

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 16, 1952

The fourth statutory meeting of the Federal Advisory Council for 1952 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on November 16, 1952, at 2:19 P.M., the President, Mr. Brown, in the Chair.

Present:

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

Absent:

N. Baxter Jackson	District No. 2
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On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on October 5, 6, and 7, 1952, copies of which had been sent previously to the members of the Council, were approved.

A complete list of the items on the agenda 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 28 and 29.

The meeting adjourned at 5:20 P.M.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 17, 1952

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

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

Absent: Mr. N. Baxter Jackson.

The Council reviewed its conclusions of the previous day regarding the items on the agenda and sent to the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 28 and 29, listing the agenda with conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 11:35 A.M., on November 17, 1952.

The meeting adjourned at 11:10 A.M.

HERBERT V. PROCHNOW
Secretary.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL
ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE
JOINT MEETING ON NOVEMBER 18, 1952

1. The Board would appreciate the views of the Council on the prospective business and economic situation during the next three to six months as well as any comments that the members of the Council might wish to make as to the principal purposes for which loans from commercial banks have been made during the Fall period. The Board would also like to have the Council's suggestions with respect to System credit policies in the months immediately ahead.

The Council believes the business and economic situation for the next three to six months will continue to be substantially the same as the Council reported at its meeting with the Board in October. Unemployment is at a postwar low. Wages are at peak levels. Disposable personal income is at an all-time high, and retail sales continue to be generally good. Industrial production is up. Private capital expenditures and outlays for defense are large. However, wholesale and commodity prices, including prices of base metals, corn, cotton and meats, have shown some decline. The decline in basic commodity prices may be important because of its possible world-wide effect. Profits from many businesses may be lower, but the general business outlook for the next three to six months is good.

While the Council has not been asked to express its opinion for a period beyond six months, members of the Council find some apprehension in their districts concerning the economic outlook for the last half of 1953. If the drought conditions which now prevail over relatively wide and important farm areas are not relieved, or if the apprehension regarding the outlook for the last six months of next year should materially increase, the result might be some decline in the economy before the end of the first half of 1953.

Without presenting statistical information which the Board currently receives, the Council believes that loans this Fall have been used largely for food processing and carrying agricultural products, for holiday trade, for the purchase of durable goods by consumers, and for expansion by public utilities. The over-all loan pattern this Fall has been seasonal, except for a bulge in consumer loans which partly reflect increased sales of television sets in areas where new stations are operating, and a large output of automobiles following the steel strike.

Unless and until the business and economic outlook changes materially, the Council suggests, as stated in its *Memorandum to the Board* on October 7, 1952, that the present rediscount rate and reserve requirements be continued. The Council also believes that the policies followed by the Open Market Committee in recent months have operated satisfactorily, and it recommends a continuance of these policies which have maintained a reasonably firm money market and an orderly market for Government securities.

2. At the meeting of the Council on October 7 the Board gave the Council a letter requesting its views on what should be the objectives of the System's program of bank and public relations. At that time President Brown stated that the members of the Council would do their best to have some suggestions formulated for the consideration at the November meeting of the Council with the Board.

The Council has met for only a few hours since its last meeting with the Board in October. The short time available to the Council for discussion of this subject has necessarily precluded full consideration of the various phases of a bank and public relations program for the Federal Reserve System. However, the Secretary of the Council, who

has had considerable experience in the educational field on the subjects of banking and finance, has prepared a memorandum with a number of suggestions for a program. The Council has seen the memorandum and believes the Board might find in it suggestions of interest and value. Copies of the Secretary's memorandum will be given to the Board. (The Memorandum appears on pages 30, 31, 32 and 33, of these minutes.)

The Council believes there is a lack of fundamental understanding by bankers, businessmen, government officials, and the public generally, of the functions and operations of the Federal Reserve System. To be effective in correcting this lack of understanding, any program of bank and public relations must be organized solely for information and education and not for propaganda or for high-pressure "selling" of the System. To pursue any other objective would have unfortunate repercussions on the System and would defeat the program. The program should be organized on a district level through the twelve Federal Reserve Banks and with the cooperation of the commercial banks in the respective districts.

3. Survey on the impact of the Excess Profits Tax on commercial banks.

Although this item was not placed on the agenda for discussion at this meeting, the Council would like to suggest that a study be made at the end of 1952, continuing the informative study made on this subject covering the year 1951, so as to bring it up-to-date by showing the impact of the Excess Profits Tax on banks in 1952. The inclusion of 1952 in the study may reveal a significant change in the impact of the tax in that year as compared with 1951.

MEMORANDUM OF
AN EDUCATIONAL PROGRAM FOR THE FEDERAL RESERVE SYSTEM

Sound monetary and banking policies are essential for a sound national economy. The assurance that we shall have such policies depends in a large measure upon whether bankers, businessmen, government officials, and the public generally, have a thorough understanding of the operations and functions of the Federal Reserve System. A carefully planned educational program can be greatly helpful in providing a far better understanding of the System than now exists.

TO WHICH GROUPS SHOULD EDUCATIONAL EFFORTS BE DIRECTED?

There are substantially different groups in the economy to whom any educational efforts must be directed. A workable educational program would recognize these different groups, and its activities would be organized accordingly.

Decades would be required to educate all persons so they would have a reasonably good understanding of the complex operations of a central banking system. The logical procedure therefore would be to concentrate at the outset on those groups which have such important responsibilities in our economy that their failure to understand the operations of the central banking system might result in actions which would seriously impair the efficient and proper functioning of the system and of the whole economy. In this general group we would have (a) bankers and businessmen; (b) teachers in colleges and universities, and even in secondary schools, whose long-run influence, especially, is very great; and (c) officials in the various branches of the government, particularly the Congress. The program suggested below is directed to these three groups.

A PROGRAM FOR BANKERS AND BUSINESSMEN

No educational program can make any worthwhile contribution which does not make certain, first, that those who administer the private commercial banking system of the country have a fundamental understanding of the operations and functions of the Federal Reserve System and of monetary problems. The activities of both member and non-member banks are so closely related to the operation of the Federal Reserve System that it is imperative that they understand the System thoroughly if they are to be able bankers. To provide this basic knowledge the following specific activities are suggested.

