A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the offices of the Board of Governors in Washington on Tuesday, October 7, 1952, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Evans
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary


Messrs. J. T. Brown, President, First National Bank of Jackson, Jackson, Mississippi, and Mr. George M. Wallace, Chairman of the Security-First National Bank of Los Angeles, California, attended the meeting as respective alternates for Messrs. Paul M. Davis, from the Sixth Federal Reserve District and Mr. James K. Lochead from the Twelfth Federal Reserve District.

Mr. Prochnow, Secretary of the Federal Advisory Council.

Before this meeting the Federal Advisory Council submitted to the Board of Governors a memorandum setting forth the Council's views on the subjects to be discussed with the Board at this meeting. The statement of the topic, the Council's views, and the discussion with respect to each of the subjects were as follows:

1. The Board would like to have the views of the Council on the prospective business and economic
situation during the next three to six months. It would also appreciate receiving any suggestions the Council may have with respect to System credit policies during that period.

The Council believes the outlook is good for a high volume of business in the remaining months of 1952 and the early months of 1953. Employment and wages are at peak levels. Consumer expenditures are increasing. Industrial production is up. Excess inventories have been eliminated or substantially reduced in many lines. The shortage of steel caused by the steel strike ensures a heavy demand for steel in the next six months. Private capital expenditures and outlays for defense continue to be large. While there is spottiness in some lines of industry, and drought is adversely affecting a few limited areas, over-all business in the months immediately ahead in the opinion of all the members of the Council should be good. Profits for many businesses, however, will probably be lower.

Although it now appears that the demand for bank credit will be strong, largely because of seasonal factors, there is no assurance that the volume of bank loans in the next six months will rise substantially above a normal seasonal increase. Unless and until there is a considerable change in the economic outlook, the Council suggests 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.

President Brown amplified the statement of the Council, commenting that the members of the Council would not favor a pegged Government securities market and did not feel that the recent decline in Government security prices had caused any serious damage. He added that there was a great deal of apprehension on the part of customers of the commercial banks represented on the Council as to what might happen over the next two to four years and that this apprehension was evidenced by steps being taken by business concerns to replace short term debt by long term borrowings from
insurance companies and the market. He said there was virtual unanimity among the Council that the prime bank rate was high enough and should not be increased.

In connection with the reference in the above statement of the Council to a reasonably firm money market, Chairman Martin commented that he had felt that at times in the recent period the credit policy of the System had resulted in a tight market. He asked for the comments of the members of the Council in evaluating the effectiveness of the current credit policy of the System and stated that there would be given to the members of the Council at the close of the meeting copies of a talk made by Mr. Riefler, Assistant to the Chairman of the Board of Governors, at the annual meeting of the Western Economic Association on September 4, 1952. He said that the speech was not an official statement but rather an effort to evaluate the effectiveness of Federal Reserve credit policy, and that the Board would be glad to have the members of the Council read the statement and comment on any points with which they might not be in agreement. He also asked for any comments that the members of the Council might have on the desirability of an increase in the discount rate of the Federal Reserve Banks.

President Brown expressed his own view that, in the absence of any definite inflationary tendencies which were not anticipated, he would meet any increase in required reserves growing out of a seasonal increase in
credit by making it necessary for member banks to borrow about one-half of the increased reserves and providing the remainder through Federal Reserve Bank purchases of Government securities.

Mr. Geoffrey Smith stated that while the System credit policy had resulted at times in a tight money market and operations in the market might have been handled more smoothly, the policy had worked quite well.

Mr. Fleming stated that the credit policies followed by the System had been excellent and that while the market had been tight at times, reserves had been supplied only at times of Treasury financing and had been held to a minimum. He felt that the discount rate should not be increased now and that the time for such an increase would be in the event of another international incident like Korea. In response to an inquiry from Chairman Martin, Mr. Fleming stated that if there were another strong inflationary movement, an increase in the discount rate would have a salutary effect in regulating credit even without the assistance of a voluntary credit restraint program.

Chairman Martin said that another problem that should have the consideration of the Federal Advisory Council was whether the Federal Reserve Banks should be underwriters of new Treasury issues or whether the Treasury should move more in the direction of marketing new securities without any assistance from the System. He discussed the support which was given in connection with recent Treasury financing and said that it
would be helpful to have the views of the members of the Council on the extent to which the System should stand in the position of underwriters.

