

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
1958

Chairman, David W. Easton
Vice Chairman, Herbert A. Morrison
Members, Lloyd D. Block
 Milton M. Meade
 Frank W. Campbell, A. Sanderson
 Bernard H. Harbo, K. Friedman
 Special Assistant, William J. Ryan, Jr.

Executive Director
 Frank W. Easton
 James J. Callahan
 Lloyd D. Block
 Milton M. Meade
 Frank W. Campbell

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MEETING
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Milton M. Meade
Frank W. Campbell
James J. Callahan
Bernard H. Harbo
William J. Ryan, Jr.
Frank W. Easton
David W. Easton
Herbert A. Morrison

MEETING
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Milton M. Meade
Frank W. Campbell
James J. Callahan
Bernard H. Harbo
William J. Ryan, Jr.
Frank W. Easton
David W. Easton
Herbert A. Morrison

February 16-18, 1958

May 19-20, 1958

September 15-16, 1958

November 17-18, 1958

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1958

OFFICERS:

President, Frank R. Denton
Vice President, Homer J. Livingston
Director, Lloyd D. Brace
Director, Adrian M. Massie
Director, Casimir A. Sienkiewicz
Secretary, Herbert V. Prochnow
Assistant Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

Frank R. Denton
Homer J. Livingston
Lloyd D. Brace
Adrian M. Massie
Casimir A. Sienkiewicz

MEMBERS:

Lloyd D. Brace	District No. 1
Adrian M. Massie	District No. 2
Casimir A. Sienkiewicz	District No. 3
Frank R. Denton	District No. 4
John S. Alfriend	District No. 5
John A. Sibley	District No. 6
Homer J. Livingston	District No. 7
William A. McDonnell	District No. 8
Gordon Murray	District No. 9
R. Crosby Kemper	District No. 10
Walter B. Jacobs	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 16, 1958

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 16, 1958

The first and organizational meeting of the Federal Advisory Council for the year 1958 was convened in Room 1032 of the Mayflower Hotel, Washington, D.C., on February 16, 1958, at 2:00 P.M.

Present:

Adrian M. Massie	District No. 2
Casimir A. Sienkiewicz	District No. 3
Frank R. Denton	District No. 4
John S. Alfriend	District No. 5
John A. Sibley	District No. 6
Homer J. Livingston	District No. 7
William A. McDonnell	District No. 8
Gordon Murray	District No. 9
R. Crosby Kemper	District No. 10
Walter B. Jacobs	District No. 11
Frank L. King	District No. 12
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary
Absent: Lloyd D. Brace	District No. 1

Mr. Adrian M. Massie was elected Chairman *pro tem* and Mr. Herbert V. Prochnow, Secretary *pro tem*.

The 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 1958.

The following officers were nominated and unanimously elected:

Frank R. Denton, President
Homer J. Livingston, Vice President
Lloyd D. Brace, Director
Adrian M. Massie, Director
Casimir A. Sienkiewicz, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at \$3,000 annually, and that of the Assistant Secretary at \$2,000 annually.

The Secretary presented his financial report for the year 1957, which had been audited by Mr. J. Carl Sommer, 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 17, 18, 19, 1957; May 12, 13, 14, 1957; September 15, 16, 17, 1957; November 17, 18, 19, 1957; and the mimeographed notes of the meeting held November 17, 18, 19, 1957, 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 1958 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 5:45 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

REPORT OF THE SECRETARY
OF THE
FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1957

Balance on hand, December 31, 1956.....\$ 9,404.23	Salaries.....\$ 5,000.00
Assessments— 12 Federal Reserve Banks.. 5,400.00	Printing and Stationery..... 488.50
_____ <u>\$14,804.23</u>	Postage, Telegrams and Telephone..... 24.83
	Balance on hand, December 31, 1957..... 9,290.90
	_____ <u>\$14,804.23</u>

Chicago, Illinois
February 1, 1958

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ended December 31, 1957, and certify that the above statement agrees therewith.

Respectfully,

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

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 17, 1958

At 10:00 A.M., the Federal Advisory Council reconvened in Room 1032 of the Mayflower Hotel, Washington, D.C., the President, Mr. Denton, in the Chair.