1. Officials of the twelve Federal Reserve Banks and their branches can discuss with the officials of state and county bankers associations the need for this educational program and can offer to provide persons who will appear at state and county group meetings to explain such subjects as the following:

- A. What are the functions of the Federal Reserve System, and how does the System operate to discharge these functions?
- B. What is the significance of each of the items in the table in the *Federal Reserve Bulletin* entitled, "Consolidated Condition Statement for Banks and the Monetary System"?
- C. Exactly how (explain the processes *fully*) is the money supply increased and decreased?

- D. In relation to the money supply, what is the significance of:
- a. United States Treasury purchases of gold and silver?
 - b. An increase in commercial bank holdings of U. S. Government securities and other securities?
 - c. An increase in commercial bank loans?
 - d. Purchase of securities from non-bank investors by the Federal Reserve Banks?
 - e. Direct purchases by the commercial banks of U. S. Government obligations issued to finance a deficit of the Treasury?
- E. What are the various factors which affect reserve balances? How do they operate? (Explain *fully*).
- F. What are the instruments of control the Federal Reserve System may use to tighten and to ease money rates? Trace their historical development, their present significance, and how they operate.
- G. What are the advantages and disadvantages of the instruments of general control? Of selective controls such as Regulation W?

At least some general outline of the material to be presented at bankers' meetings should be carefully prepared so the program would be on a uniformly high standard over the country. Under no conditions should any effort be made to use these educational meetings to "sell" bankers in attendance the advantages of System membership. The bankers in attendance will come away better informed to the extent that able persons competently discuss some of the important topics mentioned above and other closely related subjects. These should be educational sessions on a high level. It would be greatly to the benefit of the Federal Reserve System if not only able persons from the System but also well-informed commercial bankers were encouraged to take a leading part in this program.

Contacts can likewise be made with Chambers of Commerce, state and local business associations, service clubs and other business and professional groups to offer them interesting and educational discussions on the System similar to those outlined above under Point One.

2. The staff of the Board of Governors might analyze the catalogs containing the curriculums and the schedules of classes of the four principal summer schools of banking—at Rutgers, Wisconsin, Washington and Louisiana State Universities—to determine whether suggestions could be made to these schools about lectures on the Federal Reserve System. Materials might also be provided for these schools which have many hundreds of bank officers in attendance.

3. The Federal Reserve Banks might consider annual meetings of the stockholders of these banks at which the Chairman and members of the Board of Governors and the Staff might present graphically the operations and functions of the System, as well as discuss current monetary and banking problems and policies.

4. Some of the larger commercial banks might be induced to offer a one hour "course" late one afternoon each week for six consecutive weeks to their correspondents in their immediate areas. Some of the points outlined under Point One above might thus be discussed in groups of thirty, forty, fifty or seventy-five bankers. Local Federal Reserve Banks might help with material and the instructional staff. This suggestion may meet with some opposition by some large banks, especially in districts where the large banks feel the

System has too actively competed with the private banks. However, it can undoubtedly be worked out with mutual advantages to large commercial banks and the Federal Reserve Banks in many communities if the sessions are strictly educational and not promotional.

A PROGRAM FOR UNIVERSITY AND HIGH SCHOOL TEACHERS AND THEIR CLASSES

There is little question but that a great many university and high school teachers of economics, money and banking, and the social sciences would welcome an opportunity to become better acquainted with the operations and functions of the Federal Reserve System. The following educational activities are therefore suggested:

1. Invite college and university teachers of economics and money and banking from each Federal Reserve district to attend a one or two day session at the local Federal Reserve Bank where an intensive program could be given covering the most important operations and functions of the Federal Reserve System. Some of the questions outlined for bankers and businessmen, under Point One above, could be discussed. The program could be organized for the district by the economist of each Federal Reserve Bank. Officials of the bank should participate and should be present if a luncheon is given. Local commercial bankers might at the same time also arrange educational tours through commercial banks and be invited to a luncheon with the teachers.

In some districts a trip might even be organized to visit the Board of Governors in Washington. A carefully prepared program should result in much better informed college teachers.

Teachers in large high schools with social science courses might also be sufficiently interested to participate in the program.

2. Letters can be written by officials of the Federal Reserve Banks to university and high school teachers of economics, money and banking and social sciences offering to provide lecturers who would address classes and answer questions of students whenever they were studying the Federal Reserve System. It would be highly advisable for the local Federal Reserve Bank to encourage competent local commercial bankers to participate in this program, perhaps even to fill most or all of the engagements. The twelve regional banks might prepare some suitable literature for distribution.

3. Although there are many pamphlets and books on the Federal Reserve System, it is believed there is a place for a new book on the System for use in banks, business libraries, public libraries, and university libraries and classes. A comprehensive book of perhaps twenty-four to thirty chapters could be prepared covering the background, history, operations and functions of the Federal Reserve System. The economists of the twelve Federal Reserve Banks and of the staff of the Board of Governors could be assigned perhaps half of the book, each person writing a chapter. Economists from ten or twelve universities and commercial banks also could each be invited to write a chapter. The book should have as editor an official of a commercial bank so it would not be a "Federal Reserve publication." The book would thus represent the views of the Federal Reserve, commercial bank, and university monetary economists and could be the most comprehensive and best book ever published in the field. Although a book in itself does not provide a complete educational program covering the Federal Reserve System, a book with this breadth of approach (24 competent persons discussing the System) might be widely accepted and used in all kinds of libraries, in banks, and in universities.

A PROGRAM FOR PUBLIC OFFICIALS

There is no more difficult aspect of this problem than the one of organizing an educational program for the Federal Reserve System which is suitable for public officials. However, the following suggestion is submitted:

1. In connection with the Banking and Currency Committees of the Senate and of the House, probably the most effective method of handling this phase of the educational program is one of persistently cultivating the friendship of these officials by personal contacts, including luncheons at the Federal Reserve building. An occasional luncheon may be given by the Chairman of the Board to discuss with these officials problems of the System without trying to "sell" them particular views. When the Board Staff has some special study, for example, on business conditions, prepared for the Conference of the Presidents of the Federal Reserve Banks, or for other occasions, a similar presentation might be given to these members of Congress for a half hour before a luncheon with the Board Chairman. Opportunities are certain to occur at these events for the discussion of System problems. It is not only a reasonable assumption but also highly probable that at least some of the members of these committees would welcome occasional luncheons to be kept informed of current System activities and problems which would make these persons better informed on their own work.