Mr. Fleming responded that in a period when the world was at peace he would be inclined to let Treasury financing operations stand on their own footing but that we were not in a peaceful world and in the existing situation he would give a necessary minimum amount of assistance to financing operations.

In a discussion of open market operations during the last six months Mr. Fleming said that the System had held its purchases of securities in support of financing operations pretty close to a minimum without "rigging" the market, and that declines in Government security prices were due more to the attractiveness of municipal and private issues than for other reasons.

Mr. Bucklin said that he had gained the impression in New York last week that the Treasury and Federal Reserve were not getting along as well as they might but that he understood since coming to Washington that that was not true. In that connection, he referred to conversations which he had had in which the view was expressed that the desire of the Treasury to finance at a low rate was perfectly normal, that the differences between the Treasury and the Federal Reserve on that point were to be expected, and that undue emphasis had been placed in the Patman hearings on the events surrounding the Treasury-Federal Reserve accord in 1951. He added that an
increase in the discount rate in the event of another international incident like Korea would be desirable.

Chairman Martin stated that the relations between the Federal Reserve and the Treasury were never better, but that that statement did not imply that the Secretary of the Treasury was happy about the increase in interest rates that had taken place.

Following a reference by Chairman Martin to the fact that the recent decline in prices of Treasury securities had not occasioned much concern, Mr. Fleming referred to the increased demand for schools and other municipal facilities and stated that there would be a large volume of municipal issues in the months to come which would be very attractive investments in a period of high taxes.

2. The Board would also like to have the views of the Council as to the best way to improve the understanding of Congress and the public as to the limited area in which the Federal Reserve Board and the Open Market Committee can operate to minimize inflation. This is important because of current discussion much of which is seriously misleading and may place the Board in a difficult light at a later time. The Council believes there is a lack of adequate understanding by members of Congress and the public generally, including many bankers, regarding the functions and operations of the Federal Reserve System and the limited area in which it can operate. An answer to the question would call for a comprehensive program of education. While the Council believes such a program could be helpful, it also believes that to be effective it should not be undertaken without extended discussion between the Board and other groups as well as the Council. The Council will be glad to discuss the subject orally with the Board and hopes that in the discussion the Board will state the particular aspects of the subject which cause it concern and especially those which
the Board feels may place it in a difficult light at a later time.

President Brown stated that the members were impressed with the great lack of understanding on the part of bankers and the public of the Federal Reserve System and of the relationship of monetary and credit regulation to materials allocation, wage controls, and other direct controls. It was the view of the Council, he said, that the Board should not undertake itself to conduct an educational campaign for the reason that it might be accused of propaganda for increased authority over reserve requirements, for the restoration of authority for the regulation of consumer and real estate credit, and perhaps for authority for some kind of credit allocation. He added that the Council felt that the Board might get the assistance of the Reserve City Bankers Association, the Committee for Economic Development, and perhaps other groups, and that arrangements might be made through the Federal Reserve Banks for university professors or directors of banks to speak to various groups in their respective districts. He then stated that the Council would be glad to have any comments that the Board might wish to make as to how an educational program might be worked out.

Chairman Martin stated that the Board had been giving the matter considerable thought but had not come to any conclusions, that the matter had recently been discussed with the Presidents of the Federal Reserve Banks, and that he would give President Brown a letter addressed to the Council
pursuant to an understanding at a recent meeting of the Board and the Presidents. The letter referred to by Chairman Martin read as follows:

"At a recent meeting in Washington the Presidents of the twelve Federal Reserve Banks gave consideration to the objectives of the System's program of bank and public relations. It was emphasized that increased public attention has been focused upon the Federal Reserve System by the events leading up to and since the Treasury-Federal Reserve accord and also by the hearings before the Patman Subcommittee. It was the feeling of the Presidents that these events pointed up the increased need for, and the value of, a carefully prepared statement of the objectives as well as the scope and content of the System's bank and public relations program. They asked that the Board collaborate in the preparation of such a statement and that the assistance and advice of the Federal Advisory Council be solicited.