Present: Mr. Frank R. Denton, President; Messrs. Adrian M. Massie, Casimir A. Sienkiewicz, John S. Alfriend, John A. Sibley, Homer J. Livingston, William A. McDonnell, Gordon Murray, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. Lloyd D. Brace.

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 12.30 P.M. on February 17, 1958.

The meeting adjourned at 11:45 A.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 18, 1958

1. What are the views of the Council regarding the current business situation and the prospects for business activity during the next six months?

The members of the Council believe that the current downward trend of business is likely to continue for the next six months. Construction activity, Federal, State and local spending and the present relatively high level of consumer expenditures are sustaining factors tending to moderate the decline. The eventual reversal of present inventory liquidation policies and increased Federal expenditures may provide the basis for an improvement in business activity later this year. There are at present no significant factors which indicate a probable quick reversal of the business decline.

A substantial reduction in taxes and a sharp acceleration in the rate and magnitude of government expenditures might curtail and soon reverse the continued downtrend in business which the Council anticipates. However, the ultimate cost to the economy of such extreme measures might be significantly greater than the short-run advantages.

2. How does the demand for credit at the present time compare with demands at this season a year ago? If an increase in demand is anticipated during the next three months, in what fields of activity is this most likely to arise? What is the credit demand outlook for the last half of the year?

All members of the Council report that the present demand for credit is considerably less than the demand at this season a year ago.

Although there may be some borrowing for tax purposes, there appears to be little likelihood of any important increase in the demand for bank loans in the next three months.

The credit demand for the last half of the year is likely to show some increase, reflecting the usual fall borrowing, inventory restocking following the present liquidation, and greater business activity resulting from larger Federal expenditures.

3. The Board would appreciate the views of the Council as to what would be an appropriate credit policy over the next three months.

The Council believes that appropriate credit policy over the next three months would provide for moderately easier credit. The implementation of this policy should include some reduction now in required reserves.

4. How should monetary policy be adapted to make its maximum contribution to the solution of the longer-range problems of the foreseeable future?

Maintaining the value of the currency and providing an expansion of credit required for the continued and orderly growth of the economy are two longer-range problems of

the foreseeable future. Monetary policy can make its maximum contribution by a continuous re-appraisal of the credit required for the long-run growth of the economy and by the necessary flexibility in policy to meet recurring short-run fluctuations of the economy. An adequate supply of credit over the long-run can be best assured by a gradual reduction of the required reserves of the banking system. The Council believes that the present time is especially opportune for the introduction of legislation designed to overhaul and modernize the present system of reserve requirements. As the Council has heretofore stated, the recent A.B.A. study provides a comprehensive basis for this reform.

5. Does the Council have any comments on the Bill, H.R. 10345, introduced by Congressman Patman on January 29, and the companion bill by Senator Johnson, S. 3191, to create a Small Business Capital Banking System?

The members of the Council believe that the creation of a Small Business Capital Banking System as proposed in H.R. 10345 and S. 3191 would be contrary to the public interest. The Council understands that the Federal Reserve System is making a study to determine whether there is a need for small business capital. If the study indicates that the need exists, consideration should be given to measures which would enable the present banking system to satisfy the need.

In a private enterprise economy, capital flows to enterprises in which the return is commensurate with the risk. If capital fails to flow to certain enterprises, it indicates that the return is inadequate in relation to the risk. It is a serious question whether uneconomic enterprises, which do not attract capital, should be encouraged by public funds, with the risks assumed by the community, and the losses borne by the public generally.

6. The report required by section 5(b) of the Bank Holding Company Act to be made by the Board will have to be submitted before May 9, 1958, which will be prior to the May meeting of the Council. Accordingly, if the Council has further comments with respect to the Act which it wishes to discuss with the Board prior to the submission of this report, they should be presented at the February meeting.

The Council has no comments, other than those previously submitted, on the Bank Holding Company Act.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 17, 1958

At 2:15 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C., the President, Mr. Denton, in the Chair.

Present: Mr. Frank R. Denton, President; Messrs. Adrian M. Massie, Casimir A. Sienkiewicz, John S. Alfriend, John A. Sibley, Homer J. Livingston, William A. McDonnell, Gordon Murray, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. Lloyd D. Brace.