* * * *

The foregoing program is by no means exhaustive, but it reveals some of the avenues along which the Federal Reserve System might develop a more comprehensive educational program. Although the Board of Governors might be helpful in providing leadership for the program, the execution of the program should be in the twelve Federal Reserve Banks. Commercial banks and universities might also be encouraged to furnish leadership for various aspects of the program. A committee of eight, of which two could be from the Board or its Staff, two from the Federal Reserve Banks, two from the commercial banks, and two from the universities, might be asked to prepare a complete program. After approval of the committee's program by the Board, this committee, with the support of the Board and the twelve regional banks, might be authorized to place the program in operation over the country.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 17, 1952

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. Brown, in the Chair.

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

Absent: Messrs N. Baxter Jackson, Robert V. Fleming and James K. Lohead.

Mr. Arthur W. Marget, Director of the Division of International Finance of the Board of Governors, spoke on the subject, "International Financial Developments."

The meeting adjourned at 4:00 P.M.

HERBERT V. PROCHNOW
Secretary.

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

November 18, 1952

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

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

Chairman William McC. Martin, Jr.; Governors M. S. Szymczak, R. M. Evans, A. L. Mills, Jr. and J. L. Robertson; also S. R. Carpenter, Secretary, and Merritt Sherman, Assistant Secretary, Board of Governors.

Present: Members of the Federal Advisory Council:

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

Absent: Mr. N. Baxter Jackson.

President Brown read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, as printed on pages 28 and 29 of these minutes. A discussion of this item followed, in which members of the Council and the Board participated.

At Mr. Fleming's suggestion, President Brown read the third agenda item as given in the *Memorandum to the Board of Governors*.

President Brown then read the second agenda item and stated that the Council believed that the Board would find the Secretary's Memorandum of interest and value. A copy is included in these minutes on pages 30, 31, 32 and 33. An extended discussion followed.

Governor Robertson described the new school which has been organized for bank examiners.

The meeting adjourned at 12:25 P.M.

HERBERT V. PROCHNOW
Secretary.

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

H. V. P.

The Secretary's notes on the meeting of the Federal Advisory Council on November 16, 1952, at 2:19 P.M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present, except Mr. Jackson. Mr. Henry C. Alexander, President, J. P. Morgan & Co., Inc., New York, served as alternate for Mr. Jackson.

The Council approved the Secretary's notes for the meeting on October 5, 6, 7, 1952.

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THE BOARD WOULD APPRECIATE THE VIEWS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT THREE TO SIX MONTHS AS WELL AS ANY COMMENTS THAT THE MEMBERS OF THE COUNCIL MIGHT WISH TO MAKE AS TO THE PRINCIPAL PURPOSES FOR WHICH LOANS FROM COMMERCIAL BANKS HAVE BEEN MADE DURING THE FALL PERIOD. THE BOARD WOULD ALSO LIKE TO HAVE THE COUNCIL'S SUGGESTIONS WITH RESPECT TO SYSTEM CREDIT POLICIES IN THE MONTHS IMMEDIATELY AHEAD.

Brown states that the agenda is the shortest it has been in many years and that this is natural because items for the agenda depend, in part, upon the Administration's program, which is yet to be announced. Moreover, there will also be changes in the Senate and House Banking and Currency Committees which are still to be announced. (At this point there was a long off-the-record discussion). Brown then reads Item I, and asks the members of the Council to express their opinions.

Bucklin reports that the situation in his district is about the same as it was at the time of the October meeting of the Council. Retail sales have shown little change. The increase in loans which took place was largely the result of seasonal demands.

H. Alexander. The situation in his district has changed little from conditions prevailing at the time of the Council's last meeting. There has been some decline in commodity prices which bears watching in view of the possible world-wide effect. The textile industry is in better condition than it was a short time ago. However, Alexander believes that in three to six months there may be surpluses which will slow up some industries.

Brown also believes there may be surpluses and that this is an important point.

Smith states that conditions in his district are essentially the same as those reported by Bucklin and Alexander for their districts. He believes business will continue at a high level for the next three to six months.

H. Alexander adds that the report he received from the Federal Reserve Bank of New York shows capital expenditures off only a little from last year.

Gund. Industrial production in his district is high and may even be a little higher in the first quarter of 1953. Public construction should be large, at least during the early months of 1953. Retail sales have improved. The principal purposes for which new loans have been granted are the following: 38 per cent to manufacturing companies; 21 per cent to sales finance companies; 12 per cent to retail and wholesale concerns; 8 per cent to public utilities; and the remaining 21 per cent to various lines, including commodity dealers and construction firms.

Fleming. There is little change in the business situation since October. Business continues to be good. Public utility expansion will probably more than offset any decline in home construction. Food prices are lower.

Davis. Business is good and should remain good for the next three to six months. The loan totals in his district are not quite as high as they were a few months ago. Employment is at peak levels. Retail sales are above last year.

V. Alexander. Conditions in his district are similar to those in the district Davis represents. The cotton crop is now estimated at one million bales above what had been anticipated. Cotton prices have fallen off a little. General business conditions are good.

Ringland. There are more loans to grain milling companies than were made a year ago. General business is good. The drought situation is somewhat alarming.

Beals. Conditions in his district are substantially the same as those reported in other districts, except that agricultural prospects for next year are somewhat depressing because of the drought. Winter wheat has not been put in or has been put in dry soil. Supplies of water are deficient. Current drought conditions are serious. Business in general is currently good, but the outlook depends, in large part, on relief from the drought conditions.

Ray. There is little change in the business situation since a month ago. Drought conditions extend through a considerable part of the district. Residential construction is 36 per cent ahead of last year. Oil production is large. Department store sales are above a year ago. The volume of bank loans is high and interest rates are good. Business is very active.

Lothead. General conditions in the district are essentially the same as those reported in the other districts. Most bankers expect good business for the next three to six months. However, Lothead believes that although business may be good for the next six months, we are headed for a serious recession - perhaps in the next year or two. Within the next year or so, supplies will probably be large for many types of goods.

