions of the Council.

Mr. Massie stated that he would favor a study and complete revision of bank reserve requirements.

Chairman Martin agreed that the regulations for reserve requirements could be improved.

The President of the Council then read the seventh item, and the conclusions of the Council as noted in the *Confidential Memorandum* to the Board.

Mr. Ireland remarked that while he approved of the Council's reply, he believed that certain limitations or prohibitions should be included in the statute.

Chairman Martin replied that it is very difficult to enumerate precisely all the limitations or prohibitions in the statute and for that reason the amendment had been drafted in general terms.

The meeting adjourned at 12:50 P.M.

WILLIAM J. KORSVIK
Acting 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.

W. J. K.

The Secretary's notes of the meeting of the Federal Advisory Council on February 19, 1956, at 2:00 P.M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present except Mr. Baird. Mr. Arnulf Ueland attended as alternate for Mr. Baird. In addition, Mr. Daniel W. Bell, alternate from District 5 was present.

Mr. Homer J. Livingston was elected Chairman pro tem and William J. Korsvik was elected Acting Secretary pro tem.

The Acting Secretary pro tem stated that communications had been received from the twelve Federal Reserve Banks, certifying to the election of their respective representatives on the Council for the year 1956.

On motion, duly made and seconded, the by-laws were approved.

The following officers were nominated and unanimously elected:

Robert V. Fleming, President
Frank R. Denton, Vice President
William D. Ireland, Director
Adrian M. Massie, Director
Homer J. Livingston, Director
William J. Korsvik, Acting Secretary

On motion, duly made and seconded, the salary of the Acting Secretary was fixed at $2,250 annually.

The Acting Secretary presented his financial report for the year 1955, which had been audited by Mr. J. Carl Sommer, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. It will be printed and included in the formal printed minutes.

A motion was adopted authorizing the Secretary to draw upon each Federal Reserve Bank for $450 for the secretarial and incidential expenses of the Federal Advisory Council for the year 1956.

The Council approved the Secretary's notes for the meeting of November 13-15, 1955. The printed minutes for all the 1955 meetings of the Council, copies of which had been sent previously to members of the Council, also were approved.

Fleming discusses the salary situation of the members of the Board of Governors of the Federal Reserve System. Formerly, the salaries of the members of the Board were the same as the salaries paid Cabinet officers. Over the years, however, the salaries of the members of the Board have not kept pace with the salaries paid the cabinet officers. President Fleming describes the current strategy in the Congress to get a bill approved, which would pay the members of the Board of Governors $22,500 per year and the Chairman $25,000 a year which, incidentally, is the salary currently paid cabinet officers.

Matkin. Should we go on record voicing our approval of these efforts?

Fleming. It would be helpful if the Council passed such a motion.

Matkin so moved, the motion being unanimously approved.

ITEM I

THE AUTHORITY OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM TO ESTABLISH MAXIMUM TERMS ON CONSUMER CREDIT CEASED IN 1952. IN VIEW OF THE STATEMENT OF PRESIDENT EISENHOWER ON PAGE 36 OF THE ECONOMIC REPORT, AND THE RECOMMENDATIONS ON PAGES 93 and 94, THE MEMBERS OF THE COUNCIL SHOULD LIKE TO HAVE THE QUESTION OF THE POSSIBLE REENACTMENT OF REGULATION W INTO LAW DISCUSSED AT THE NEXT MEETING OF THE COUNCIL AND THE BOARD. THE COUNCIL SHOULD CONSIDER ITS OWN POSITION AS TO WHETHER OR NOT REGULATION W SHOULD BE REENACTED INTO LAW, AS WELL AS OBTAIN THE VIEWS OF THE BOARD OF GOVERNORS RESPECTING ITS ATTITUDE REGARDING THIS LEGISLATION.

Fleming reads Item I and states that he suggested the inclusion of this item on the agenda, in view of President Eisenhower's recommendation for a study, and because in the past the Council has been divided in its opinion. He cites the fact that according to press reports, Secretary Humphrey is opposed to consumer credit controls and that Chairman Martin has said that the Board will take the power, but that it is not anxious for it at this time. Furthermore, Fleming adds, Congress will not enact such legislation in an election year.

Miller agrees.

Denton thinks Congress should enact such legislation and adds that they should do so when it is not needed.

Fleming states that standby controls are O.K. with the present Board but, in his years in Washington he has observed that you seldom give a power to a government agency that it does not eventually use it.

Ireland reports that he favors some kind of regulation which would give the Board power over Consumer Credit.

Massie believes control over consumer credit should be in the Act as a permanent power of the Board.

Mitchell is not in favor of its imposition now.

Fleming asks Mitchell if his position is different from Ireland's and Massie's.

Mitchell says he believes the power should be put in the Act but not now, because he is afraid the Board would impose controls now.

Denton. I have come to believe (contrary to what I believed a few years ago) that the Board of Governors should have permanent stand-by authority to regulate instalment credit. Such credit tends, I believe, to blow up the economy at certain times and suck it down at other times, accentuating the booms and the busts. Changes in the rate at which it is being created happen so fast sometimes that it is hard to influence them quickly through general controls. While I think the Federal Reserve should have special authority to control instalment credit, I am not hopeful that they could make effective use of such authority in the present state of public opinion. Consumer credit has been outrunning the growth of the economy. This disproportionate growth cannot keep up forever. Denton concludes that the power to control consumer credit should be given to the Board by amending the Act.

Bell agrees. The power should be given the Board and it should be in the Act in broad terms. However, he adds that while we have nothing to fear from the present Board perhaps some future Board might abuse its powers. He suggests that perhaps the President of the United States should have a veto power over the Board's action.

Kimball says the power should be incorporated into the Act, including the Presidential veto which Bell has suggested.

Denton questions the wisdom of the Presidential approval.

Livingston opposes giving the Board permanent power over consumer credit by amending the Act. He adds that he is against selective controls except in emergencies. However, if there were an emergency, Congress would be quick to pass enabling legislation. If power over consumer credit were put into statute, the Board would then consider it an appropriate tool of monetary control and would impose it when they thought it appropriate, even though no emergency prevailed.

Miller does not think instalment credit is out of line. He believes an appropriate ratio with disposable income has been maintained and that the credit outstanding therefore, is sound. He suggests that the study be made. At present he is against writing the power into statute.

Ueland agrees with Livingston and Miller. While he has confidence in the present Board he is distrustful of such legislation. Furthermore, it is difficult to enforce. In case of emergency, however, he favors consumer credit controls.

Kemper is opposed to giving the Board permanent power over consumer credit. He feels that other segments of the economy are a great deal worse and should presumably receive appropriate attention first. He cites, as an example, thirty year mortgages. He believes that consumer credit is sound, as before funds are extended an applicant's credit standing is carefully reviewed.