Dr. Ralph A. Young, Director, Division of Research and Statistics, assisted by members of the Staff, and Dr. Arthur W. Marget, Director, Division of International Finance, participated in an audio-visual presentation on the "Current Economic Situation."

The meeting adjourned at 3:30 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

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

February 18, 1958

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 Chas. N. Shepardson; also Mr. S. R. Carpenter, Secretary, and Mr. Kenneth A. Kenyon, Assistant Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Frank R. Denton, President; Messrs. Lloyd D. Brace, Adrian M. Massie, Casimir A. Sienkiewicz, John S. Alfriend, John A. Sibley, Homer J. Livingston, William A. McDonnell, Gordon Murray, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

President Denton 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. In an extended discussion which followed, the members of the Council outlined the current business situation in their respective districts and the prospects for business during the next six months.

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

President Denton read the third item, and the conclusions of the Council. In response to questioning from certain members of the Board of Governors, the Council indicated that a reduction in reserve requirements would enable the banks to rebuild their liquidity and to make more loans.

The fourth item on the agenda and the conclusions of the Council as expressed in the attached *Confidential Memorandum* to the Board were then read by President Denton. Chairman Martin reported that the Board had given a great deal of thought to the long range problem of lowering reserve requirements. He then briefly outlined the legislation which the Board of Governors proposed to have introduced into the present session of Congress.

An extended discussion followed in which members of the Council and the Board participated. Martin added that the Board would welcome the Council's reaction and comment.

The President of the Council then read the fifth and sixth items, and the conclusions as outlined in the Confidential Memorandum mentioned earlier.

The meeting adjourned at 1:00 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant 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.
W. J. K.

The Secretary's notes of the meeting of the Federal Advisory Council on February 16-18, 1958, at 2:00 P. M. in Room 1032 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present, except Mr. Brace, who was delayed because of a severe snow storm in the northeastern part of the country.

Mr. Adrian M. Massie was elected Chairman pro tem and Mr. Herbert V. Prochnow was elected Secretary pro tem.

The following officers were nominated and unanimously elected:

Frank R. Denton, President
Homer J. Livingston, Vice President
Lloyd D. Brace, Director
Adrian M. Massie, Director
Casimir A. Sienkiewicz, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at \$3,000 annually, and that of the Assistant Secretary at \$2,000 annually.

The Secretary presented the financial report for the year 1957, which had been audited by Mr. J. Carl Sommer, Auditor of The First National Bank of Chicago. The report was approved and 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 incidental expenses of the Federal Advisory Council for the year 1958.

The Council approved the Secretary's notes for the meeting of November 17-19, 1957. The printed minutes for all the 1957 meetings of the Council, copies of which had been sent previously to members of the Council, also were approved.

ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL REGARDING THE CURRENT BUSINESS SITUATION AND THE PROSPECTS FOR BUSINESS ACTIVITY DURING THE NEXT SIX MONTHS?

Denton read Item I and asked the individual members of the Council to comment on business conditions in their respective districts.

An extended discussion followed during which members of the Council indicated that they believed the current downtrend of business was likely to continue for the next six months. Several members suggested that construction

activity, Federal, state and local spending and the present relatively high level of consumer expenditures were sustaining factors in the present adjustment period. The consensus seemed to be that an improvement in business activity was possible later this year but that no significant factors were evident, indicating a quick reversal of the present decline. However, tax cuts and a substantial increase in government expenditures might quickly reverse the downward trend in business. On the other hand, such action would be inflationary.

ITEM II

HOW DOES THE DEMAND FOR CREDIT AT THE PRESENT TIME COMPARE WITH DEMANDS AT THIS SEASON A YEAR AGO? IF AN INCREASE IN DEMAND IS ANTICIPATED DURING THE NEXT THREE MONTHS, IN WHAT FIELDS OF ACTIVITY IS THIS MOST LIKELY TO ARISE? WHAT IS THE CREDIT DEMAND OUTLOOK FOR THE LAST HALF OF THE YEAR?

Denton read Item II and polled the members of the Council. There was general agreement that the present demand for credit is considerably less than the demand at this season a year ago.