Brown. The situation in the Seventh District is almost the same as it was six weeks ago. Business activity in the next three to six months should be high. The drought may cause some serious problems in the agricultural machinery industry. Steel producers expect that steel may be in ample supply by the middle of 1953. Some business men are pessimistic about the latter half of 1953. The Council may report to the Board that business in the next three to six months should be good, but that there is some concern regarding the latter half of 1953. If this apprehension regarding the last six months of next year should increase, it may affect various lines of business before the end of the first half of 1953. There is also concern regarding the effect of the drought, if drought conditions are not soon relieved. There has been a large expansion in the public utilities.

Fleming. For the next three to six months, business looks good.

Bucklin reports that the problem which bothers him is the matter of prices. He discussed the matter with Dr. Sprague some time ago and Dr. Sprague then thought prices might go up, but later decline. Now Dr. Sprague is inclined to believe that prices may be stabilized not much below the present level.

Brown states that he would use essentially the same language the Council used in its October 7, 1952, memorandum to the Board regarding business conditions. The drought and some apprehension regarding the latter half of 1953 are adverse factors.

Ringland believes the seriousness of the drought should be emphasized.

Fleming says that the Council may state in its memorandum that while it has not been asked to comment regarding conditions beyond a period of six months, there is some apprehension about the latter half of the year.

Brown. In connection with the purpose for which loans have been granted, the Council may state, without going into the statistical information which the Board currently receives, that it is the belief of members of the Council that loans this fall were made largely to carry agricultural products, for holiday trade, for consumer credit, and for the expansion of public utilities. The over-all loan pattern has been seasonal, except for a bulge in consumer loans. There has been a great increase in television sales in areas where new stations are operating. The large output of cars after the steel strike also resulted in higher consumer loans. The Council may then add the same conclusions regarding the rediscount rate, reserve requirements, and open market operations which it gave in its October 7, 1952 memorandum to the Board.

AT THE MEETING OF THE COUNCIL ON OCTOBER 7 THE BOARD GAVE THE COUNCIL A LETTER REQUESTING ITS VIEWS ON WHAT SHOULD BE THE OBJECTIVES OF THE SYSTEM'S PROGRAM OF BANK AND PUBLIC RELATIONS. AT THAT TIME PRESIDENT BROWN STATED THAT THE MEMBERS OF THE COUNCIL WOULD DO THEIR BEST TO HAVE SOME SUGGESTIONS FORMULATED FOR CONSIDERATION AT THE NOVEMBER MEETING OF THE COUNCIL WITH THE BOARD.

Brown reads Item II. (There are some off-the-record comments) Brown reports that the Secretary of the Council has prepared an outline of a possible educational program for the Federal Reserve System. Brown then asks the Secretary to read the outline, which follows:

AN EDUCATIONAL PROGRAM FOR THE FEDERAL RESERVE SYSTEM

Sound monetary and banking policies are essential for a sound national economy. The assurance that we shall have such policies depends in a large measure upon whether bankers, businessmen, government officials, and the public generally, have a thorough understanding of the operations and functions of the Federal Reserve System. A carefully planned educational program can be greatly helpful in providing a far better understanding of the System than now exists.

TO WHICH GROUPS SHOULD EDUCATIONAL EFFORTS BE DIRECTED?

There are substantially different groups in the economy to whom any educational efforts must be directed. A workable educational program would recognize these different groups, and its activities would be organized accordingly.

Decades would be required to educate all persons so they would have a reasonably good understanding of the complex operations of a central banking system. The logical procedure therefore would be to concentrate at the outset on those groups which have such important responsibilities in our economy that their failure to understand the operations of the central banking system might result in actions which would seriously impair the efficient and proper functioning of the system and of the whole economy. In this general group we would have (a) bankers and businessmen; (b) teachers in colleges and universities, and even in secondary schools, whose long-run influence, especially, is very great; and (c) officials in the various branches of the government, particularly the Congress. The program suggested below is directed to these three groups.

A PROGRAM FOR BANKERS AND BUSINESSMEN

No educational program can make any worthwhile contribution which does not make certain, first, that those who administer the private commercial banking system of the country have a fundamental understanding of the operations and functions of the Federal Reserve System and of monetary problems. The activities of both member and non-member banks are so closely related to the operation of the Federal Reserve System that it is imperative that they understand the System thoroughly if they are to be able bankers. To provide this basic knowledge the following specific activities are suggested.

1. Officials of the twelve Federal Reserve Banks and their branches can discuss with the officials of state and county bankers associations the need for this educational program and can offer to provide persons who will appear at state and county group meetings to explain such subjects as the following:

- A. What are the functions of the Federal Reserve System, and how does the System operate to discharge these functions?
- B. What is the significance of each of the items in the table in the Federal Reserve Bulletin entitled, "Consolidated Condition Statement for Banks and the Monetary System"?
- C. Exactly how (explain the processes fully) is the money supply increased and decreased?
- D. In relation to the money supply, what is the significance of:
 - a. United States Treasury purchases of gold and silver?
 - b. An increase in commercial bank holdings of U. S. Government securities and other securities?

- c. An increase in commercial bank loans?
- d. Purchases of securities from non-bank investors by the Federal Reserve Banks?
- e. Direct purchases by the commercial banks of U. S. Government obligations issued to finance a deficit of the Treasury?

E. What are the various factors which affect reserve balances? How do they operate? (Explain fully)

F. What are the instruments of control the Federal Reserve System may use to tighten and to ease money rates? Trace their historical development, their present significance, and how they operate.

G. What are the advantages and disadvantages of the instruments of general control? Of selective controls such as Regulation W?

At least some general outline of the material to be presented at bankers' meetings should be carefully prepared so the program would be on a uniformly high standard over the country. Under no conditions should any effort be made to use these educational meetings to "sell" bankers in attendance the advantages of System membership. The bankers in attendance will come away better informed to the extent that able persons competently discuss some of the important topics mentioned above and other closely related subjects. These should be educational sessions on a high level. It would be greatly to the benefit of the Federal Reserve System if not only able persons from the System but also well-informed commercial bankers were encouraged to take a leading part in this program.

