

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, November 18, 1952, at 10:30 a.m.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary

Messrs. Bucklin, Smith, Gund, Fleming, Davis, Brown, Alexander, Ringland, Beals, Ray, and Lohead, Members of the Federal Advisory Council from the First, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively.

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 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.

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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.

President Brown commented that this meeting was being held just before a new administration and a new Secretary of Treasury would be

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coming into office and just before some changes in membership of the Federal Advisory Council would take place at the year-end, as a result of which it was difficult to discuss some questions such as debt management. The short agenda for this meeting, he said, reflected to some extent these circumstances as well as the fact that the Council had met with the Board only six weeks ago.

President Brown then read topic 1 and the answer given by the Federal Advisory Council as set forth above, stating that the answer was a composite statement of the Council's views in which Mr. Henry C. Alexander concurred. (Mr. Alexander had attended the meeting of the Council yesterday and the day before in the absence of Mr. Jackson, member of the Council from the Second Federal Reserve District.)

In commenting on this topic, President Brown said that there had been little change since the report on the business outlook given by the Council six weeks ago, except that some industries had been affected by the drought in Texas, Kansas, Nebraska, and on up to the Canadian border. The farm implement industry was one of these, he said, it having found that farmers had stopped buying machinery because they did not now know whether they would have a crop next year. As a result, inventories of unsold farm machinery were heavy and while it was not too serious in the economy as a whole it was serious in that

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particular industry. Throughout the whole economy, President Brown said, businessmen are apprehensive as to the latter part of 1953, feeling that in that period almost every kind of goods will be in good supply. If this feeling of apprehension became strong enough, it would mean not only cutting down of plant expansion programs but probable cutting down on current production generally in order to avoid excessive inventories. President Brown noted that the anticipation of a slump in the latter part of 1953 might of itself be a psychological factor bringing about some falling off in production within the next six months.

President Brown stated that the Council wished to express its appreciation of the Open Market Committee's operations, that while the money market had been tight it had not been too tight, and that on the basis of comments made by Mr. Henry C. Alexander, there was no more thought on the part of the money market banks of an increase in the prime commercial loan rate.

Mr. Beals then commented upon the drought in the Tenth Federal Reserve District, stating that although this year's wheat crop would be the second largest crop on record, the prospect for a crop next year was nil. Mr. Beals noted that one-third of the United States winter wheat crop is ordinarily harvested in Kansas, that such wheat as had been planted this fall had been in dust, and that unless good rains



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came almost immediately there would be virtually no crop next year. He noted that the drought also had seriously affected the livestock industry which relied to an important degree on wheat pasture for feeding livestock, that this situation accounted for a collapse in prices of feeder cattle which were now bringing ten dollars a hundred less than a short time ago, and that the lack of market was forcing many livestock raisers to put cattle on commercial feeds. Mr. Beals stated that a similar situation extended most of the way from the Canadian border to the Gulf of Mexico in the great plains area, citing reports of old residents that this was the most severe drought ever experienced in some sections.

Mr. Ray stated that in general the description given by Mr. Beals was applicable to about two-thirds of the Eleventh Federal Reserve District but that that district also had a great deal of industry which was very active with virtually no unemployment, that oil and gas royalties were helping to maintain incomes of farmers, that the cotton crop in the Eleventh District would total around 3.5 million bales this year which is a half million more than had been anticipated earlier this season, and that building activity in the area was generally continuing strong. Mr. Ray did not wish to minimize the serious outlook for crop and livestock producers but felt that the situation in the Eleventh

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District was not quite as serious as he understood it was in the Kansas City and Minneapolis Districts.

Mr. Ringland stated that the Minneapolis District was predominantly agricultural, that there was a great feeling of discouragement because of the drought, and that while the situation was not yet hopeless, rainfall would have to come quickly if crops in the Ninth District were to be reasonably satisfactory next year and if the area was to maintain its income.

Mr. Gund stated that economic activity in the Fourth District, which had been the most active defense production area in the country, was continuing on a steady basis, although here and there some adjustments in production schedules and outlook were taking place. Except for the atomic energy plant being developed in Pike County, Ohio, plant expansion in the Fourth District had come to an end for the time being.

Mr. Lohead felt that "apprehension" was too mild a word to describe the situation in the Twelfth Federal Reserve District, that there was real concern regarding the outlook in Pacific Coast States. He looked for automobiles, refrigerators, and many other goods to be in over-supply during the next year or two, and stated that while the Pacific Coast was growing in population it would be difficult for demand to keep up with the supplies of consumer goods that would become

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available. Mr. Lohead expressed the view that banks and other credit grantors were loaning too freely on consumer equipment.

Mr. V. J. Alexander said that while the bankers should run their banks so that they would be prepared for a depression should one develop, they should not talk on the outside as though they expected such a development.