Matkin says he runs hot and cold on this matter. Fundamentally, he is against any regulation. Furthermore, he believes that the expansion of consumer credit has played a role in our current prosperity. He favors study and investigation of the subject.

King is against the regulation.

Fleming suggests that inasmuch as Mitchell is opposed to giving the Fed power over consumer credit now, a majority of the Council presently is against standby controls, whereas a minority of the Council feel the Act should be amended, giving the Fed this power. All members of the Council, however, favor a study of the subject as proposed by the President.

ITEM II

THE PRESIDENT'S ECONOMIC REPORT ON PAGE 79 CALLS FOR FEDERAL REGULATION TO BE EXTENDED OVER ALL MERGERS OF BANKING INSTITUTIONS. WHAT ARE THE VIEWS OF THE BOARD OF GOVERNORS ON THIS PROPOSAL AND ON LEGISLATION HERETOFORE INTRODUCED AND PENDING ON THIS SAME QUESTION?

Fleming reads Item II of the agenda, and adds that the bank Merger Bill (H.R.5948) introduced by Congressman Celler passed the House on February 6,1956. The bill would amend the Clayton Act and would give the Federal Reserve Board and the Justice Department authority to prevent bank mergers achieved by acquisition of assets where the effect may be to lessen competition substantially or tend to create a monopoly. (Under present law the enforcement of Section 7 of the Clayton Act, where applicable to banks, is vested in the Board. However, the present law gives the government power to block mergers only when they take place through stock acquisitions, but fails to cover mergers accomplished by means of asset acquisitions.) Fleming adds that he abhors the idea of giving the Justice Department veto over bank mergers.

King asks if the Comptroller of the Currency, the Federal Reserve Board and the FDIC have power over bank mergers.

Fleming. Yes.

Matkin raises the question of "weekend mergers" which, at times in the past, have been necessary to keep a bank from failing.

Fleming feels that power over bank mergers should be vested in the banking authorities only.

Ireland notes that the Fed doesn't want power to enforce the Clayton Act.

King says he would dislike seeing the Justice Department have power over mergers.

Livingston agrees that power should be with banking authorities and not with the Department of Justice. Livingston suggests that it seems to be the opinion of the Council that howsoever mergers are accomplished, the power to deal with them should rest with the bank supervisory authorities and not with the Justice Department.

(At this point it was suggested and unanimously ageed that the portion of the suggested agenda dealing with bank holding company legislation be deleted and that the Board be so informed)

ITEM III

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROSPECTIVE BUSINESS SITUATION DURING THE PERIOD FROM NOW UNTIL MID-1956? IS THERE ANY INDICATION OF UNHEALTHY INVENTORY ACCUMULATIONS? DOES IT SEEM LIKELY THAT WAGE AND PRICE ADJUSTMENTS WILL REFLECT OR CAUSE INFLATIONARY PRESSURES THAT WOULD CALL FOR FURTHER CREDIT RESTRAINTS? ARE THERE ANY INDICATIONS OF SLACKENING IN DEMAND PRESSURES THAT WOULD PERMIT RELAXATION OF RESTRAINTS?

Fleming reads Item III and asks the members of the Council to express their individual opinions.

Ireland. All signs in the first district point to a high level of business activity, considerably above the first six months of last year. Construction awards, textile and shoe production are all above last year's totals. Business in the first district is going well and should continue to do so in the period covered by this Item. Inventories are not causing any concern. There is some shortage of newsprint with some imports selling $50 a ton over domestic prices. If labor continues to have their demands met, some inflationary pressures may result. There seems to be some slackening in consumer credit.

Massie. Activity in the second district, in the fourth quarter, was very high. It is expected to continue into the first part of 1956. There are, however, several weak spots. The Westinghouse strike is having an effect - the decline in automobile assemblies has affected employment. The demand for labor by the non-manufacturing industries has tended to offset the declines in other lines. Wage rates, however, may be moving up too fast. This may be especially true in the last half of the year. Construction is off - principally residential, although the coming of spring may offset this. The banks in the district have not experienced a seasonal runoff in credit. On the contrary, there is a strong demand for bank credit. Bank credit in the district seems to be tighter than in the rest of the United States. In spite of this, he sees no reason for relaxation in credit restraint policies. The financing of the Mills plan, however, may cause further tightness. There is some inventory accumulation, although it is difficult to put your finger on it. Confidence is strong in the district for the first six months of 1956.

Mitchell reports that his district had an excellent year although below the national average. In the final quarter there were some employment gains in areas which previously had had some unemployment. Currently, things are very active although automobiles and housing are down. Coal, particularly for export, steel and textile production have tended to offset these. Inventories are higher but not in relation to sales, except for automobiles. Automobile inventories reached a high in December and have tended to decline in January. Business is expected to be excellent throughout the first half of 1956. Merchants are doing well. Some adjustment in steel prices is expected by the end of the year. Similarly, men's and women's woolen suitings may go up in price. Loans are up and deposits are off compared to a year ago. As a consequence, banks have borrowed from the Fed. Loans currently are off a little - about the national average - but less than seasonal. This trend is expected to continue.

Denton. Steel expects to continue to operate at capacity. The slackening in orders, due to automobile cut-backs, has permitted the steel companies to fill orders from other segments of the economy. GNP is expected to increase, but at a reduced rate. This is a result of the expansion of business investment and the increase in inventories. Only in automobiles, however, is the inventory accumulation considered excessive. The expected demand for wage increases by the steel workers in May and June may exceed the increases in productivity. This will have inflationary consequences. The decline in agricultural prices has tended to be offset by the increases in other prices. Steel and glass, because of the cut-backs in automobile production, are now becoming available for other users. However, no slackening in demand is reported.

Fleming. Business in the fifth district is excellent. Farm prices have improved - merchants are doing well. Employment is good. While good business is expected, the quarterly increases in production and in GNP experienced last year are not expected to repeat themselves. Business is expected to stabilize around the level of the last quarter of 1955. Inventories are up but borrowers give good reasons when questioned about them. Except for automobiles, which are a weak spot, there appears to be nothing unhealthy in the present inventory accumulation. Wage adjustments may affect the shipbuilding industry and perhaps mining, but not the district as a whole. Fleming reports no slackening in demand pressures. Loans are up despite some payoffs. He sees no slackening in demand for credit that would warrant a relaxation at this time.

Bell agrees.

Kimball reports his district had the best year in history, with some levelling off at a very high level. The only weakness is among speculative builders. Agriculture has been a drag on the economy, but recent increases in cattle prices have been helpful. New records may be set in the first six months but the pace is somewhat reduced. Appliance inventory accumulations have caused some price adjustments. As the district is predominantly agriculture, wage adjustments have little immediate effect. He doubts if it would be wise to relax credit restraints as demand pressures are still in existence.