Contacts can likewise be made with Chambers of Commerce, state

and local business associations, service clubs and other business and professional groups to offer them interesting and educational discussions on the System similar to those outlined above under Point One.

2. The staff of the Board of Governors might analyze the catalogs containing the curriculums and the schedules of classes of the four principal summer schools of banking--at Rutgers, Wisconsin, Washington and Louisiana State Universities--to determine whether suggestions could be made to these schools about lectures on the Federal Reserve System. Materials might also be provided for these schools which have many hundreds of bank officers in attendance.

3. The Federal Reserve Banks might consider annual meetings of the stockholders of these banks at which the Chairman and members of the Board of Governors and the Staff might present graphically the operations and functions of the System, as well as discuss current monetary and banking problems and policies.

4. Some of the larger commercial banks might be induced to offer a one hour "course" late one afternoon each week for six consecutive weeks to their correspondents in their immediate areas. Some of the points outlined under Point One above might thus be discussed in groups of thirty, forty, fifty or seventy-five bankers. Local Federal Reserve Banks might help with material and the instructional staff. This suggestion may meet with some opposition by some large banks, especially in districts where the large banks feel the System has too actively competed with the private banks. However, it can undoubtedly be worked out with mutual advantages to large commercial banks and the Federal Reserve Banks in many communities if the sessions are strictly educational and not promotional.

A PROGRAM FOR UNIVERSITY AND HIGH SCHOOL TEACHERS AND THEIR CLASSES

There is little question but that a great many university and high school teachers of economics, money and banking, and the social sciences would welcome an opportunity to become better acquainted with the operations and functions of the Federal Reserve System. The following educational activities are therefore suggested:

1. Invite college and university teachers of economics and money and banking from each Federal Reserve district to attend a one or two day session at the local Federal Reserve Bank where an intensive program could be given covering the most important operations and functions of the Federal Reserve System. Some of the questions outlined for bankers and businessmen, under Point One above, could be discussed. The program could be organized for the district by the economist of each Federal Reserve Bank. Officials of the bank should participate and should be present if a luncheon is given. Local commercial bankers might at the same time also arrange educational tours through commercial banks and be invited to a luncheon with the teachers.

In some districts a trip might even be organized to visit the Board of Governors in Washington. A carefully prepared program should result in much better informed college teachers.

Teachers in large high schools with social science courses might also be sufficiently interested to participate in the program.

2. Letters can be written by officials of the Federal Reserve Banks to university and high school teachers of economics, money and banking and social sciences offering to provide lecturers who would address

classes and answer questions of students whenever they were studying the Federal Reserve System. It would be highly advisable for the local Federal Reserve Bank to encourage competent local commercial bankers to participate in this program, perhaps even to fill most or all of the engagements. The twelve regional banks might prepare some suitable literature for distribution.

3. Although there are many pamphlets and books on the Federal Reserve System, it is believed there is a place for a new book on the System for use in banks, business libraries, public libraries, and university libraries and classes. A comprehensive book of perhaps twenty-four to thirty chapters could be prepared covering the background, history, operations and functions of the Federal Reserve System. The economists of the twelve Federal Reserve Banks and of the staff of the Board of Governors could be assigned perhaps half of the book, each person writing a chapter. Economists from ten or twelve universities and commercial banks also could each be invited to write a chapter. The book should have as editor an official of a commercial bank so it would not be a "Federal Reserve publication". The book would thus represent the views of the Federal Reserve, commercial bank, and university monetary economists and could be the most comprehensive and best book ever published in the field. Although a book in itself does not provide a complete educational program covering the Federal Reserve System, a book with this breadth of approach (24 competent persons discussing the System) might be widely accepted and used in all kinds of libraries, in banks, and in universities.

A PROGRAM FOR PUBLIC OFFICIALS

There is no more difficult aspect of this problem than the one

of organizing an educational program for the Federal Reserve System which is suitable for public officials. However, the following suggestion is submitted:

1. In connection with the Banking and Currency Committees of the Senate and of the House, probably the most effective method of handling this phase of the educational program is one of persistently cultivating the friendship of these officials by personal contacts, including luncheons may be given by the Chairman of the Board to discuss with these officials problems of the System without trying to "sell" them particular views. When the Board Staff has some special study, for example, on business conditions, prepared for the Conference of the Presidents of the Federal Reserve Banks, or for other occasions, a similar presentation might be given to these members of Congress for a half hour before a luncheon with the Board Chairman. Opportunities are certain to occur at these events for the discussion of System problems. It is not only a reasonable assumption but also highly probable that at least some of the members of these committees would welcome occasional luncheons to be kept informed of current System activities and problems which would make these persons better informed on their own work.

* * * * *

The foregoing program is by no means exhaustive, but it reveals some of the avenues along which the Federal Reserve System might develop a more comprehensive educational program. Although the Board of Governors might be helpful in providing leadership for the program, the execution of the program should be in the twelve Federal Reserve Banks. Commercial banks and universities might also be encouraged to furnish leadership for

various aspects of the program. A committee of eight, of which two could be from the Board or its Staff, two from the Federal Reserve Banks, two from the commercial banks, and two from the universities, might be asked to prepare a complete program. After approval of the committee's program by the Board, this committee, with the support of the Board and the twelve regional banks, might be authorized to place the program in operation over the country.

Herbert V. Prochnow

Fleming believes the Council could say it has gone over the Secretary's outline and submits it to be helpful to the Board.

Ringland states that as he recalls the discussion on this subject with the Board at the last meeting, there was (1) some fear of unwise legislation and, (2) some concern that bankers, business men, and the public did not understand the functions and operations of the System.

Brown. The Council may state that it has had an opportunity to meet only for a few hours since its last meeting and has not had an opportunity to give full consideration to a bank and public relations program for the System. However, the Council is pleased to submit the memorandum of the Secretary which it believes contains suggestions of interest and value to the Board.

H. Alexander believes the Council should emphasize that any program must be one of information and education and not propaganda and salesmanship. The program should also be carried out on a district level.

Beals reports that in his district they have had some good informative meetings regarding the System.

Brown. Any program ought to be educational and not for propaganda purposes.