In response to a request from President Brown for the views of the Board, Chairman Martin speaking for himself said that the comments on the drought situation were a new element on which he had had little information, that the signs of strength in the economy were nothing to be apprehensive about but were "froth" on the inflation wave, that there was little likelihood of another wave of inflation, and that the outlook for the next three to four months seemed to be quite good. The real question, he felt, was whether business would make adjustments that would have to be made in prices, selling techniques, and output quotas; if such realignments were not going to be made in the next year, the country might have more of a recession than necessary. Chairman Martin said that it was not possible simultaneously and continuously to have price stability and full employment, that price readjustments of the sort he had mentioned must take place, and that sooner or later the economy would be faced with the question whether at the appearance of a

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buyers' market it was going to make the necessary adjustments in the supply-demand relationships or whether business would call on the Government for measures to avoid such adjustments. He felt the economy would have to have a readjustment and that regardless of the administration in office, measures which would vitiate the process of supply-demand adjustments were not desirable. Chairman Martin then asked for the views of the Council whether the present expansion in business loans would be topping out in the next few weeks and followed by a decline.

President Brown commented that all members of the Council expected a decline in commercial loans after mid-December, probably at a greater than seasonal rate until late in the spring. An exception to that trend would be loans to finance the tobacco crop.

In response to a question from Governor Szymczak, President Brown stated that most of the members of the Council had indicated they would not favor a renewal in the Defense Production Act of authority for regulation of consumer credit, that it was not felt desirable to have the regulation of real estate credit become effective again, and that while standby authority for the Voluntary Credit Restraint program was desirable it would not be wise to try to put such a program into effect under present conditions or those which the Council anticipated.



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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.

President Brown called upon Mr. Fleming, who stated reasons why he felt it would be desirable to have information available on the impact of the excess profits tax on banks even though there was considerable feeling that the tax might be permitted to expire without renewal in 1953.

Chairman Martin stated that the Board appreciated the suggestion of the Council and that it would consider it at an early date.

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.

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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.

President Brown said that it was difficult for the members of the Council, scattered as they were in all parts of the country, to formulate views on this matter. While none of the members of the Council were specialists in public relations, they felt the memorandum prepared by Mr. Prochnow had many good suggestions. Without necessarily endorsing every suggestion in the memorandum, the members of the Council felt it would be helpful to the Board to consider the suggestions made.

Several members of the Council expressed the view that the System should avoid any appearance of "high-pressure selling" or propaganda for the System, that such work as was done should be carried out through the Federal Reserve Banks, and that it might be helpful to obtain suggestions of businessmen who were not bankers as to how they would deal with the problem of improving public understanding of the Federal Reserve System.

Mr. Ray stated that the directors of the Dallas Federal Reserve Bank had discussed this matter at their most recent meeting and that he was convinced that a great deal could be done by the use of Reserve Bank

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officers and directors, who could give talks and in other ways promote better understanding of the Reserve System.

This concluded consideration of the matters listed on the memorandum of topics for discussion at the meeting of the Board and the Federal Advisory Council.

President Brown inquired as to whether the Board had any indication as to whether anything would develop in the forthcoming session of the Congress as a result of the Patman Subcommittee report and whether there was anything the members of the Council could do pending determination of the membership of the new committees and what the new Congress might do. He expressed the view that perhaps nothing should be undertaken by the Council until the situation was further clarified.

Chairman Martin responded that the Board had no information as to what might develop in the Congress in the way of legislation or as a result of the Patman Subcommittee report.

Governor Mills inquired whether the Council knew of any legislation in the commercial banking field that the Board should concern itself about, and President Brown said he knew of nothing. Reference was made in the ensuing discussion to the question of relief from excess profits taxes and legislation to provide uniform tax treatment for banks and building and loan associations.

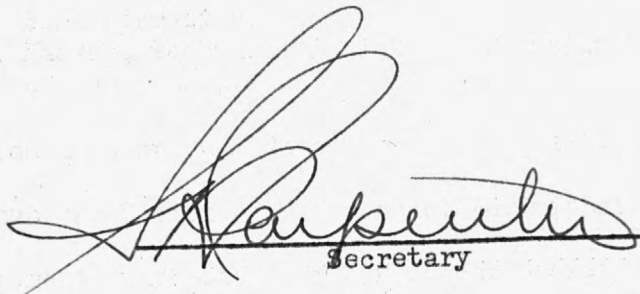
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Governor Robertson then made a statement at Chairman Martin's request on the bank examination school which was being conducted in Washington by the three Federal supervisory agencies. He said that one five-week session of the school had been completed, that a second was now under way, that its purpose was to train "green" assistant examiners so as to speed up their development, and that while the school was still experimental, it was hoped that it would be an aid in improving the quality of examining staffs and making service on such staffs more attractive to desirable individuals.

All of the members of the Council indicated that they felt the training program outlined by Governor Robertson was a step in the right direction.

It was understood that the next meeting of the Council would be on February 15-17, 1953.

  
Secretary