Washington Banktrends

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WASHINGTON NEWS FEATURES

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1

PERSPECTIVES

IN CONGRESS, taxes move ahead very slowly. Also new Defense Housing legislation and determination of foreign policy including troops for Europe. Better outlook in Korea has removed some of the war "pressures" of a few weeks ago.

Treasury-Federal Reserve, largely undercover dispute over interest rates, boiled in a pressure-cooker atmosphere with every indication that the Treasury would win. The Administration is backing Sec'y Snyder fully and the Republicans have shown no desire to defend the Federal Reserve in debates.

A Secret Letter from the Reserve Board to the President on the stabilizing of interest rates seems unlikely to be made public at any early date.

At the Control Agencies, Mobilization Chief Wilson is in driving command and bubbling DiSalle of price controls, is the butt of growing pressures. He hopes to shake up a new device known as "markup controls"-- which will permit prices to go up more.

MONEY PATTERNS

2 TREASURY POSITION	Feb. 7'51	Jan. 31'51	Feb. 8'50
Public Debt	$256.0 Billion	$256.1 Billion	$256.7 Bil.
Expenses	23.6 "	22.9 "	24.9 "
Receipts	24.1 "	22.9 "	21.9 "
Surplus	0.5 "	0.0 "	(Def.) 3.1 "
Cash Balance	4.6 "	4.5 "	4.9 "
Bond & Tax Balance in Banks	2.4 "	2.1 "	3.2 "
Gold Reserve	22.3 "	22.4 "	24.3 "
3 BONDS & BILLS	**Feb. 7'51**	**Jan. 31'51**	**Feb. 8'50**
Savings Bonds -- Sales since Jan. 1	$602 Million	$475 Million	$931 Mil.
" " Redemptions " "	710 "	533 "	526 "

Gov't Bonds Closed Week: Bank Eligibles 103.18/32 bid. Week Previous: 103.29/32 bid.
" " " " Victory's 100.22/32 " " " 100.23/32 "
Bills Av. Yield, Issue of Feb. 8'51: 1.391%. Previous wk: 1.391%. Year ago: 1.119%.

4 RESERVE BANKS' CONDITION	Feb. 7'51	Jan. 31'51	Feb. 8'50
U.S. Government Securities	$21.6 Billion	$21.5 Billion	$17.7 Bil.
Bills	1.7 "	1.7 "	3.7 "
Certificates	- -	- -	6.3 "
Notes	14.9 Billion	14.8 Billion	0.7 "
Bonds	5.1 "	4.9 "	7.0 "
Member Bank Reserve Balances	19.1 "	19.0 "	16.3 "
Excess Reserves (estimated)	0.8 "	0.9 "	0.8 "
Money in Circulation	27.1 "	27.0 "	27.0 "
5 BANK LOANS	**Current Week**	**1-Week Change**	**1-Year Change**
Principal Cities (Jan. 31'51)	$18.1 Bil.	Up $102 Mil.	Up $4,202 Mil.
New York & Chicago (Feb. 7'51)	8.2 "	" 139 "	" 2,106 "
6 WHOLESALE PRICES	**Feb. 6'51**	**Jan. 30'51**	**Feb. 7'50**
All Commodities (1926 prices 100%)	182.2	180.9	152.1
Farm Products	200.3	196.4	157.5
Foods	188.7	183.9	155.5
Building Materials	226.5	225.4	192.4

7 WAR OUTLOOK National Defense Planning: Present schedules call for drawing $55 billion of materials out of the civilian economy from now to June 30, 1952. Manpower is in addition. Total drain on national production is to take about 20%, certainly not the 40% estimated by some frightened officials. Lower figures are being accepted in view of growing self-assurance as the nation's defensive strength is realized, despite foreign policy weaknesses of recent months. (718,7-8)

8 Defense vs. Civilian Economy: Exactly correct balance won't be reached, but Administration estimates will be adjusted by democratic processes as Congress debates expenditures, taxes, controls. Nation-wide public attitude reflected here, is that the country won't build its strength by starving itself. However, a new Controlled Materials Plan is scheduled to take effect in 6 months or less. (718,9)

9 CONGRESS Watch-Dog Committee: This device is producing results. Top emergency organization officials have high respect for the Committee under Sen. Maybank (D.SC). This virtual board of directors consistently reviews decisions, making it unlikely that the control laws can be twisted to fit political aims.