Smith reports that he has discussed this subject with Mr. Williams, President of the Federal Reserve Bank of Philadelphia. Mr. Williams felt that any program should be strictly along educational lines.

Brown again states that any program should be educational with no attempt to propagandize the System for publicity's sake. Any large scale program, for publicity only, would have serious repercussions for the System. The program should be at district levels. The Council may also state that it is pleased to submit to the Board the memorandum which the Secretary has prepared.

SURVEY ON THE IMPACT OF THE EXCESS PROFITS TAX ON COMMERCIAL BANKS.

Fleming states that although no item was placed on the agenda relative to the excess profits tax, he would like to make a suggestion regarding the tax. (At this point there were off-the-record comments). He suggests that the Council state to the Board that it would be worth while to bring up to date the previous study the Board made of the impact of the Excess Profits Tax on banks. Fleming believes the figures for 1952 may show that the impact of the tax was much heavier than the Board found it was in the survey covering the year 1951.

Brown asks members of the Council for an expression of their views on this matter and all members are in favor of requesting the Board to bring its study up to date to include the 1952 figures.

The meeting adjourned at 5:20 P. M.

THE COUNCIL CONVENED AT 10 A.M. ON
NOVEMBER 17, 1952, IN ROOM 932 OF
THE MAYFLOWER HOTEL, WASHINGTON, D.C.
ALL MEMBERS OF THE FEDERAL ADVISORY
COUNCIL WERE PRESENT EXCEPT MR. JACKSON.
MR. HENRY C. ALEXANDER SERVED AS ALTERNATE
FOR MR. JACKSON.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on November 18, 1952. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors at 11:35 A.M. on November 17, 1952. It will be noted that each item of the agenda is listed together with the comments of the Council.

In a showing of hands on the question of whether Regulation W should be a permanent part of the controls of the Federal Reserve System, the Council voted in the negative.

The meeting adjourned at 11:10 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON NOVEMBER 18, 1952

1. The Board would appreciate the views of the Council on the prospective business and economic situation during the next three to six months as well as any comments that the members of the Council might wish to make as to the principal purposes for which loans from commercial banks have been made during the Fall period. The Board would also like to have the Council's suggestions with respect to System credit policies in the months immediately ahead.

The Council believes the business and economic situation for the next three to six months will continue to be substantially the same as the Council reported at its meeting with the Board in October. Unemployment is at a postwar low. Wages are at peak levels. Disposable personal income is at an all-time high, and retail sales continue to be generally good. Industrial production is up. Private capital expenditures and outlays for defense are large. However, wholesale and commodity prices, including prices of base metals, corn, cotton and meats, have shown some decline. The decline in basic commodity prices may be important because of its possible world-wide effect. Profits from many businesses may be lower, but the general business outlook for the next three to six months is good.

While the Council has not been asked to express its opinion for a period beyond six months, members of the Council find some apprehension in their districts concerning the economic outlook for the last half of 1953. If the drought conditions which now prevail over relatively wide and important farm areas are not relieved, or if the apprehension regarding the outlook for the last six months of next year should materially increase, the result might be some decline in the economy before the end of the first half of 1953.

Without presenting statistical information which the Board currently receives, the Council believes that loans this Fall have been used largely for food processing and carrying agricultural products, for holiday trade, for the purchase of durable goods by consumers, and for expansion by public utilities. The over-all loan pattern this Fall has been seasonal, except for a bulge in consumer loans which partly reflect increased sales of television sets in areas where new stations are operating, and a large output of automobiles following the steel strike.

Unless and until the business and economic outlook changes materially, the Council suggests, as stated in its memorandum to the Board on October 7, 1952, that the present rediscount rate and reserve requirements

be continued. The council also believes that the policies followed by the Open Market Committee in recent months have operated satisfactorily, and it recommends a continuance of these policies which have maintained a reasonably firm money market and an orderly market for government securities.

2. At the meeting of the Council on October 7 the Board gave the Council a letter requesting its views on what should be the objectives of the System's program of bank and public relations. At that time President Brown stated that the members of the Council would do their best to have some suggestions formulated for consideration at the November meeting of the Council with the Board.

The Council has met for only a few hours since its last meeting with the Board in October. The short time available to the Council for discussion of this subject has necessarily precluded full consideration of the various phases of a bank and public relations program for the Federal Reserve System. However, the Secretary of the Council, who has had considerable experience in the educational field on the subjects of banking and finance, has prepared a memorandum with a number of suggestions for a program. The Council has seen the memorandum and believes the Board might find in it suggestions of interest and value. Copies of the Secretary's memorandum will be given to the Board.

The Council believes there is a lack of fundamental understanding by bankers, businessmen, government officials, and the public generally, of the functions and operations of the Federal Reserve System. To be effective in correcting this lack of understanding, any program of bank and public relations must be organized solely for information and education and not for propaganda or for high-pressure "selling" of the System. To pursue any other objective would have unfortunate repercussions on the System and would defeat the program. The program should be organized on a district level through the twelve Federal Reserve Banks and with the cooperation of the commercial banks in the respective districts.

3. Survey on the impact of the Excess Profits Tax on commercial banks.

Although this item was not placed on the agenda for discussion at this meeting, the Council would like to suggest that a study be made at the end of 1952, continuing the informative study made on this subject covering the year 1951, so as to bring it up-to-date by showing the impact of the Excess Profits Tax on banks in 1952. The inclusion of 1952 in the study may reveal a significant change in the impact of the tax in that year as compared with 1951.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:15 P.M. ON NOVEMBER 17, 1952. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSRS. FLEMING, JACKSON AND LOCHHEAD. MR. HENRY C. ALEXANDER SERVED AS AN ALTERNATE FOR MR. JACKSON.

Mr. Arthur W. Marget, Director of the Division of International Finance of the Staff of the Board of Governors, spoke on the subject of "International Financial Developments". The following confidential summary of his remarks was presented by Mr. Marget for inclusion in the Secretary's notes.

The meeting adjourned at 4 P.M.

November 17, 1952

International Financial Developments

1. The central goal of international financial policy must be to balance the international accounts at a socially and politically endurable level, without the injection of large amounts of extraordinary aid from the United States.