Livingston. Prospects in the seventh district, with the exception of the Detroit area, are excellent. However, residential construction is off somewhat. He reports a shortage of labor, particularly in the construction industry. Cement and glass are in short supply. Other than automobiles, he reports no evidence of an unhealthy inventory accumulation. The increase in the minimum wage may result in the scaling up of wages in general with some inflationary pressures resulting. However, until a trend is evident in the economy, he suggests credit policy remain as it is.

Miller anticipates that the first six months of 1956 will be good, with perhaps a rise of 5 per cent in the first quarter and 3 per cent in the second quarter. He reports no unhealthy inventory accumulation in his district. The minimum wage law is likely to affect the total wage scale in the banks. He urges no increase or relaxation of credit restraints. Loans have held up; housing starts are down, although this has been offset by commercial building.

Ueland expects business in his district to be the same as reported in other districts. Some signs of inventory excesses have appeared in automobiles, TV's and other household appliances, but nothing of serious proportions. The agricultural surpluses are, of course, a problem. He sees no basis for relaxing or increasing credit restraints. The Fed must be alerted to act quickly in a downturn. He believes the restraint program is having an effect. The Fed, however, must be prepared to relax restraints the minute any downturn occurs. Loans are up 25 per cent over a year ago, while deposits have risen only 5 per cent. Banks in the district are being pinched.

Kemper. Conditions in the district are prosperous. The winter wheat crop has been damaged by wind storms, although recent snow and moisture have been helpful and have improved the outlook. Grain elevators and other storage facilities are full, with considerable surplus under tents. Leakage has resulted in some losses. Agricultural implements are not selling. Automobile inventories are high. Agricultural price declines have put the farmer, cattle feeders and rancher in a squeeze. Employment and construction, are good. Demands for loans are strong, especially in metropolitan areas. He sees no reason to relax or to increase credit restraints.

Matkin. Business is excellent, although agriculture has not shared in the prosperity. Inventories are not out of line, considering present sales volume. If sales decline, however, they would be excessive. Department store sales are up. Contrary to the national average, residential construction awards have increased. The agricultural outlook has improved as a result of recent moisture. The increases in the minimum wage level may cause additional spending, as the whole wage scale moves up.

Matkin would like to see some relaxation in credit restraints but would not recommend it.

King. Business in the 12th district is good. Loans are up, inventories have accumulated, although no one will admit that they are high. The aircraft manufacturers report a shortage of labor in the electronics field and among engineers. Wages are up, particularly in Southern California. Despite the automobile inventory situation, he knows of no automobile dealers who are losing money. The automobile inventories improved in January. There are some soft spots in housing, but these are causing no concern, as the population growth will more than absorb them. Housing starts are off but this has been caused by a shortage of mortgage money.

Fleming. The members of the Council are in agreement that business will continue at a high level, perhaps even higher than the level reached in the last quarter of 1955. However, it does not anticipate the same step-up, quarter by quarter, such as the economy experienced last year. Other than automobiles, the Council does not find an excessive accumulation of inventories, in view of sales demand. Agriculture is the one weak spot mentioned by the Council. Some relief in the steel and glass supply is resulting from the cutback in auto production. The new minimum wage of $1 will have the effect of increasing income, not only on those affected particularly, but in the tendency for much of the wage pattern to be scaled upward. This may result in some inflationary pressures. Indications are that union wage contracts are likely to be settled at a higher level. These factors will have an inflationary effect, unless accompanied by increases in production. Until the effect is clearly seen, however, no change in the present restraint policy is in order.

ITEM IV

(a) WHAT ARE THE PROBABLE CHANGES IN VOLUME OF COMMERICAL AND INDUSTRIAL BANK LOANS DURING THE FIRST HALF OF 1956? IN AGRICULTURAL CREDIT? (b) IS THERE EVIDENCE OF A LEVELING OFF IN DEMAND FOR CONSUMER LOANS? (c) WHAT IS THE SITUATION WITH RESPECT TO SUPPLIES OF MORTGAGE MONEY AND DEMAND FOR SUCH CREDIT?

Fleming reads item 4 and asks the members to comment.

King. Loans are up in his district and are likely to continue to increase. However, consumer credit loans may be down. This is partly the result of efforts of big lenders, such as GMAC and Bank of America, to keep terms to one-third down and thirty months maximum. Mortgage money is tight and has slowed down housing slightly. He believes a little more is available now, but it is still very tight.

Matkin. Except for agricultural loans, bank credit has increased in his district. Consumer credit, however, may be leveling off. Mortgage loans are at about the 1955 level.

Kemper. The demand for commercial and industrial loans has been maintained and will probably continue strong. The volume of agricultural credit depends somewhat on the crop, but continues to look good. The demand for stored wheat and C.C.C. loans continues strong. Consumer credit has tended to stabilize. Mortgage money is not plentiful, and FHA and GI mortgage loans are selling at a discount of $1\frac{1}{2}$ to 2 per cent. As banks in his area are about up to their mortgage loan quotas and insurance companies have alternative investments with more attractive rates, mortgage money is tight.

Ueland. There has been no seasonal decline in loans in his district so far this year. The demand should increase in the second quarter. The demand for agricultural credit is strong, while consumer credit has tended to be stable. Mortgage credit is tight, with an occasional loan rejected as lenders have become more selective.

Miller. Commercial and industrial loans have continued strong, with some slackening anticipated at the end of the second quarter. There is no reduction in agricultural credit, and the volume of consumer credit is tending to stabilize. The increases anticipated in spendable income may stimulate buying and again increase consumer credit loans. Mortgage loans are tight, although there is some slackening because of the reduction in housing starts.

Livingston. Like the ninth district, there has been no seasonal run-off in loans this year in the seventh district. Because of the high level of long-term interest rates, there has been a large corporate demand for temporary financing of investment expenditures in anticipation of a decline in long-term rates. This loan demand has been superimposed on the regular loan demand. Mortgage money is tight, but adequate.

Kimball. Commercial and industrial loans have tended to level off, while agricultural loans are stable and are not expected to increase very much. Consumer credit also is leveling off. The accumulation of inventories of appliances has tended to slow down consumer credit. Real estate mortgage lenders are exercising greater selectivity. There are adequate supplies of mortgage money for better type builders, while many speculators have been left without financing.

Fleming. Deposits are up slightly. Funds of the labor unions tend to collect here, which distort the figures somewhat. Loans are off a little from the December high, but are still ten to twelve per cent above a year ago and are expected to rise materially in the Spring. Consumer credit is leveling off and mortgage money is tight with some warehouse financing going on. Insurance companies, however, are taking up mortgages sooner. There is some shortage of conventional mortgage loans for trust investment.