10 This Week: No major legislative action is planned, owing to Lincoln Day speech jaunts. Tax hearings to be resumed Wednesday. There will be hearings by a committee in Columbus, O., Feb. 13 on Navy seizure of Lustron plant for aircraft production. House Banking Committee will continue executive sessions on Defense Housing Bill. The Senate Banking Committee will resume hearings on this bill Feb.16-16. (718,9-12)

11 E-Bond Extension: The Senate Finance Committee is expected to speedily approve the 10-year extension of E-Bond maturities. (718,12)

12 Joint Economic Policy Committee: ABA's 5-page reply to the Committee's Questionnaire is being treated as "secret" although other groups are revealing their answers as they file them. ABA's reply was signed by its President Shelton and was limited to the 5 questions asked. Additional subjects were not discussed. The Committee has scheduled no new hearings and shows no desire to examine the Treasury-Federal Reserve interest rate differences. (717,17-19)

13 CIO's Reply to Questionnaire: Its stabilization formula as offered: (a) "Increase the limit on total loans to business for expansion"; (b) A Federal savings program; (c) Wage adjustments based on living costs and a "share for workers in the fruits of industrial progress"; (d) Special reserve requirements on banks; (e) Lighter burden on low-income groups under Regulations W and X. (717,18)

14 Defense Loan Programs: On direct RFC loans, under $600 million authorization, ODM Chief Wilson has promised to centralize authority to eliminate present conflicts and delays. The Joint Subcommittee is studying, but no action yet, on clearing up legislative provisions on no-recourse assignment of V-loans and on voluntary loan-restriction agreements. (717,28)

15 TAXES Tentative Proposals Only: Sec'y Snyder's presentation to the Ways-Means Committee was factual and mathematical. He argued for higher corporation taxes and loop-hole closings. On the latter he noted that equity and fairness are more important than the small amount of revenue involved. (718,15-17)

16 Mutuals, Co-Ops, Insurance: Additions to reserves of savings banks and savings-loans are not likely to wholly escape the pressure for more taxes. Chief issue is the percentage deemed taxable. As now forseen, the political decision will be bell-weathered by the Co-Op situation with its strong farm lobby support. The Administration is expected to draw a distinction between business co-ops, that are competitive, and those that buy and distribute savings achieved through group purchases.(718,16)

17 Legislative Outlook: The Treasury asks for $10 billion now and $6 billion sometime later. Ways-Means Committee already questions the $16 billion budget gap. Its staff has estimated the Treasury's $55 billion revenue to be at least $3 billion short of actual collections. Some Congressmen not at all opposed to deficit financing.

18 DEBT MANAGEMENT Looks Like Agreement: At the week-end the President had received a letter from the Board looking toward a common meeting ground and designed to clear-up the picture. In addition, there have been conferences between the Treasury and the Board on the modus operandi of refunding and financ ing of the debt within the present interest rate ceilings. (718,18-26)

19 Sequence of Events: (a) Board Gov. Eccles made public so-called "minutes" of meeting with Pres. Truman, written from notes made by Gov. Evans, indicating Board-OMC had a different "understanding" than the President; (b) OMC returned for 4-day conferences with Board; (c) Gov. Vardaman made public proposal, which was defeated, to support Snyder and President during current emergency; (d) Board wrote letter to Presi dent which has not been made public; (e) Speeches in House-Senate indicate Administration support for Snyder; (d) President restated that he believed the Board was with him; (e) Sen.Robertson (D.Va) sought to bring Treasury-Reserve together in agreement.

20 President Stands Pat: Asked at his press conference if (in the light of Eccles' release of data on what was discussed by the Board and OMC with him) he still believed the Board agreed. He replied that he believed the majority did. At the time he replied he had received the letter from the Board, but this was not then known.

21 Did Board Deceive President? Gov. Vardaman believes they did in not making clear their position when they were with him. To be remembered is that before that meeting, and just before Sec'y Snyder declared his position in N.Y., there was a meeting (see No.717,20) of Snyder, McCabe and President, at which a full understanding was carefully reached with "full agreement" of all.

22 Eccles on Treasury-Board Relationships: In hearings, Nov.'49, he said that the Administration is elected and to "have an independent agency deprive them of the most important tool in the economic kit doesn't seem to me to be very practical." Further, that no central bank of any country has "successfully used its authority to enforce its will over an administration in power."

23 Majority Leader McCormack: In a carefully phrased speech he put the Administration behind Sec'y Snyder. The Republican leadership did not support the Board.