Most members felt there was little likelihood of any important increase in the demand for bank loans in the months ahead, although several anticipate some borrowing for tax purposes. The usual fall borrowing, inventory restocking, and larger Federal expenditures probably will increase the demand for bank credit in the last half of the year.

ITEM III

THE BOARD WOULD APPRECIATE THE VIEWS OF THE COUNCIL AS TO WHAT WOULD BE AN APPROPRIATE CREDIT POLICY OVER THE NEXT THREE MONTHS.

Denton read Item III and invited members of the Council to comment. A brief discussion followed, in which the Council concluded that moderately easier credit and a reduction in reserves would be appropriate.

ITEM IV

HOW SHOULD MONETARY POLICY BE ADAPTED TO MAKE ITS MAXIMUM CONTRIBUTION TO THE SOLUTION OF THE LONGER-RANGE PROBLEMS OF THE FORESEEABLE FUTURE?

Denton read Item IV. It was decided that the Council's reply should include the suggestion that legislation now be introduced designed to overhaul and modernize the present reserve system requirements.

The Council concluded that it also would be desirable to state that the ABA's study on reserve requirements provides a comprehensive basis for this reform.

ITEM V

DOES THE COUNCIL HAVE ANY COMMENTS ON THE BILL, H. R. 10345, INTRODUCED BY CONGRESSMAN PATMAN ON JANUARY 29, AND THE COMPANION BILL BY SENATOR JOHNSON, S. 3191, TO CREATE A SMALL BUSINESS CAPITAL BANKING SYSTEM?

Denton read Item V and invited the members to comment. There was unanimous agreement among the members of the Council that creation of a new banking system would be undesirable. If the Federal Reserve survey now being made indicates that the capital requirements of small business are not being satisfied, the Council would favor measures that would permit the existing banking structure to accommodate these demands.

The members of the Council expressed their disapproval of a plan that would tend to promote uneconomic enterprises with public funds with the socialization of subsequent losses.

ITEM VI

THE REPORT REQUIRED BY SECTION 5(b) OF THE BANK HOLDING COMPANY ACT TO BE MADE BY THE BOARD WILL HAVE TO BE SUBMITTED BEFORE MAY 9, 1958, WHICH WILL BE PRIOR TO THE MAY MEETING OF THE COUNCIL. ACCORDINGLY, IF THE COUNCIL HAS FURTHER COMMENTS WITH RESPECT TO THE ACT WHICH IT WISHES TO DISCUSS WITH THE BOARD PRIOR TO THE SUBMISSION OF THIS REPORT, THEY SHOULD BE PRESENTED AT THE FEBRUARY MEETING.

Denton read Item VI and recounted the Council's previous action on this item. It was concluded that the Council had no additional comments other than those previously submitted..

The meeting adjourned at 5:45 P.M.

THE COUNCIL RECONVENED AT 10:00 A.M. ON FEBRUARY 17, 1958, IN ROOM 1032, MAYFLOWER HOTEL. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT EXCEPT MR. BRACE.

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 18, 1958. The memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors, at 12:30 P. M. on February 17, 1958. It will be noted that each item of the Agenda is listed together with the comments of the Council.

Denton reported for a committee of the Council consisting of Messrs. Denton, Livingston and Prochnow, appointed at the November 1957 meeting, formed to prepare an appropriate certificate to be presented to members of the Council upon completion of their terms of service. The Council subsequently approved a form and instructed the Secretary to have blanks appropriately engraved. It was agreed that the cost would be borne by the individual members of the Council.

The Council also considered its schedule of meetings and decided to confine its sessions to Monday and Tuesday, eliminating the Sunday meeting. A detailed schedule will be furnished to the members of the Council prior to the May meeting.

The meeting adjourned at 11:45 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 18, 1958

1. What are the views of the Council regarding the current business situation and the prospects for business activity during the next six months?

The members of the Council believe that the current downward trend of business is likely to continue for the next six months. Construction activity, Federal, State and local spending and the present relatively high level of consumer expenditures are sustaining factors tending to moderate the decline. The eventual reversal of present inventory liquidation policies and increased Federal expenditures may provide the basis for an improvement in business activity later this year. There are at present no significant factors which indicate a probable quick reversal of the business decline.