2. The phrase "at a socially and politically endurable level" is essential to the argument. The international accounts of the European countries, for example, could have been "balanced" without the help of the Marshall Plan, through the simple process of forcing every country to limit its imports only to what it could pay for out of its own exports. But this would have meant:

a. Deprivation and unemployment on a scale that would have meant widespread social and political unrest.

b. Serious harm to those sectors of the American economy which, particularly during the war and the postwar period, had become heavily dependent on export markets.

3. When the Marshall Plan was presented to the American people, it was never suggested that the United States would be expected to continue to provide foreign aid for the indefinite future. On the contrary, it was represented as providing a "breathing space", and the means, for facilitating adjustments whereby the recipient countries would be able to stand on their own feet.

4. In one respect, the Marshall Plan was an undoubted success; it enabled the recipient countries enormously to increase their levels of production above the postwar low, and thereby to avoid the "deprivation and unemployment" which would have resulted if these countries had been forced to restrict their imports to what they could have paid for out of their own exports at a time when the whole productive apparatus of Western Europe was in a state of derangement and disrepair.

5. But if the aim is to enable these countries to stand on their own feet, it is not enough that production should increase and employment be maintained at high levels; it is necessary also that enough of the increased resources resulting from increasing production and high employment be devoted to the increase of exports, and to the saving of imports, in the amounts required to keep the international accounts in balance.

6. The thesis which I wish to present is that the extent to which this second -- and crucial -- part of the program has been accomplished has depended, and will continue to depend, primarily on the internal financial policies followed by the various countries, and particularly on the role played by monetary (i. e., central bank) policy in these countries.

7. The logic of this is simply that internal inflationary pressures:

a. Lead to excessive imports. When money-spending power increases faster than available real resources, this excess spills over both into a rise of prices internally and into importing on a scale which can be maintained only if exports increase proportionately. But this proportionate increase of exports does not come about because internal inflationary pressures also

b. Harm exports. They do so (1) by tending to make exports non-competitive with those of countries which are not inflating at the same rate; and (2) by sucking into domestic consumption and investment resources which, if not so used, would be available for export (the "deliveries" problem). Moreover, the effect of the internal inflationary pressures is greatly to

c. Diminish the flexibility of the economy. The essence of a process of adjustment is that resources, material and human, move from one line of business to another. But in the absence of a complete dictatorship charged with "moving" these resources by direct order, we have to rely on incentives to move them; and a state of "over-full employment," where everybody is quite happy to keep on doing what he happens to be doing, is precisely the kind of state in which such incentives are lacking.

8. The concept of "over-full employment" is the key to the major obstacle which has prevented governments from taking those fiscal and monetary measures which are absolutely essential if they are to balance their international accounts without continuous injections of foreign aid. Even the sponsors of the aim of "full employment" have admitted that unemployment of the "transitional" type -- to the amount, say, of 5 per cent of the workers -- is entirely compatible with a sensible concept of full employment. But, in practice, political leaders have tended -- whether through honest misunderstanding or conscious misrepresentation -- to sponsor policies which rest on two glaring fallacies: viz. (1) that any form or amount of unemployment is to be regarded as on a par with the mass unemployment of the 1930's; and (2) that, in the absence of continued foreign aid, it is possible to carry on an over-full employment policy without running into a foreign-exchange crisis that is likely to bring much more serious consequences, in the way of unemployment and interruption of production than are likely to follow from sensible fiscal and monetary policies which are consistent with the maintenance of external balance.

9. In the time remaining, I propose to illustrate these principles from the experience of a number of European countries, arranged according to the time-order in which they came to accept the principles laid down above with respect to the relation between internal financial policy and external imbalance. From this survey, it will be seen that, no matter how different otherwise were the conditions faced by the respective countries, there is literally no case in which the medicine of sound internal financial policy failed to have good results:

- a. Belgium
- b. Italy
- c. Germany
- d. Netherlands
- e. Denmark
- f. The United Kingdom
- g. France

--Arthur W. Marget

ON NOVEMBER 18, 1952, AT 10:30 A.M. THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. JACKSON. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN; GOVERNORS SZYMCAK, EVANS, MILLS AND ROBERTSON. MR. CARPENTER, SECRETARY, AND MR. SHERMAN, ASSISTANT SECRETARY, OF THE BOARD OF GOVERNORS, WERE ALSO PRESENT.

THE BOARD WOULD APPRECIATE THE VIEWS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT THREE TO SIX MONTHS AS WELL AS ANY COMMENTS THAT THE MEMBERS OF THE COUNCIL MIGHT WISH TO MAKE AS TO THE PRINCIPAL PURPOSES FOR WHICH LOANS FROM COMMERCIAL BANKS HAVE BEEN MADE DURING THE FALL PERIOD. THE BOARD WOULD ALSO LIKE TO HAVE THE COUNCIL'S SUGGESTIONS WITH RESPECT TO SYSTEM CREDIT POLICIES IN THE MONTHS IMMEDIATELY AHEAD.

Brown reads item I of the agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. The Council believes there has been little change in the business outlook since the Council met in October. The drought extends over a wide area and has affected farm implement sales. The Council also believes that the increase in loans this fall has not been more than seasonal, and by December loans may begin to come down. The Board and the Open Market Committee are to be commended on the skill with which open market operations have been conducted. Until it is apparent what loan trends are, beginning in December, the Council believes the Board should continue the present rediscount rate, reserve requirements and open market policies. Brown asks Beals to inform the Board regarding drought conditions in his district.

Beals believes the drought picture may be somewhat colored by the recent excellent crops. However, wheat which has been planted so far has been planted in dust. The drought also has an effect on livestock, because pastures are poor. Many cattle owners have had to put cattle on full feed. Beals cites the case of a farmer, who is ninety years old and his son who is sixty-five, who reported to him that they had never seen drought conditions so bad. They have occupied the same land continuously. The farm has no cattle now, but has goats and sheep. They have twenty-one windmills of which half are dry at present, which indicates that the water table is very low. Springs on the farm are also dry.

Ray. The same situation applies to a large part of the Western section of his district, but conditions over the whole district are not as serious as they are in the district which Beals represents.

Ringland states that his district is predominantly agricultural. There is considerable discouragement and concern over the drought. Conditions are not hopeless, but rain is needed very soon.