24 Big Bank Pressures? From several sources-- not Treasury-- informed opinion is that one reason for the bitterness of the interest rate dispute is that some "big banks" dislike Sec'y Snyder for his stabilization of interest rates. The argument is that this is a power struggle between New York and Washington for money dominance. It is said that studies made show that long term holdings of Government bonds by the N.Y. banks are comparatively small with profit probabilities if the pegs were pulled. These same studies show that medium and smaller banks broadly favor the 2½% rate, being heavy holders of long terms.

25 Government Bond Market: There continued a feeling of uncertainty due to the Treasury-Reserve situation. The market feels that it is justified in expecting a statement or evidence that an area of agreement has been reached. Meanwhile, many commercial banks have not fully adjusted their position in line with new reserve requirements. Some of this is due to continued loan increase in a period where there would normally be a decline. Money continued relatively tight with Federal funds at 1-5/8%. OMC bought only $4 million of over-5-year bonds for week of the 7th.

26 Partial Tax Exempt Treasury Bonds: The Administration's proposal for a corporation tax increase from 25% to 33% will, even if carried through only in part, enhance the partially tax exempts, according to the market view.

27 VOLUNTARY CREDIT CURBS Up to Attorney General: Whether Section 708 of the Act will be put into practical operation as orginally conceived by the Federal Advisory Council, is now up to the Attorney General. He has before him a carefully drawn Memorandum, the work of Reserve Board Gov. Powell and representatives of commercial-investment bankers, life insurance companies, spelling out the program desired. If he unequivocally endorses, the program may go.(717,27)

28 How the Program Would Work: A "Voluntary Restraint Committee" of 12 (representatives of commercial-investment bankers, insurance companies) appointed by the Board. Under the law the Board must give leadership. A "Standing Committee" would stimulate action. It would be selected from names furnished by lender groups. Cities of all sizes, probably through their clearing houses, would organize. A rule would be that the identity of borrowers could not be disclosed. Further, that final decision as to the refusal of any loan would be strictly up to the interested bank.

29 Kind of Loans: Under the plan 2 broad categories of loans would be suspect: (a) Loans to reduce or acquire corporate equities; (b) Loans for speculative investments or purchases. Permissable: defense-production and loans to carry on normal business.

30 CONTROLS Amendments to Reg. X: Reserve Board is expected to take over control of commercial building based on credit restrictions. This will take this type of building out from under National Production Administration. Issuance may be this week in the form of an amendment to Reg. X. A 50% to 60% equity range is considered as the basis for the controls. (717,30,32)

31 Salary-Wage Adjustments: It is official to grant wage-salary increases according to plans which were in effect Jan. 25,'51. Authority is Gen.Reg.5. (718,33)

32 Manpower: Charles E. Wilson, Mobilization Chief, won his fight to control Manpower policies. He has Dr. Arthur Fleming, former Civil Service Commissioner and Pres. Ohio Wesleyan U., as his assistant. Fleming is no Fair Dealer and industry feels that he is "the kind of a guy who will work well" with both bankers and business.(718,1)

31 REGULATORY RFC: After a year's study, the Senate Banking Subcommittee under Sen. Fulbright (D.Ark) has racked up RFC directors for the shooting gallery sport. Charges of palace-guard influence and fuzzily-secured loans to unworthy enterprises have brought from the President a statement that the RFC operated in the public interest. He said he wanted RFC put under Commerce Department. (718,14)

32 Keeping Examiners Informed: Deputy Comptroller Robertson, with National Bank Chief Folger are on a 10-day swing on the West Coast, checking with field examiners. They will look over some branch bank applications. Meanwhile, the Reserve Board had in its examiners for a study of conditions and programs.

33 V-Loan Volume: As of the end of January, 220 loan applications were received for a volume of $142 million. Of that date 120 had been approved for $111 million.(717,29

34 PERSONALITIES and PROGRAMS

SEC'Y SNYDER will be in Walter Reed Hospital for about 2 weeks for a minor eye operation which he scheduled last summer.

FEDERAL TRADE COMMISSION has issued rules governing financing of motor vehicles.

LOUISIANA BANKERS ASSN., officials visited here with FDIC,ABA, Reserve Board,Treasury.

EXCERPT FROM <u>WASHINGTON BANKTRENDS</u> -- FEBRUARY 26, 1951

23 <u>DEBT MANAGEMENT</u> <u>More Discussion</u>: Officially "no news". Treasury is saying nothing with Sec'y Snyder in the hospital. Reserve Board declines to comment but does talk to columnists, unofficially. Meanwhile, Sen. Bricker (R.O.) replied to Board Gov. Vardaman (see No. 720,17), Sen. O'Mahoney (D.Wyo) put in the Senate record the pro-Treasury views of Presidential Economic Adviser Clark which led Sen. Douglas (D.Ill) to a lengthy discussion, pro-Federal Reserve. The Federal Advisory Council gives its views to the Board-- secretly, as usual.