A substantial reduction in taxes and a sharp acceleration in the rate and magnitude of government expenditures might curtail and soon reverse the continued downtrend in business which the Council anticipates. However, the ultimate cost to the economy of such extreme measures might be significantly greater than the short-run advantages.

2. How does the demand for credit at the present time compare with demands at this season a year ago? If an increase in demand is anticipated during the next three months, in what fields of activity is this most likely to arise? What is the credit demand outlook for the last half of the year?

All members of the Council report that the present demand for credit is considerably less than the demand at this season a year ago.

Although there may be some borrowing for tax purposes, there appears to be little likelihood of any important increase in the demand for bank loans in the next three months.

The credit demand for the last half of the year is likely to show some increase, reflecting the usual fall borrowing, inventory restocking following the present liquidation, and greater business activity resulting from larger Federal expenditures.

3. The Board would appreciate the views of the Council as to what would be an appropriate credit policy over the next three months.

The Council believes that appropriate credit policy over the next three months would provide for moderately easier credit. The

implementation of this policy should include some reduction now in required reserves.

4. How should monetary policy be adapted to make its maximum contribution to the solution of the longer-range problems of the foreseeable future?

Maintaining the value of the currency and providing an expansion of credit required for the continued and orderly growth of the economy are two longer-range problems of the foreseeable future. Monetary policy can make its maximum contribution by a continuous re-appraisal of the credit required for the long-run growth of the economy and by the necessary flexibility in policy to meet recurring short-run fluctuations of the economy. An adequate supply of credit over the long-run can be best assured by a gradual reduction of the required reserves of the banking system. The Council believes that the present time is especially opportune for the introduction of legislation designed to overhaul and modernize the present system of reserve requirements. As the Council has heretofore stated, the recent A.B.A. study provides a comprehensive basis for this reform.

5. Does the Council have any comments on the Bill, H.R. 10345, introduced by Congressman Patman on January 29, and the companion bill by Senator Johnson, S. 3191, to create a Small Business Capital Banking System?

The members of the Council believe that the creation of a Small Business Capital Banking System as proposed in H.R. 10345 and S. 3191 would be contrary to the public interest. The Council understands that the Federal Reserve System is making a study to determine whether there is a need for small business capital. If the study indicates that the need exists, consideration should be given to measures which would enable the present banking system to satisfy the need.

In a private enterprise economy, capital flows to enterprises in which the return is commensurate with the risk. If capital fails to flow to certain enterprises, it indicates that the return is inadequate in relation to the risk. It is a serious question whether uneconomic enterprises, which do not attract capital, should be encouraged by public funds, with the risks assumed by the community, and the losses borne by the public generally.

6. The report required by section 5(b) of the Bank Holding Company Act to be made by the Board will have to be submitted before May 9, 1958, which will be prior to the May meeting of the Council. Accordingly, if the Council has further comments with respect to the Act which it wishes to discuss with the Board prior to the submission of this report, they should be presented at the February meeting.

The Council has no comments, other than those previously submitted, on the Bank Holding Company Act.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. AT 2:15 P. M. ON FEBRUARY 17, 1958. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. BRACE.

Dr. Ralph A. Young, Director, Division of Research and Statistics, assisted by members of the Staff, and Dr. Arthur W. Marget, Director, Division of International Finance, participated in an audio-visual presentation on the "Current Economic Situation". A summary of their remarks will be forwarded to members of the Council.

The meeting adjourned at 3:30 P. M.

ON FEBRUARY 18, 1958, 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.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS SZYMCAK, MILLS, VARDAMAN AND SHEPARDSON. MR. CARPENTER, SECRETARY, AND MR. KENYON, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS ALSO WERE PRESENT.

The minutes of the joint meeting are being prepared in the office of the Secretary of the Board of Governors of the Federal Reserve System. Their content will be compared with the notes of the Secretary of the Council. Assuming they are in substantial agreement, they will be reproduced and distributed to members of the Council.

* * * * *

ITEM I

It was agreed that the next meeting of the Council will be held May 19, and 20, 1958.