

April 13, 1951

MEMORANDUM FOR MR. CHARLES E. WILSON

SUBJECT: Progress Report No. 1 of "Task Force" on Voluntary Control of Expansion of Private Credit

The "Task Force," or Subcommittee, appointed by your Committee on bond market stability and credit control, indicated that it would make "progress reports" from time to time. Herewith submitted is Progress Report No. 1.

The Voluntary Credit Restraint Committee of commercial bankers, life insurance associations, and investment bankers associations, sponsored by the Federal Reserve Board, has perfected its personnel organization. There is a National Committee, which is chairmanned by Governor Oliver S. Powell, of the Federal Reserve Board, and twelve (12) industry representatives, of whom there are four (4) members each from the three major lending groups. (See Attachment No. 1, "Statement of Voluntary Credit Restraint Committee," dated March 19, 1951.) There are twenty (20) Regional Committees consisting of twelve (12) in the commercial banking field (one for each Federal Reserve District) and four (4) each for the insurance industry and the investment bankers. (See Attachment No. 2, "Statement of Voluntary Credit Restraint Committee," dated April 5, 1951.)

It is reported by Governor Powell that, during the first organizational meeting of the National Committee, there was concern expressed over the matter of inventory financing. Accordingly, the Committee issued Bulletin No. 1, expressing the hope that all financing institutions would:

"(1) Refrain from financing inventory increases above normal levels relative to sales, or reasonable requirements by other conservative yardsticks.

"(2) Encourage borrowers who already have excess inventories to bring these commitments and inventory positions in line as promptly as is reasonably practical, thereby reducing the amount of credit being used in this manner."

(See Attachment No. 1.)

Governor Powell's letter of April 5, 1951, (Attachment No. 2) to the members of the Regional Subcommittees invited attention to some of the procedures for implementing the Voluntary Credit Restraint Program. Perhaps the most important item in such letter, from the standpoint of your Committee, is as follows:

" * * * (4) Each Subcommittee is required by the Program to maintain records of its actions and must also report from time to time to the Voluntary Credit Restraint Committee regarding the actions taken by it, including statements of the types of cases considered and the nature of the advice given."

ADEQUACY OF RECORDS

It is axiomatic that adequate records are essential to a determination that the Program is either (1) successful, or (2) partially successful, or, (3) unsuccessful.

Governor Powell reported to this "Task Force" on April 9, 1951, that, at the request of the National Committee, the Federal Reserve banks have expanded their reporting service to include a broader classification of loans, by types. The only complete report from the Federal Reserve banks was from the Second District (New York), as set out below:

"CHANGES IN COMMERCIAL AND INDUSTRIAL LOANS
AT NEW YORK CITY REPORTING MEMBER BANKS

Weeks ending March 28 and April 4 combined
(Figures available the second day after close of report period.)

(In millions of dollars)

| | |
|------------------------------|--------|
| <u>Total</u> | - 10.0 |
| <u>Non-defense primarily</u> | |
| Commodity dealers | |
| Cotton | - 24.5 |
| Grain | - 11.7 |
| Sugar | - 1.6 |
| Cattle dealers | / 2.5 |
| Textile factors | / 5.8 |
| Meat packers | - 10.9 |

Non-defense primarily (Continued)

(In millions of dollars)

| | |
|---------------------------------------|--------|
| Sugar manufacturing | / .4 |
| Other food and beverage manufacturing | / .9 |
| Tobacco manufacturing | - 19.5 |
| Wool manufacturing | / 3.0 |
| Carpet manufacturing | - 1.0 |
| Apparel manufacturing | / 1.1 |
| Other textile manufacturing | / 1.1 |
| Paper manufacturing | / 1.1 |
| Petroleum and chemicals | - 5.7 |
| Printing and publishing | / 2.5 |
| Jewelry and watch manufacturing | / 1.3 |
| Furniture manufacturing | - .6 |
| Motor vehicles manufacturing | - 1.5 |
| Retail trade | / 3.0 |
| Wholesale trade | / .5 |
| Sales finance | / 20.8 |
| Bankers acceptances | - 12.4 |
| | - 45.4 |

Containing defense elements

| | |
|------------------------------|--------|
| Iron and steel, machinery | |
| aircraft, non-ferrous metals | / 18.6 |
| Transportation and pipelines | / 5.4 |
| Utilities and communications | / 14.4 |
| Construction for defense | / 1.0 |
| | / 39.4 |

Unallocated

- 4.0"

Governor Powell invites attention to what might be termed a "sidewise movement" in bank credit, as reflected in the above figures, in that the decline in "non-defense" loans of \$45 million is approximately offset by the increase of \$39 million in loans "containing defense elements."

Governor Powell reports that the National and Regional Committees of the commercial banking group are developing a standardized form for use by the Subcommittees in reporting the referrals and the action taken.

MEETINGS OF SUBCOMMITTEES

Governor Powell reported that meetings of the Banking Subcommittees are taking place. The Third District (Philadelphia) held its Subcommittee meeting on April 10. In the Second Federal Reserve District (New York), instructions were issued to members on April 11. Governor Powell, himself, met with the Clearing House Association of Richmond, Virginia, on April 11, to discuss the Program. Present for this meeting was the Chairman of the Banking Subcommittee of the Fifth Federal Reserve District, and plans were discussed for a meeting of the Subcommittee members of that District.