"The Board agrees that the problem is an important one and it has been giving considerable thought to it, particularly since the Patman hearings. However, we have suggested to the Presidents that more progress might be made if the Presidents would formulate separately their views on the statement and if the Federal Advisory Council were asked for a statement of its views, with the thought that when these statements were available a decision could be made as to how to proceed in the preparation of a System statement.

"Accordingly, the Board would appreciate it very much if the members of the Council would give consideration to this problem and submit to the Board by the time of the next meeting of the Council and the Board a statement of the Council's views with respect to what the System program might be. The members of the Council may wish to discuss the matter with the Presidents and Directors of their respective Federal Reserve Banks with a view to obtaining information on the System's existing program and the suggestions that have been made in the past with respect to desirable objectives."

Mr. Fleming stated that an effective program could not be carried out through the use of printed material alone, that whatever program was decided upon should be carried out through the 12 Federal Reserve Banks,
and that the Chairmen of the Reserve Banks who were prominent business
men in their respective districts could arrange meetings with bankers and
other leaders in the district at which the purposes and functions of the
System could be explained and at which a supplementary pamphlet might be
distributed. He referred to the Banking and Industrial Committees which
were created in 1932 for the purpose of developing ways and means of mak-
ing effective use of the funds which were being made available by the
open market program of the Federal Reserve System and stated that some-
thing along the lines of that program, which would contemplate a series
of meetings over a period of a year or more in each Federal Reserve District,
would be desirable.

President Brown asked what the Board had in mind in the last sen-
tence of the question set forth above as being seriously misleading and
as possibly placing the Board in a difficult light at a later time.

Chairman Martin responded that there was some feeling on the part
of some members of the Board that the Treasury-Federal Reserve accord might
be interpreted as expecting the Federal Reserve to do more than it could
possibly do to restrain inflation, that it was very easy for the public to
ignore the problem of Government expenditures and taxation and to take the
position that everything could be solved by credit policy, and that the
problem of making clear to the public just what could be accomplished
through monetary and credit policy was one that was very much before the
During a further discussion, Chairman Martin commented that the theme of an educational program should be the regulation of the supply of money for the purpose of promoting economic stability.

Mr. J. T. Brown was of the opinion that the Federal Reserve System was the most misunderstood agency of Government, that the small bankers did not understand the System, and that since they were close to the people they should be given such an understanding. He was also strongly of the opinion that any program of bank and public relations should be handled through the Federal Reserve Banks rather than by the Board. He suggested that the desired results so far as banks were concerned might be obtained largely through providing discussions of the System in the programs of the various banking schools. He also stated that whatever program was undertaken should "start at the grass roots rather than at the top of the ladder", and that it was highly important for the sound functioning of the economy of this country that an understanding of the System and its functions be brought about.

Other members of the Council concurred that any educational program adopted by the System should be handled through the Federal Reserve Banks and that the program should be substantially uniform in all districts. The suggestion was again emphasized at this point that the program would have to be implemented through oral statements and not through the medium of printed
material alone, and that there were in existence plenty of books on the Federal Reserve System which were not being read by those whom the System would want to reach.

President Brown suggested that this matter might be discussed at the forthcoming Conference of Chairmen of the Federal Reserve Banks for the purpose of getting the ideas of the Chairmen on how the "selling" aspects of the problem might be approached.

At this point Mr. Ringland, a member of the Federal Advisory Council from the Ninth Federal Reserve District, joined the meeting.

In response to the request in the letter set forth above for the Council's view on a desirable bank and public relations program, President Brown stated that the members of the Council had only a limited amount of time to give to the problem but they would do their best to have suggestions on it by the time of the next meeting of the Council in November.

Chairman Martin stated that the Board did not expect a comprehensive answer and that the comments made by the members of the Council at this meeting would provide answers to some of the questions which the Board had in mind.

Mr. Geoffrey Smith suggested that the available books on the System were so full of technical economic and financial language that they could not be understood by the people that the Board would want to reach and that one of the difficulties which the System would face would be to
put its message in terms which the ordinary person could understand.

Chairman Martin concurred in Mr. Smith's statement and added that the problem was one of relating the purposes and functions of the System to the process of earning a living and that up to the present time that had not been done.

3. The Board would appreciate having a discussion with the Council of the recommendations contained in the report of the Patman Subcommittee. The Council welcomes the opportunity to discuss with the Board the recommendations contained in the report of the Patman Subcommittee.

