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

H. V. P.

The Secretary's notes on the meeting of the Executive Committee of the Federal Advisory Council on May 10, 1949 at 8:00 P.M. in Room 653 of the Mayflower Hotel, Washington D. C. All members of the Executive Committee were present. In addition, there were present, Mr. Harold V. Amberg, Chairman of the Committee on Federal Relationships of the Association of Reserve City Bankers and Vice President and General Counsel of The First National Bank of Chicago, Dr. Harold Stonier, Executive Manager, American Bankers Association. Mr. Taylor and Mr. Zorn of the office of the American Bankers Association accompanied Dr. Stonier. Mr. Hemingway arrived on May 11 and met with the Executive Committee.

E. E. Brown explains that the Senate Committee on Banking and Currency will hold hearings on Senate Bill 1775 and Senate Joint Resolution 87 on May 11, 12 and 13 and the Executive Committee is called to consider the preparation of a statement and the testimony to be given by representatives of the Council at the hearings of the Senate Committee.

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This meeting adjourned at 9:50 P.M. following a discussion of the position the Council is to take on Senate Bill 1775 and Senate Joint Resolution 87.

Meetings were also held by the Executive Committee during the course of the following day, May 11, 1949, and that evening at 8:00 P.M., the Executive Committee unanimously approved the statement attached. This statement will be presented by President Brown during his testimony before the Senate Committee. The Executive Committee adjourned at 9:00 P.M., May 11, 1949.

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Mr. Brown and Mr. Burgess testified on behalf of the Federal Advisory Council before the Senate Committee on May 12, 1949. Mr. Fleming testified on behalf of the American Bankers Association on May 11, 1949. When printed copies of the hearings are available, a copy will be sent to each member of the Council.

Statement on Behalf of the Federal Advisory Council of the Federal Reserve System Presented by Edward E. Brown, President of the Federal Advisory Council, to the United States Senate Committee on Banking and Currency, May 12, 1949. Mr. Brown is Chairman of the Board of the First National Bank, Chicago, Illinois.

Senate Bill 1775 has two purposes. The first is making permanent the temporary power given the Reserve Board last summer to raise reserve requirements of member banks by 4 percentage points on demand deposits and 1 1/2 percentage points on time deposits. This temporary power, as Chairman McCabe then indicated, was an anti-inflation measure. It gave the Board power to require member banks to immobilize some 4 billion dollars of their funds and made this money unavailable to lend or invest.

This is exactly the opposite of what the present situation requires. For some months business has been declining. The critical question is how far the recession will go.

This proposal to restrict the lending power of banks at a time when deflationary forces are under way is untimely.

The Board says it may not use the power granted and as evidence points out it has recently reduced reserve requirments. But the very possession of these powers by the Board is deflationary. Every prudent banker will feel he must keep enough extra money in short-term government securities to meet the reserves which the Board may call for in its discretion at any time. The sword of Damocles may not fall but nobody who lives under it can ignore its presence.

The proposed legislation is not only untimely; it is wholly unnecessary. No damage will be done by the lapse of these powers on June 30. The effects were demonstrated last week when the Board released about 1 1/4 billion of reserves. There was no disturbance to the money market or the government security market. The Reserve Banks sold to the member banks enough government securities to employ all the cash released. There was simply a transfer of these securities from the

Reserve Banks to the member banks. The same thing will happen on June 30 if some 800 million of reserves are released by the lapse of the present temporary authority. The Reserve Banks and the Treasury have the powers to provide the securities to employ these funds pending demands from business borrowers.

The Board says it wants some more power for future emergencies. It already has powers with the discount rate and control of open market operations. If it wants still more power the Board can get it by reducing reserve requirements well below the legal maximum of 26, 20 and 14 per cent, so that they will have leeway to raise them later.

Reducing reserve requirements substantially would do no harm just as it did no harm last week. It would do good because it would tend to make the banks more aggressive in their loan policies with the larger lending power they would have. It would relieve the Reserve Banks of some of their overload of 20 billions of government securities.

On the second point, this bill goes far beyond the bill of last summer in its request for new and enlarged powers for the Board of Governors of the Federal Reserve System. They now ask the Congress for the first time for powers to require certain reserves from 6,500 non-member insured banks which are chartered by and are supervised by state banking authorities, and whose reserve requirements are now set solely by state laws.

If such a fundamental change should be contemplated in the American traditional dual system of banking, it ought to be the subject of separate and extended consideration and not hung on another bill. This proposal changes the status of 6,500 non-member banks, most of them country banks in all parts of the United States. There is no emergency to justify rushing through this basic change.

The Federal Advisory Council is opposed to any further extension of the powers of the Federal Reserve Board over consumer credit.

These powers were granted as a war measure for three purposes. The first was to channel the maximum amount of the savings of individuals into government bonds, so as to enable the government to finance the war. The second purpose was to reduce the demand for scarce commodities and lessen the upward pressure on their prices. The third was to lessen possible credit expansion. As a war measure the powers were desirable and served their purpose.

Today the government has no difficulty in getting all the money it needs and none of the consumer durable goods are in short supply, with the exception of certain makes of lower-priced cars. Within a few months even these cars promise to be in ample supply. Credit today is declining and not expanding.

The emergency for which the powers were granted to the Federal Reserve Board is past, and the powers so granted should pass with the emergency.

The Council is unanimous in believing that control over instalment credit has no permanent place in the American peacetime economy. To give any group of men, such as the Federal Reserve Board, power to regulate the terms and conditions of instalment credit in peacetime can only injure the economy. The maximum terms of credit prescribed tend inevitably to become the minimum terms for the great majority. It is our belief that down payments, on the average, would probably be larger and terms of payment shorter if no Regulation W were now in effect. Governmental changes in terms and conditions from time to time on which instalment credit can be extended cause confusion among merchants and manufacturers who have adopted and advertised given terms of payment.

The seller of goods and the grantor of credit are in a better position than any Board can be to judge what terms of credit should be extended to individuals and to vary such terms as among individuals, and in accordance with changing conditions.

The Federal Advisory Council, therefore, is opposed to the passage of Senate Bill 1775 and Senate Joint Resolution 87.