VOLUNTARY CREDIT RESTRAINT COMMITTEE EXPANDED

Your letter of March 23, 1951, to Governor Powell suggested that consideration be given to creating similar credit restraint programs with other important lending institutions. Governor Powell reports that consumer bankers are included in representatives at Subcommittee levels in the New York and Richmond Districts of the commercial banking group. In addition, one of the commercial banking representatives serving on the National Committee is thoroughly familiar with the consumer lending field, and he is believed to have the full confidence of the latter group. Likewise, the Federal Reserve Board has approved the addition of representatives of mutual savings banks, as well as building and loan associations, to the National Committee. Work is in progress to have representatives of these lending associations appointed in time to attend the next session of the National Committee on April 18 and 19. Thereafter, local Subcommittees for these two groups will be appointed.

LENDING POLICY ON EXISTING STRUCTURES

Such meeting will consider the situation of lending policy with respect to existing, as distinguished from new, structures. Prices of existing buildings have been increasing to the point that new, or refunding, loans at inflated prices are of concern to lending institutions. Conventional loans on existing structures are not covered by Regulation X, and, hence, would properly fall within the purview of the Voluntary Program. This area would seem particularly appropriate for discussion with the mutual savings banks and the building and loan associations.

The meeting of April 18 and 19 will likewise consider the question of lending on farm land prices, which have been rising sharply during the past year.

"CAPITAL ISSUES" -- PRIVATE CORPORATIONS

The recently announced estimates of the Department of Commerce-SEC study regarding estimates of private corporate plant expansion in 1951 indicate a substantial increase over 1950. The Voluntary Credit Restraint Committee is planning to issue Bulletin No. 2, suggesting that credit for plant expansion be screened according to the principles of the Program.

Likewise, Governor Powell proposes to hold a separate meeting with the investment bankers group, of the National Committee, to discuss the feasibility of having all new issues, in excess of a certain dollar amount (perhaps \$1 million), regarded by the underwriter as a case which should be referred to the appropriate Subcommittee for screening prior to application to the SEC, or otherwise. If this were done, the existing Voluntary Plan would be more similar to the old "Capital Issues Committee" of World War I.

"CAPITAL ISSUES" -- STATE AND MUNICIPAL GOVERNMENTS

Governor Powell reports that members of the Voluntary Credit Restraint Committee have inquired as to the extent to which municipal financing will come within the scope of the Program. Apparently, the investment banking members have no plans to screen such issues, but they regard this area as constituting a "leakage" in the over-all program of credit restraint.

It is, of course, common knowledge that municipal issues are being offered to the public in substantial amounts and the proceeds are destined for various uses. Therefore, these issues compete in the market place for money that might otherwise go into Federal securities. Likewise, if the proceeds are used as "veterans' bonus" or for the constructing of unnecessary roads or buildings, there is increased inflationary pressure generated in the economy. It is possible, of course, that the restrictions on construction, pointed out to this Subcommittee by Mr. Weinberg, may be sufficient to keep this area from constituting a grave source of credit leakage.

Likewise, it is not necessarily true that the state or local government will actually commit all funds raised in the open market. For example, in March, 1951, according to a newspaper report, the State Treasurer of Michigan announced that only \$15 million of a \$65 million bond issue would be sent immediately in construction of hospitals. The balance of \$50 million will be invested in Federal securities. In justification of this policy, it was stated that Michigan's securities could be sold at 1-1/4%, whereas the yield on Federal bonds would average 1.36%.

The matter of municipal "capital issues" will be further explored by this Subcommittee. Specifically, Governor Powell will invite attention of the investment bankers group to the fact that they should exert such moral force within their command to impress upon state and municipal officials the need for restraint in borrowing under the principles of the Voluntary Program.

Restraint on the part of all potential borrowers, including state and municipal governments, would be an aid in the Credit Restraint Program. Your letter of March 23, 1951, to Secretary Sawyer, suggested the desirability of bringing to the attention of corporate managers the principles of the Voluntary Credit Restraint Program, so that both borrowers and lenders would be attuned to this important matter of credit. For the same reason, this Subcommittee believes that a useful purpose would be served if you would invite the attention of the governors of the several states, as well as the mayors of important municipalities, to the principles of the Voluntary Credit Restraint Program.

CONCLUSIONS AND RECOMMENDATIONS

1. The Voluntary Credit Restraint Program, sponsored by the Federal Reserve Board, has completed its personnel organization and is in the first stages of operation. The Federal Reserve Board has approved the addition of representatives of mutual savings banks, as well as building and loan associations, to the National Committee.
2. The National Committee has requested, and will receive from the Federal Reserve Banks, a broader classification of commercial loans than has heretofore prevailed. This will reflect loans which are "non-defense primarily" as well as those "containing defense elements."
3. The National Committee and Subcommittees are developing a uniform system of reporting loan referrals and the action taken thereon.
4. There is no indication that the Program is failing to receive support of the three major lending groups embraced in the Program.
5. Efforts have been made, through your letter to Secretary Sawyer of March 23, 1951, to bring to the attention of potential corporate borrowers that it is not in the public interest to request loans which do not fall within the principles of the Credit Restraint Program. The state and municipal governments are large potential

borrowers. Although they occupy a particular status in the economy, perhaps they might be able to adjust certain programs, and thereby avoid the necessity for raising money in the market, if the principles of the Program were brought to their attention as part of the over-all defense effort. In any event, such action should lend aid and encouragement to the investment bankers, in discussing with the state or municipal officials their role in the Voluntary Credit Restraint Program. Accordingly, it is recommended that you invite the attention of the governors of the several states, and the mayors of important municipalities, to the principles of the Program.

Messrs. Oliver S. Powell, Sidney Weinberg, Roy Blough and Alfred Hill (representing Chairman McDonald, of the SEC) have authorized the undersigned to execute this unanimous report.

Respectfully submitted,

John S. Graham, Chairman