24 <u>Sen. Douglas' Views</u>: Supplied with material that must have come from the Reserve Board, he presented the best reasoned position yet given, and one that should have come officially from that body. Argument: (a) President inflation is result of bank credit expansion; (b) Holding bonds above par gives banks funds through Reserve to expand credit; (c) Let bonds decline to more realistic rate. He argues there would be no panic among the "sophisticated" dealers in that market.

25 <u>Sen. Bricker's Views</u>: He told Vardaman tha "obviously, some compromise" between the two agencies "would be highly desirable". He sees"no sacred obligation to support bonds at par but would "not recommend" abrupt withdrawal "as to cause panic and chaos" in the market. Inflation is the chief threat.

26 <u>Economic Adviser's Position</u>: In a letter to the Reserve Board, not as yet made public, the President's Council argues at length in support of holding the 2½% long term rate. The argument of Councilman Clark was inserted in the Congressional Record by Sen. O'Mahoney. If there develops hearings before some committee of Congress, this and other data, some as yet unknown, could be made public.

27 <u>Federal Advisory Council's Position</u>: This 12-Member body, with one from each Federal Reserve District, as established by law, discussed the Treasury-Reserve positions for most of 3 days here last week. They then voted 7 to 5 in support of, what is virtually that taken by Gov. Vardaman. The 12 District line-up according to the best information available showed the 5 from Boston, N.Y., Phil., Chicago, St. Louis.

28 <u>Bank Holdings & Loans</u>: An analysis of national bank portfolios as of the end of 1950 show gross loans at $29.6 billion, an increase of almost $5 billion in the last half of '50. to meet the loan demand banks disposed of $2.02 billion of U. S. Government securitites. These banks held at the end of '50, $13.4 Billion in bills, certificates and notes, an increase of one-half percent. This short-term paper was virtually cash for the banks. With such holdings the 2½% rate would be mostly theoretical.

18 DEBT MANAGEMENT The Presidential Memorandum: The document of Feb. 26, put the emphasis on control over bank credit. The President's premise was that support of the long term bonds would be continued, as at present. Recognizing the Reserve Board's argument that private bank credit is the chief cause of inflation, Truman proposed possible use of drastic Federal powers. He read a 4-page, single space Memo to the 10 officials called in. No commitments were asked for from them. A report in 10 days or two weeks was requested, on what they proposed to do. (See Color Sheet.)

19 Assignment: Sec'y Treasury (Snyder), Reserve Board Chairman (McCabe), Chairman Council of Advisers (Keyserling), Mobilization Director (Wilson) are to report back, perhaps by the end of this week. Wilson will act as Chairman on behalf of Pres. Truman. The foregoing along with Treasury Undersec'y Foley, Asst. Sec'y Martin, Sproul of the N.Y. Federal Reserve and McDonald, head of SEC, were called in by the President. (721,23)

20 Genesis of Memo: Treasury has been searching for ways to implement restrictive controls over inflationary bank credit. They found the Emergency Banking Act, never repealed, but available during an "emergency." Since this law does not include non-member banks, the Trading With the Enemy Act could be used to bring them in along with life insurance companies and other "lenders."

21 Club in Closet: The threat of using the Emergency Banking Act and Trading With the Enemy Act, may bring about some agreement to make "voluntary" controls work. That is the hope of officials.

22 Market Drop to Par: The Presidential Memo, with its request for "no change" in market support, came on a day that it was indicated that Reserve support would be less active. Long terms might have declined to around par.

23 Emergency Laws Drastic: Treasury has authority under 1933 Act to restrict practically everything a Reserve member bank can do. Under Trading With The Enemy, restrictions apply to "any banking institution." Truman hinted that Treasury could write regulations and the President would implement them through orders on the Reserve Banks of each District. Compliance is mandatory under heavy fine, or jail.

24 How a Program Might Operate: A formula would be worked out as to the kind of loans a bank could make and the kind it could not. Defense loans permitted, ordinary operational loans allowed but such loans as "inventory loans" to outguess inflation would be prohibited. Life insurance companies and other lenders would be covered. The "Capital Issues Committee" of War I days would take care of the securities side.

25 ABA in Support of Bank Credit Restrictions: ABA Pres. Shelton wired Pres. Truman of Banking's "willingness to cooperate." Presidential Memo noted ABA's efforts.