Denton. Loans have increased in the six month period beginning last October. His bank expects a substantial increase (7 per cent) in the next ninety days. There has been some temporary financing of investments that eventually will be replaced by long-term obligations. Consumer credit has definitely leveled off, with no increase since last September. This, however, is not true of loans to finance companies, who, in fact, account for most of the increase in the loans. Mortgage credit may be easier, because of the decline in the demand. There seems to be a lessening in the demand for bank warehousing mortgage loans.

Mitchell. Commercial and industrial loans are up slightly. Consumer credit is leveling off, though the demand is active. Some up-grading in loans has resulted. Mortgage lenders are becoming increasingly selective. The mortgage money market is tight, though the demand has lessened slightly.

Massie. There was no proportionate run-off of commercial and industrial loans in January, though there was some repayment in loans from sales financing companies. The banks in his district believe it inevitable that commercial and industrial loans will increase as a result of Mills' plan financing and some deferred financing of utility construction in anticipation of declining bond interest rates. Agricultural loans are steady to higher. In view of Curtice's estimate on automobile production, and the fact that appliance sales are down, consumer credit is likely to decline. Because of the savings interest rate situation in his district, additional supplies of mortgage funds seem likely. As demand is likely to increase also, no change in the over-all picture is anticipated. Greater selectivity of borrowers is evident, and the mortgage money market is tight.

Ireland. Loans have increased in each of the last twelve months, including January. This increase is expected to continue, though not at as great a rate. Commercial, industrial and agricultural loans are up 25 per cent over last year, while total loans are up 20 per cent. Some leveling off in demand for consumer credit is anticipated. New England normally is an exporter of mortgage money. This volume, however, is expected to lessen somewhat. Mortgage money is not tight locally.

Fleming. The Council may say that all districts report loans at a higher level than a year ago. With respect to agricultural credit extended directly by banks, the Council believes that any change in volume is likely to be moderately upward, depending on the size of the crop. In the opinion of the Council, consumer credit seems to be leveling off. The supply of mortgage money remains tight, with lenders being more selective. The members of the

Council feel that it will remain tight under present conditions, even with lower housing starts.

ITEM V

WHAT ARE THE VIEWS OF THE MEMBERS OF THE COUNCIL WITH RESPECT TO THE SYSTEM'S CURRENT CREDIT POLICIES AND WHAT, IF ANY, CHANGES MIGHT BE CALLED FOR BY DEVELOPMENTS DURING THE SPRING AND EARLY SUMMER OF THIS YEAR?

Fleming reads Item 5 and also the Council's answers to a similar item that appeared on the November agenda. It was agreed that a similar, though briefer, answer be prepared for this item on the agenda.

ITEM VI

THE BOARD WOULD BE GLAD TO HAVE A DISCUSSION OF THE PROPOSAL IN THE MEMORANDUM DATED DECEMBER 2, 1955, DISTRIBUTED TO MEMBERS OF THE FEDERAL ADVISORY COUNCIL EARLY IN JANUARY 1956, WITH RESPECT TO A PROPOSED AMENDMENT TO SECTION 19 OF THE FEDERAL RESERVE ACT TO AUTHORIZE THE BOARD OF GOVERNORS TO PERMIT MEMBER BANKS TO COUNT VAULT CASH AS RESERVES.

Fleming reads Item 6 on the agenda and comments that on the mail vote, all the members answered affirmatively with the exception of Mr. Massie from the second district.

Massie suggests that to argue the adoption of the amendment as a defense measure was questionable. However, he objects to the proposal on two counts; (1) the entire reserve program needs to be overhauled, and he favors a comprehensive revision rather than doing it piecemeal, such as this amendment suggests; (2) adoption of the proposal would work to the disadvantage of the central reserve and reserve city banks, as the country banks would have their reserves increased, whereas the open market operations required to offset the increase in reserves would affect the central reserve and reserve city banks. Furthermore, he would favor making this change at a time when money is not tight.

Livingston asks if it is likely that the reserve authorities would offset the increase in reserves by changing reserve requirements.

Fleming believes the Fed would use open market operations.

Mitchell states that the real question is whether the open market operations can equitably offset the increase in reserves that would result if banks were permitted to count vault cash as part of their reserves.

Matkin says that the president of the Fed in Dallas is in favor of putting the emphasis on correcting inequities in reserve requirements and not on the matter of defense.

Denton suggests that the Council report that all but one of the members have voted in favor of the amendment, and that the Council mention that the matter be deferred temporarily. Massie should outline informally to the Board of Governors his objections to the proposal.

Ueland remarks that it is absurd not to count cash as a part of one's reserves.

Fleming says the Council may state that the Board has received a favorable response on the amendment from eleven members of the Council, and that one member has opposed it, and may suggest that the implementation of the proposal be deferred.

ITEM VII

WHAT ARE THE VIEWS OF THE COUNCIL ON THE PROPOSED AMENDMENT TO SECTION 25 OF THE FEDERAL RESERVE ACT? THE AMENDMENT WOULD PERMIT THE BOARD OF GOVERNORS TO ISSUE REGULATIONS WHICH WOULD AUTHORIZE FOREIGN BRANCHES OF AMERICAN BANKS TO EXERCISE SUCH FURTHER POWERS BEYOND THOSE PERMITTED BY THE PRESENT LAW AS MAY BE USUAL IN CONNECTION WITH THE TRANSACTION OF THE BUSINESS OF BANKING IN THE PLACES WHERE FOREIGN BRANCHES ARE LOCATED. A MEMORANDUM PREPARED BY THE BOARD STAFF DISCUSSING THE PROPOSAL, DATED JANUARY 18, 1956, TOGETHER WITH A DRAFT OF THE PROPOSED LEGISLATION IS ATTACHED.

Fleming reads item 7 on the agenda.

Livingston says that the general idea is a good one. However, foreign branches of American banks should not be permitted to engage in businesses not related to banking. Under the law, as it is drafted at the moment, they could engage in such activities assuming appropriate regulations were issued. While the present Board of Governors does not contemplate granting such powers there is nothing in the proposed amendment to prevent a future Board from issuing such regulations.

Ueland agrees.

Fleming. The objective of the amendment is desirable, namely to make the foreign branches of American banks more competitive.

Livingston asks who is backing the proposal.

Kimball remarks that certain banks in Colombia have been trying to get branches in Florida, but so far have been unsuccessful.

Livingston. The statute ought to specifically prohibit foreign branches of American banks from entering the business of investment banking, manufacturing and warehousing, for example. Admittedly, drafting a law containing all such prohibitions is difficult.

Fleming. The Council may suggest that while it favors the general objectives of the proposed amendment to Section 25, it believes the amendment should provide assurance that the foreign branches of American banks should not be permitted to engage in such activities as investment banking, warehousing and manufacturing.