Brown asks Gund if he will comment regarding the outlook for the supply of goods.

Gund. There is some feeling that steel will be in ample supply in six months. Except for the expansion of atomic energy projects in his district, there is a feeling that expenditures for capital goods may begin to decline somewhat.

Lochead believes apprehension is not too strong a word in speaking of the outlook over a longer period. Concern is the word. Lochead believes that automobiles, refrigerators and other goods will be "running out of our ears", and an economic tailspin is very probable within two years.

Brown asks for the views of the Board regarding the business outlook.

Martin states that the Council's report is the first serious statement the Board has had on the drought. Martin believes that aside from the drought, the economy is strong. There seems to be at present no danger of an immediate renewal of a serious inflationary threat. Inflation at present is being restrained successfully. In the event of some recession, the serious question is whether business will make the necessary adjustments in prices to move goods. Will the first appearance of a buyer's market cause people to run to Washington for help, instead of adjusting prices?

Brown. The Council believes that a seasonal decline in loans will probably take place beginning in December and running until Spring.

Szymczak. If the Defense Production Act comes up for renewal, should the Board ask for an extension of Regulations W, X and V and the Voluntary Credit Restraint Program?

Brown reports that in a meeting this morning the Council voted against having Regulation W as a permanent power of the Board of Governors.

Szymczak explains that Regulation V deals with the guaranty of defense loans.

Fleming. Regulation V should probably be renewed and provision should be made for a Voluntary Credit Restraint program in case it should again be needed.

Brown. All members of the Council favor the renewal of Voluntary Credit Restraint as a standby power. Brown does not believe Regulation X should be renewed. He believes any threat of inflation in the near future would spring from a situation, such as, Korea, and that would not be primarily related to housing starts.

V. Alexander reports that cotton is moving slowly.

Davis believes banks will shortly be looking for loans.

Fleming. By the time of the next Council meeting both the Council and the Board should have a better idea of a program for the future.

Smith believes Regulation W should be retained on a standby basis. He believes there may be a tendency for excessive competition for such loans.

Martin asks whether Smith feels the same way regarding Regulation X.

Smith reports he does not believe Regulation X had very much effect.

Brown thinks that the loan policies relative to veterans were too liberal and agrees with Smith on Regulation X.

Gund reports he would not favor extending the power of the Board relative to Regulations X and W.

Szymczak asks whether any member of the Council knows whether some group of the American Bankers Association now favors extending Regulation W.

Brown reports that no member of the Council has heard of a group in the ABA with these particular views. He does know that some of the finance companies and automobile companies favored Regulation W as a trade regulation and not as a monetary regulation.

Fleming then asks whether item III on the agenda may be taken up next, as he must leave for New York.

SURVEY ON THE IMPACT OF THE EXCESS PROFITS TAX ON COMMERCIAL BANKS.

Brown reads item III of the agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached.

Fleming understands from Evans that the study of the excess profits tax will be continued. He thinks the impact of the tax in 1952 may be found much more serious than it was in the earlier study in 1951.

Martin. The Council is aware of the Board's sympathies regarding the matter and the Board will discuss the question of bringing the survey up-to-date.

Brown. It will take some time to prepare the necessary forms.

Martin. The Board will discuss the matter at an early date.

AT THE MEETING OF THE COUNCIL ON OCTOBER 7 THE BOARD GAVE THE COUNCIL A LETTER REQUESTING ITS VIEWS ON WHAT SHOULD BE THE OBJECTIVES OF THE SYSTEM'S PROGRAM OF BANK AND PUBLIC RELATIONS. AT THAT TIME PRESIDENT BROWN STATED THAT THE MEMBERS OF THE COUNCIL WOULD DO THEIR BEST TO HAVE SOME SUGGESTIONS FORMULATED FOR CONSIDERATION AT THE NOVEMBER MEETING OF THE COUNCIL WITH THE BOARD.

Brown reads item II of the agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Brown comments on the Secretary's memorandum and states that the members of the Council believe the Board may find the memorandum of interest and value. The Council strongly feels that any program must not be used for propaganda purposes. To be effective, the program must be organized through the twelve Federal Reserve banks.

Bucklin. The job would be a difficult one for the Board, and to be most effective it should be done through the twelve Federal Reserve banks.

Even organizing the program through the twelve banks is not a simple matter and must be done carefully so that the program has no aspects of being propaganda.

Smith. The Federal Reserve Bank of Philadelphia suggested that in connection with the program it might be possible to obtain the cooperation of such groups as the National Industrial Conference Board, or the Committee for Economic Development.

V. Alexander thinks the program should be organized on a district level.

Martin describes a meeting of Yale students at which he was present to discuss the operations, functions and purposes of the Federal Reserve System. He said that one student asked him to explain the purpose of the System. Martin asked the students present to answer the question and one student replied, "The purpose of the Federal Reserve System is to protect the dollar". Martin felt that this student had begun to grasp some of the purposes of the Federal Reserve System.

Ray believes an educational program can be set up successfully and can be made effective.

Brown thinks that further consideration of the Patman report can be held in abeyance for the time being in order to see what program the Administration may present.

Martin agrees.

Mills asks whether the Council has any knowledge of possible banking legislation that may be proposed.

Brown reports the Council has no such knowledge.

Ray asks whether the Board has any legislative program in mind.

Martin reports the Board is working on various items, but has come to no conclusions. If a legislative program is worked out, it will be sent to the Council. However, no large program is contemplated.

Evans states that larger quarters are needed for several of the Federal Reserve Banks.

Martin. That is the most pressing problem. Martin asks Robertson to comment on the new school which has been established for bank examiners.

Robertson reports that the Federal Reserve System, the Comptroller and the FDIC have jointly launched a school for bank examiners. "Green" men were chosen for the first group. Twelve men were selected from each agency, and the first group has had a course for five weeks. The second group has now started. A hypothetical \$4 million bank has been established and students work on problems in connection with this bank. So far the project has worked out exceedingly well. The agencies are trying to train their "green" men first. They hope to give each examiner credit information before he examines banks. Robertson commented that the wage scale was far too low for examiners.

The meeting adjourned at 12:25 P.M.

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