26 Reserve System's Voluntary Program: The Justice Department hasn't accepted memorandum from the Reserve Board on voluntary credit restrictions under the Defense Production Act. It has, instead, made counter-proposals. Justice felt that the Board did not effectively control the banks. (719,27-28)

27 Board, Open Market Committee Reactions: The Presidential Memo is not liked. The Open Market Committee was called in for a 2-day discussion of what to do.

28 Eccles on Treasury-Reserve Dispute: In a Chicago speech (Mar.2) he said what Chairman McCabe might well have said, but thus far has not. Emphasized: (a) Not a question of personalities but of responsibilities; (b) Treasury's job is to finance at lowest possible cost; the Reserve to avoid depreciation of dollar; (c) Reserve "should not" support market at present prices; (d) Not a completely free market wanted but an orderly one with demand and supply in better balance.

29 Council Thinking: The President's Advisers, now definitely a factor, in this dispute, recognize that through the "emergency" laws, bank reserve requirements would, in effect, be raised, without legislation. Further: (a) The dispute is broader than the matter of interest rates; (b) Need for knowing what Reserve means by "flexibility"; (c) How much above or below par would the market be kept "orderly". There is hope that with a defining of terms, plus control over bank credit, inflationary forces would be brought under control by August-September. (721,26)

30 Congress Debate Intensifies: With increasing frequency Senators and Representatives are taking the floor to argue one side or the other. Treasury and Reserve are asked to supply data. Sen. Douglas (D.Ill) is the acknowledged spokesman for the Reserve and Sen. O'Mahoney (D.Wyo) for the Treasury. (719,12)

31. Government Bond Market: It is not at all happy over the dispute. Bank Eligibles were off slightly at end of the week. Money market a little easier with Federal funds at 1¼% bid. Otherwise quiet. (721,29)

32. REGULATORY Fewer Reserve Cities: Reserve Board has acted to terminate status for Peoria, Galveston, Waco, on basis of official call reports covering 2-year period ending June 30, '50. Columbus, Des Moines, Indianapolis, Milwaukee, Nat'l City, St. Paul Tulsa, Wichita, Fort Worth, qualified. Not qualifying, but permitted to continue, under petition; Toledo, Cedar Rapids, Dubuque, Sioux City, Kansas City (Kan), Lincoln, Pueblo, St. Joseph, Topeka.

PRESIDENT TRUMAN ON BANK CREDIT AND GOVERNMENT SECURITIES MARKET
(Excerpts from his Feb. 26 Memorandum to the Financial Agencies)

WE MUST MAINTAIN stability in the Government security market and confidence in the public credit of the United States. This is important at all times. It is imperative now.

We must curb the expansion of private loans, not only by the banking system but also by financial institutions of all types, which would add to inflationary pressures.

The maintenance of stability in the Government securities market necessarily limits substantially the extent to which changes in the interest rate can be used in an attempt to curb private credit expansion. Because of this fact, much of the discussion of this problem has centered around the question of which is to be sacrificed-- stability in the Government securities market or control of private credit expansion. I am firmly convinced that this is an erroneous statement of the problem. We need not sacrifice either.

Consequently, I am requesting the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Director of Defense Mobilization and the Chairman of the Council of Economic Advisers to study ways and means to provide the necessary restraint on private credit expansion and at the same time to make it possible to maintain stability in the market for Government securities. While this study is under way, I hope that no attempt will be made to change the interest rate pattern, so that stability in the Government security market will be maintained.

Among other things, I ask that you consider specifically the desirability of measures: (1) to limit private lending through voluntary actions by private groups, through Government-sponsored voluntary actions such as was done in a narrow field by the Capital Issues Committee of World War I, and through direct Government controls; and (2) to provide the Federal Reserve System with powers to impose additional reserve requirements on banks.

Furthermore, I should like you to consider the necessity and feasibility of using the powers provided in the Emergency Banking Act of 1933 to curtail lending by member banks of the Federal Reserve System. These powers are vested in the Secretary of the Treasury subject to my approval. The Secretary could by regulation delegate the administration of this program to the 12 Federal Reserve Banks, each to act in its own Federal Reserve District under some flexible procedure. The program could be extended to institutions other than member banks, if desired, by using the powers provided by the Trading with the Enemy Act.

I should like your study to proceed as rapidly as possible in order that I may receive your recommendations at a very early date. I am asking the Director of Defense Mobilization to arrange for calling this group together at mutually convenient times.

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