* * * * * * *

At this point Mr. Massie presented a brief review of proposed changes in Internal Revenue regulations that might have an adverse effect on pension trusts as administered by banks. He suggested that the new regulation, if adopted, might give to the agencies of the federal government, such as the SEC, Commerce or Labor Departments, the right to examine and supervise the investments of such pension trusts as administered by banks. He would favor having such authority continue to be vested in the bank supervisory agencies.

The meeting adjourned at 6:20 P.M.

THE COUNCIL RECONVENED AT 10:08 A.M. ON FEBRUARY 20, 1956, IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D. C. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT EXCEPT MR. BAIRD. MR. ARNULF UELAND ATTENDED AS ALTERNATE FOR MR. BAIRD.

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 February 21, 1956. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors at 12:15 P.M. on February 20, 1956. It will be noted that each item of the agenda is listed together with the comments of the Council.

The meeting adjourned at 11:40 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 21, 1956

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

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

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

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

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

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

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

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

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

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

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

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

6. The Board would be glad to have a discussion of the proposal in the memorandum dated December 2, 1955, distributed to members of the Federal Advisory Council

early in January 1956, with respect to a proposed amendment to Section 19 of the Federal Reserve Act to authorize the Board of Governors to permit member banks to count vault cash as reserves.

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

7. What are the views of the Council on the proposed amendment to Section 25 of the Federal Reserve Act? The amendment would permit the Board of Governors to issue regulations which would authorize foreign branches of American banks to exercise such further powers beyond those permitted by the present law as may be usual in connection with the transaction of the business of banking in the places where foreign branches are located. A memorandum prepared by the Board Staff discussing the proposal, dated January 18, 1956, together with a draft of the proposed legislation is attached.

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

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:20 P.M. ON FEBRUARY 20, 1956. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. DENTON AND MR. BAIRD. MR. ARNULF UELAND ATTENDED AS ALTERNATE FOR MR. BAIRD.

Dr. Frank R. Garfield, Advisor on Economic Research, Division of Research and Statistics of the Board of Governors, and members of the Staff presented an audio-visual report on "Recent Production, Price and Credit Developments."

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors, participated in the question and answer session which followed the presentation.

A brief resume' of the conclusions of the presentation is outlined below.

In reviewing the current economic situation, it was pointed out that some observers suggest that the forces of recovery may be about spent and that concern for the future should relate to possible declines in activity and employment. To support this view, they cite, (1) The consumer credit field. The rapid rise in installment credit associated with easier terms and higher auto sales was moderating by the fourth quarter as extensions declined and repayments continued to rise. (2) Mortgage lending and housing starts are down somewhat from earlier very high levels. (3) Inventories of durable goods, especially automobiles, were higher at the year-end in relation to sales than they had been earlier, and the rate of inventory accumulation in the economy generally was larger than would be indefinitely sustainable. (4) Agricultural incomes were down further last year reflecting lower prices, especially for hogs.

Reviewing these facts alone, some people conclude that the existing restraints on credit might not permit the expansion needed for further growth in the economy.

Contrasted to this is the view that the threat of broad price increases is still real. Those who are of this opinion cite (1) the continuing operation of the steel mills at capacity despite reduced demands from the auto industry; (2) the expansion in capital equipment outlays which apparently is taking place during this period of little change in over-all activity; (3) additional outlays for consumer non-durables and services increased in the fourth quarter; (4) outlays by state and local governments have been continuing their upward trend.

These facts suggest that the forces of expansion may still be very strong.

The presentation concluded with the hopeful suggestion that the alternatives cited above, i.e., the slackening in some areas, will make possible further expansion of others without undue pressures on resources and prices. Such a happy course of events would permit continued growth and stability.

The meeting adjourned at 3:30 P.M.

ON FEBRUARY 21, 1956, 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. BAIRD. MR. ARNULF UELAND ATTENDED AS ALTERNATE FOR MR. BAIRD. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN AND VICE CHAIRMAN BALDERSTON: GOVERNORS SZYMCZAK, VARDAMAN, MILLS AND ROBERTSON. MR. CARPENTER, SECRETARY, AND MR. SHERMAN, ASSISTANT SECRETARY, OF THE BOARD OF GOVERNORS, WERE ALSO PRESENT.

Fleming congratulates Chairman Martin on his reappointment to the Federal Reserve Board. He then introduces the new members of the Council and presents the officers for the coming year.

Robert V. Fleming, President
Frank R. Denton, Vice President
William D. Ireland, Director
Adrian M. Massie, Director
Homer J. Livingston, Director
William J. Korsvik, Acting Secretary

He also reports that the Acting Secretary has been authorized to draw on each Federal Reserve Bank the sum of $450 for secretarial and incidental expenses of the Federal Advisory Council for the year 1956.

Martin congratulates the members of the Council and the new officers. He expresses his good wishes to President Fleming, adding that if anyone can fill Ned Brown's shoes, Bob Fleming can. Martin says that these meetings are among the most useful, if not the most useful meetings that the Board has. The Board looks upon the Council as an integral part of the Federal Reserve System and looks forward to working with the Council. Martin invites each member to contact the Board either through the President of the Council, or directly should any matter arise between meetings.

Fleming says that the cordiality and freedom of expression and opinion that prevails at the meetings of the Board and Council have been helpful to the Council. He adds that the Council has reendorsed the current efforts to compensate more adequately the members of the Board of Governors. The Council hopes that Congress will see fit to improve the salary scale of the members of the Board of Governors.

ITEM I

THE AUTHORITY OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM TO ESTABLISH MAXIMUM TERMS ON CONSUMER CREDIT CEASED IN 1952. IN VIEW OF THE STATEMENT OF PRESIDENT EISENHOWER ON PAGE 36 OF THE ECONOMIC REPORT, AND THE RECOMMENDATIONS ON PAGES 93 AND 94, THE MEMBERS OF THE COUNCIL SHOULD LIKE TO HAVE THE QUESTION OF THE POSSIBLE REENACTMENT OF REGULATION W INTO LAW DISCUSSED AT THE NEXT MEETING OF THE COUNCIL AND THE BOARD. THE COUNCIL SHOULD CONSIDER ITS OWN POSITION AS TO WHETHER OR NOT REGULATION W SHOULD BE REENACTED INTO LAW, AS WELL AS OBTAIN THE VIEWS OF THE BOARD OF GOVERNORS RESPECTING ITS ATTITUDE REGARDING THIS LEGISLATION.

Fleming reads Item I and the conclusions of the Council as expressed in the attached Confidential Memorandum to the Board. The Council would like to have the views of the Board on this matter.