Referring to the specific recommendations in the Patman subcommittee report, President Brown stated that the Council would not favor the creation of the consultative and advisory council proposed by the subcommittee even if the Council were created by executive order rather than by legislation, since it might endanger the independence of the Board. He also said that the Council would not favor the submission of the budgets of the Board or the Federal Reserve Banks to the Banking and Currency Committees or making the Board or the Banks subject to audit by the General Accounting Office as these arrangements might be the first step to undermining the independence of the System. The Council did not agree, he said, that representatives of labor necessarily should be appointed to the boards of directors of the Federal Reserve Banks but did not believe that such representatives should be entirely excluded. There was agreement that the present geographical and other qualifications contained in the law for membership on the Board of
Governors should be dropped since in the past they had hampered the selection of the best man available. There was no consensus among the members of the Council with respect to the size of the Board of Governors or the length of term of membership, but a majority would favor a Board of five members with a term of 10 years. There was unanimous agreement that the salaries of the members of the Board should be raised as recommended by the Subcommittee. The Council opposed unanimously the elimination of the existing tax exemption on Federal Reserve Bank stock. President Brown concluded with the comment that undoubtedly legislation to carry the recommendations of the subcommittee into effect would be introduced by someone and that the Council felt it would be better for the bankers to wait until such legislation was being drafted before undertaking to comment on what changes in existing laws would be desirable. He then stated that the Council would like to have any reactions that the Board of Governors might have to the recommendations of the Patman subcommittee.

Chairman Martin stated that the Board had not formulated its views on the subcommittee report, that the comments of the Council would be helpful in that connection, and that no decision had been made by the Board on what would be desirable in the way of legislation. One important point, he said, was raised by Senator Douglas in suggesting that "good fences make good neighbors", and that another important question that already had been referred to during this meeting was whether the System should underwrite
new Treasury issues. There was also the question, he said, whether it would be possible to write a satisfactory mandate with respect to the responsibilities of the Treasury and the Board.

President Brown stated that the Council was unanimously opposed to a mandate along the lines suggested by Senator Douglas for the reason that no matter how carefully it was drawn, conditions might arise in which it would hamper System operations and might prevent the System from taking very necessary action.

Mr. Fleming added that the Council was opposed to a legal requirement that the Federal Reserve Banks pay 90 per cent of their earnings to the Treasury for the reason that the present system was working satisfactorily and a legislative requirement might prove to be too rigid. President Brown added that a legal provision for the payment of a part of the earnings of the Federal Reserve Banks into the Treasury might be used as a basis for a demand that the Government Accounting Office review the earnings of the Federal Reserve Banks to see that the payments to the Treasury were in accordance with the law.

In response to an inquiry whether the staff of the Joint Committee on the Economic Report was working on legislation to put the Patman Subcommittee recommendations into effect and the comment that it would be helpful if the Board could keep in touch with developments in that connection, Chairman Martin responded that there was some indication that
legislation would be drafted and that the Board would keep in close touch with the situation.

President Brown stated that the Council had not undertaken to formulate any written comments on the various recommendations in the Subcommittee report, that it was understood that the Board did not expect such comments from the Council, and that if the position of the Council were stated in detail members might have somewhat differing views.

Mr. Bucklin suggested that while it would not be desirable to make the Board and the Federal Reserve Banks subject to audit by the General Accounting Office, consideration might be given to having a nationally known firm of auditors make a test check of the audits made by the Board and the auditing departments of the Federal Reserve Banks.

Governor Vardaman commented on reasons why he felt the System should consider arranging for independent audits of the Federal Reserve Banks by outside auditors. He also said that he understood that the Patman Subcommittee would meet in November and at that time would initiate plans for the implementation of the recommendations contained in the Subcommittee report.

President Brown stated that the next meeting of the Council would be on November 16-18 and that by that time developments in connection with the Subcommittee recommendations might be somewhat clearer.

In connection with a comment by President Brown that the staff of
the Board had made an excellent presentation to the Council yesterday afternoon of the business and credit situation, Governor Vardaman referred to the flannel board presentation worked out by Vice President Wayne of the Federal Reserve Bank of Richmond entitled "Your Money's Worth", and suggested that the Council might wish to arrange to have Mr. Wayne make the presentation at the next meeting of the Council.

Thereupon the meeting adjourned.