Martin says that Arthur Burns had been directed by President Eisenhower to request the Board to undertake a study of consumer credit. Martin told the Council that he had written Burns and the Chairman of the Joint Committee on the Economic Report and the Senate and House Banking and Currency Committees. (Copies of this correspondence, as well as a press release dated February 20, were handed to the members of the Council by Chairman Martin.) Martin states that this correspondence requesting the study is in line with the Council's recommendation. The Board has taken no position on the matter, but in testimony has urged the study.

Fleming. Secretary Humphrey expressed himself as being against consumer credit controls, but then said he favored the study.

Martin. The Secretary expressed his position freely and he now regrets doing so as he appears to have prejudged the study.

ITEM II

THE PRESIDENT'S ECONOMIC REPORT ON PAGE 79 CALLS FOR FEDERAL REGULATION TO BE EXTENDED OVER ALL MERGERS OF BANKING INSTITUTIONS. WHAT ARE THE VIEWS OF THE BOARD OF GOVERNORS ON THIS PROPOSAL AND ON LEGISLATION HERETOFORE INTRODUCED AND PENDING ON THIS SAME QUESTION?

Fleming reads Item II and comments that the portion of the Agenda dealing with holding company legislation has been deleted. He said that since the Anti-Trust Division of the Department of Justice has no historical knowledge involving bank mergers, some of the members of the Council did not like the veto powers granted the Department of Justice which are now in the Celler Bill.

Martin. The Board is happy to have the views of the Council on this matter. When the Board testified, they carefully considered the experience of the Anti-Trust Division of the Department of Justice that President Fleming has mentioned. However, the Board is delighted to have this opportunity to discuss the matter further. Some feel that adjudication by the Board is impossible. One of the most difficult assignments the Board has had has been the consideration of the question "What is the diminution of competition?" Chairman Martin suggests that Governor Robertson comment on the Celler Bill.

Fleming. During the credit restraint program which was followed under the Defense Production Act, a merry time was had with the Department of Justice. When a ruling was finally given, the last paragraph included the caution that whatever was done, "you do at your peril."

Robertson. The Celler Bill as it stands, is contrary to everything the Board has recommended. The Bill would alter the Clayton Act to include mergers of any kind and give enforcement powers to the Board of Governors. This would tend to make the position of the Board unbearable. Under it, the Board would be obliged to pass upon every merger even if it had already been approved by one of the other supervisory agencies. As a consequence, it would tend to increase friction between the supervisory agencies. Furthermore, there are many points to be considered in the merger of two banks and in 99 per cent of the cases, considerations other than competition are more important. The other supervisory agencies, such as the Comptroller of the Currency in the case of a national bank, are in a better position to judge as they have access to more information. The Board, and other agencies as well, consider competition as one of the factors in approving the mergers. As for the Clayton Act, the Board feels that banks should be put in the same position as other corporations, and that a merger which is accomplished through asset acquisition should be made subject to the Clayton Act. The Board, however, does not feel that the enforcement of the Clayton Act is a function of the Board of Governors. The Board feels that the Department of Justice should have the power of enforcement of the Clayton Act. In 99 per cent of the cases, the aspect of competition is irrelevant. If the Clayton Act is amended, the Board would prefer that they be eliminated from the enforcement of Section 7. Robertson adds that he will be glad to answer questions.

Livingston. Would the Celler Bill require prior approval of the Department of Justice?

Robertson. No.

Szymczak. All that the Celler Bill does is add to the Act mergers that are accomplished by means of asset acquisition.

King. Would more time be required to effect mergers?

Robertson. No, or only in perhaps one per cent of the cases.

Livingston. Governor Szymczak and I remember the case of the Foreman Bank in Chicago when it was necessary to effect a merger over a week end. Although this had the effect of lessening competition, it was necessary to save the banking situation in Chicago and involved merger by acquisition of assets and was accomplished on a Sunday. Livingston asks if this would change.

Robertson. Yes.

Denton asks if the Comptroller of the Currency could cause a similar delay.

Robertson. If the Comptroller of the Currency is not strong and hesistates giving his approval, a merger could be delayed.

Miller believe the A.B.A. has taken a position against the Bill inasmuch as a ninety day notice must be given, and second, that the Department of Justice would have to approve the action.

Robertson. These provisions are not in the current Bill. The Bill merely adds to the law mergers which are accomplished by acquisition of assets. A merger can be prevented only if the Department of Justice requests the Attorney General to ask a court to issue an injunction.

Fleming. Governor Robertson's explanation has cleared the air greatly.

Mitchell asks if the Department of Justice can request information, and if so, will this delay the merger?

Robertson. The Department of Justice may request information, but if those involved have nothing to fear about the competition aspect, they will furnish the information and proceed with the merger which could be effected without delay.

Ueland asks if the supervisory authorities consider the competition aspect.

Robertson says that it is part of the duty of the supervisory authorities to consider the competitive aspect in approving mergers.

Miller asks what changes would be necessary to get the Board of Governors to approve the Bill.

Robertson. The Board would want the following changes made in the Bill: (1) free the Board from enforcement of Section 7 of the Clayton Act; (2) make it mandatory, by writing into the statute, the requirement that the competitive consequences of mergers be considered; (3) give the individual bank supervisory agencies authority to approve mergers involving banks under their jurisdiction.

Martin. The Board should not be loaded with the entire burden of approving all mergers.

Miller prefers that the Board have this power.

Denton. It is apparent that the Council has great confidence in the Board of Governors.

Balderston. As the Celler Bill stands, the cordial relationships existing between the various bank supervisory agencies might be upset.

ITEM III

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROSPECTIVE BUSINESS SITUATION DURING THE PERIOD FROM NOW UNTIL MID-1956? IS THERE ANY INDICATION OF UNHEALTHY INVENTORY ACCUMULATIONS? DOES IT SEEM LIKELY THAT WAGE AND PRICE ADJUSTMENTS WILL REFLECT OR CAUSE INFLATIONARY PRESSURES THAT WOULD CALL FOR FURTHER CREDIT RESTRAINTS? ARE THERE ANY INDICATIONS OF SLACKENING IN DEMAND PRESSURES THAT WOULD PERMIT RELAXATION OF RESTRAINTS?

Fleming reads Item III and the conclusions of the Council as expressed in the attached Confidential Memorandum. He invites the members of the Council to recite individually.

Ireland says he has no objection to the general statement except that business in his district is somewhat better than suggested in the memo. Public works are at a high level and there is a strong demand for money.

Massie. Business in the second district has moved less rapidly than the rest of the country and there are some soft spots. The Westinghouse strike and the cut in the output of auto assemblies has caused some unemployment. The demand for labor by the non-manufacturing segments have tended to offset this somewhat. Department store sales are very good. Residential building is off slightly but more than made up by commercial and industrial building. Farmers in the district are not suffering as much as in other parts of the country. Business is good, and expected to continue for the first six months. Wage rates are up. Deposits are under pressure as a result of strong loan demand. Mortgage money is adequate but tight with lenders exercising greater selectivity.

Mitchell. Business in the third district is excellent with upturns in all lines. Automobile inventories reached a high in December but are declining now. Anthracite coal is the one exception to good business in the district. The unemployment situation has improved. Personal income is up. Retail sales are good. Housing starts are off. Good, active business is anticipated in the next six months leveling off at a high point. Loans are up and deposits are down. Banks have been borrowing from the Federal Reserve despite some liquidation of bonds.

Denton. Business in his district is booming with steel leading the way. Basic steel is scheduled at capacity. Aluminum and glass are in great demand. The cut-back in automobile production has been beneficial to manufacturers as they have been able to divert output to other users and to supply replacement demand. Denton sees no problem in inventory accumulations except perhaps automobiles. He cautions, however, that we may be approaching a point when the rate of accumulation may have an effect.

Martin asks about prices, particularly steel and glass.

Denton feels that prices will rise. The wage demands facing the steel industry have prompted the industry to consider price advances in anticipation of higher wage costs.

Vardaman. Have these anticipated increases in price been expressed as a percentage?

Denton. No.

Fleming reports business in his district is good with retail merchants doing well.

Kimball reports that his district made substantial strides last year. The shift from an agricultural economy to an industrial one was accentuated last year and raised the per capita income. The rate of change or shift slowed down somewhat after August of last year. Income is expected to continue to rise in the first six months but at a somewhat reduced rate. The agricultural situation has improved mainly as a result of better crops. Construction is proceeding, principally as a result of increases in population.

Vardaman asks if the decline in cattle prices has affected the plans for expansion of the livestock industry in the district.

Kimball says that the decline in prices forced the smaller, inefficient operators to sell out and as a result the cattle situation is in a stronger position than it was before the price declines. The area is producing prime cattle now and further increases in quality production are expected.

Vardaman. What about meat packing?

Kimball. There is very little in the district.

Livingston. Notwithstanding the unemployment in the Detroit area, business prospects are excellent in the district. There is no unemployment in Chicago. Steel is operating at capacity plus. Construction is at a high level with shortages of cement, glass and sheet steel reported. Retail sales are at a high level with a two per cent increase projected. Money is very tight with banks borrowing at the Federal Reserve as a strong demand for credit continues.

Vardaman. Is the volume of installment credit increasing?

Livingston. No, as repayments are exceeding new extensions of credit.

Miller anticipates a continuance of good business, with perhaps a five per cent increase in the first quarter and a two per cent increase in the second quarter. Industrial expansion in the Kentucky area continues resulting in higher incomes. There has been no seasonal liquidation of loans which are at a high, but satisfactory level. Consumer credit tends to be leveling off. Mortgage money is tight. In summary, he feels confident that a high level of business will be maintained.

Ueland. Business in the ninth district has tended to be stable as they have experienced no increase in population and little income growth. Earnings, however, are the best in history. Business in the district has been affected somewhat by agricultural surpluses. The situation, however, is not as bad as the politicians suggest. Good crops are anticipated as moisture conditions have been favorable. The banks have experienced no seasonal runoff in loans so far this year. As loans are up and deposits are down there is some concern that an acute tightness may develop in the money market.

Kemper. Although business is good the district has two problems: (1) drought conditions, although these have been alleviated some by recent moisture, and (2) the agricultural surplus situation. Some losses have been experienced because of the inadequate and non-satisfactory storage conditions on some farms. Wheat plantings are up 2-1/2 per cent. Cattle and hog price declines have had an adverse effect in the district. Despite this, however, retail business is good. Bank deposits are off and a demand for credit is strong. Consequently, money is tight. The outlook is good.

Matkin. Business was good in 1955 although cattle and farming did not share in the prosperity. Cattle prices were disappointing. Better moisture has been offset by poor prices. A good winter wheat crop is anticipated because of recent moisture. The new minimum wage may result in price adjustments that will be inflationary. Money in the district is tight. Employment is high. Construction is expected to hold up notwithstanding declines in residential housing. Despite the veto of the Oil Bill, business is expected to be good.

King. Business in the twelfth district is good with some labor shortages, especially in electronics and for engineers. The auto inventory situation improved in January. Consumer credit is leveling off primarily as a result of the more restricted terms required by GMAC and the larger banks. Business continues good and a higher loan demand is anticipated.

ITEM IV

(a) WHAT ARE THE PROBABLE CHANGES IN VOLUME OF COMMERCIAL AND INDUSTRIAL BANK LOANS DURING THE FIRST HALF OF 1956? IN AGRICULTURAL CREDIT?
(b) IS THERE EVIDENCE OF A LEVELING OFF IN DEMAND FOR CONSUMER LOANS?
(c) WHAT IS THE SITUATION WITH RESPECT TO SUPPLIES OF MORTGAGE MONEY AND DEMAND FOR SUCH CREDIT?

Fleming reads Item IV and the conclusions of the Council as expressed in the attached Confidential Memorandum. He adds that the speculative builder is having difficulty getting money. He reports no change in the warehousing of mortgages by banks.

Denton. In his district warehousing mortgages is the tightest aspect of the mortgage money market. He adds that for twenty months in a row, total loans in the district have increased. Consumer credit loans, however, have not changed in the last six months. A rise of seven per cent in commercial and industrial loans is anticipated by Denton's bank in the period ahead.

ITEM V

WHAT ARE THE VIEWS OF THE MEMBERS OF THE COUNCIL WITH RESPECT TO THE SYSTEM'S CURRENT CREDIT POLICIES AND WHAT, IF ANY, CHANGES MIGHT BE CALLED FOR BY DEVELOPMENTS DURING THE SPRING AND EARLY SUMMER OF THIS YEAR?

Fleming reads Item V and the conclusions of the Council as expressed in the attached Confidential Memorandum.

Martin asks what effect the President's decision will have on the economy. In the past few weeks the Board has been attempting to ride with the adjustments.

Fleming does not know if the President will run. If he does, there may be some speculative surge in the stock market. If he does not run, business probably will be good, but he does not anticipate the same step-up quarter by quarter.

Livingston believes business is convinced that the President will run. If a formal announcement is made, there may be some upward movement in stock prices. Business plans for capital expansion may be stepped up and accelerated if the President runs. If he decides not to run, there may be some cutback or deferment of capital expenditures.

Ireland suggests that the effect of the wage demands of labor may be important economically.

Massie. With incomes rising, production high, loan demands strong, an announcement from the President that he would run would add a further element of confidence which might result in a difficult banking situation inasmuch as the liquidity of banks is rather low today.

Martin. The Board doesn't know what the future holds. He notes that the Council suggests prompt and appropriate action. He asks what the effect of an increase in margin requirements would have on the stock market. Is a change in the discount rate a warning flag? Any thoughts the Council has on these matters would be helpful. The President's decision is going to have an effect on the economy.

Massie. If we add more confidence to an already tight situation, the bank credit situation could become acute.

Fleming. The increase in the minimum wage may have an effect on the whole wage scale.

Denton agrees with Livingston's analysis and believes that Ike will run which will have a temporary effect on the stock market. He would minimize the danger on the upside. The increase in wages may be a problem.

Martin. Will the President's decision have an effect on speculative real estate?

King. This is not likely as speculative real estate tends to be limited by the supply of mortgage funds.

Livingston. If I were sitting on the other side of the table, I would think that the next move would be in the direction of the diminution in credit restraint policies.

Ueland agrees. The Board actually has 14,000 credit restraint flags out, one in each of the nation's banks.

Mitchell wonders if a little consolidation would not be desirable. He suggests that prompter action be taken to arrest a boom rather than if some slide-off is in the offing.

Martin. These suggestions have been very helpful. The Board tends to play these things by ear. Martin asks if the administration of the discount window at each of the twelve district banks has been satisfactory. All members of the Council report that it has been fine.

Balderston asks if the members of the Council considered the matter of bank liquidity in their discussions.

Fleming replies that as deposits have declined and loans have increased, banks have been obliged to sell government bonds.

Balderston asks if the banks expect credit to increase.

Fleming. Yes.

ITEM VI

THE BOARD WOULD BE GLAD TO HAVE A DISCUSSION OF THE PROPOSAL IN THE MEMORANDUM DATED DECEMBER 2, 1955, DISTRIBUTED TO MEMBERS OF THE FEDERAL ADVISORY COUNCIL EARLY IN JANUARY 1956, WITH RESPECT TO A PROPOSED AMENDMENT TO SECTION 19 OF THE FEDERAL RESERVE ACT TO AUTHORIZE THE BOARD OF GOVERNORS TO PERMIT MEMBER BANKS TO COUNT VAULT CASH AS RESERVES.

Fleming reads Item 6 and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached.

Massie. It is difficult to see the relationship of the proposal to defense. The second district has long advocated a study and complete revision of reserve requirements. He feels that the vault cash question should be included as part of an over-all change in reserves. Furthermore, he questions whether the reserves which would be released as a result of counting vault cash as part of reserves can be equitably offset by Open Market operations.

Martin agrees that the over-all matter of reserves could be improved. However, the Board feels that it is impossible to get such a comprehensive measure through the Congress, and consequently has decided upon this piecemeal approach.

Fleming outlines the previous experience of the Council in considering the matter of reserves, and mentions that the stockyards banks were a special problem. The outbreak of the Korean war delayed the study. Fleming, however, has confidence in the ability of the Board and the Open Market Committee to appropriately adjust the reserves.

Robertson. All but one or two of the Federal Reserve banks are in target cities. Consequently, in the event a massive attack occurred, a great portion of our currency would be destroyed. It was the hope of the Board that this amendment would result in the wide distribution of about $1 billion in currency.

ITEM VII

WHAT ARE THE VIEWS OF THE COUNCIL ON THE PROPOSED AMENDMENT TO SECTION 25 OF THE FEDERAL RESERVE ACT? THE AMENDMENT WOULD PERMIT THE BOARD OF GOVERNORS TO ISSUE REGULATIONS WHICH WOULD AUTHORIZE FOREIGN BRANCHES OF AMERICAN BANKS TO EXERCISE SUCH FURTHER POWERS BEYOND THOSE PERMITTED BY THE PRESENT LAW AS MAY BE USUAL IN CONNECTION WITH THE TRANSACTION OF THE BUSINESS OF BANKING IN THE PLACES WHERE FOREIGN BRANCHES ARE LOCATED. A MEMORANDUM PREPARED BY THE BOARD STAFF DISCUSSING THE PROPOSAL, DATED JANUARY 18, 1956, TOGETHER WITH A DRAFT OF THE PROPOSED LEGISLATION IS ATTACHED.

Fleming reads Item 7 and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached.

Ireland subscribes to the answer in the memorandum and mentions a telephone conversation he had with the First of Boston. In Cuba their branch needs power to give guaranties involving certain import shipments. It will be necessary to amend the Act if they are to receive such powers, so that they can effectively compete with other banks in Cuba. Consequently, they subscribe to the proposed amendment. Ireland, however, feels that certain limitations or prohibitions should be included in the statute.

Massie. First National City and Chase Manhattan (until it became a state bank) are in favor of this amendment, because of their widespread operations. Business methods and operating procedures existing in one country may differ from those prevailing in another country. Consequently, they feel the statute must be written in broad, general terms, with the Federal Reserve Board issuing regulations appropriate to each situation. The New York banks questions whether the type of limitation suggested in the Council's reply can be put into the Act.

Martin. It is very difficult to do so, and this is precisely the reason that the amendment has been drafted in general terms.

Szymczak. The System has been studying this matter for some time. Most of the banks having foreign branches have pointed out that they have had difficulty competing abroad with other banks in the area. It is difficult to include all the needed powers in the statute. To make it effective, you have to leave it to the judgment of the Board. This, of course, will raise a number of questions and considerable discussion on "The Hill."

Kimball. Colombia recently tried to establish a branch in Miami, and when they were refused permission, they tried to buy a bank.

Szymczak. The matter also has been discussed with the State Department.

Livingston feels that the foreign branches of American banks should be permitted to effectively compete with other banks in the area. However, he does not feel that the Board should have this power without limitation. It is one thing to have an Edge Act Corporation with only a small portion of the bank's capital being risked abroad, and quite another thing to have all the assets of the parent bank subject to such a risk. If it is possible, the Act should be written with the limitations suggested by the Council. If it is not possible to draft such an amendment, it should not be enacted into law.

Denton hopes such an amendment can be drafted, as it is needed.

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Fleming asks Massie to comment on the pension and profit-sharing plans.

Massie briefly outlines a proposed regulation of the Internal Revenue Department which might have an effect on employee profit-sharing and pension trusts as operated by banks. He is concerned that this legislation might require departments of the government other than the bank supervisory agencies to review the administration and investment of bank operated pensions and profit-sharing trusts.

Martin thanks Massie for calling this matter to the Board's attention and agrees to have the Board Staff look into the matter. Martin states that this has been another profitable meeting, and again invites the members of the Council to feel free to correspond with the Board of Governors on any matters.

The meeting adjourned at 12:50 P.M.

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The next meeting of the Council will be held May 20, 21 and 22, 1956.