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 on Tuesday, November 15, 1955, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary

Messrs. Ireland, Alexander, Mitchell, Denton, Fleming, Davis, Brown, Campbell, Ringland, Chandler, and Matkin, members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, and Eleventh Federal Reserve Districts, respectively

Mr. William J. Korsvik, Acting Secretary of the Federal Advisory Council

Before the meeting the 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 joint meeting. The statement of the topic, the Council's views, and the discussion with respect to each of the subjects were as follows:

1. What are the views of the Council with respect to the prospective business situation during the remainder of this year and the first six months of 1956? Information and views as to the position of farmers would be particularly significant at this time.

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Business activity is continuing at an unusually high level. The Council believes that during the remainder of this year and the first six months of 1956 business will continue exceptionally good and will increase, although at a lesser rate than so far in 1955. The dollar volume will increase more than the volume of physical output.

Farmers generally have not shared with other segments of the economy in the prosperity of the last year. The situation of particular groups of farmers in the United States varies greatly, but the share of the agricultural industry as a whole in national income has decreased. Farming is becoming more mechanized, and there is a trend toward larger and larger farm units. Where weather conditions have been favorable, the income of the farmer with considerable land and equipment has not decreased significantly. In sectors affected by drought conditions, all classes of farmers have suffered. In most sections of the country, small farmers with little land or equipment have suffered severely, and many are leaving their farms and seeking employment elsewhere. The tremendous farm surpluses held by the Government are a continuing threat to the entire agricultural industry and ultimately to the whole economy.

President Brown stated that all members of the Council reported that the sentiment of businessmen and the general public in their respective districts is uniformly optimistic. This very fact caused the Council to be rather skeptical as to the soundness of the boom, President Brown said, adding that when there was such a uniform feeling of optimism, it was time to be prepared for a change. He went on to say that since the preceding meeting of the Council, there had been a period of two or three weeks following the announcement of the President's illness when confidence for the immediate future and for next year was badly shaken. However, that feeling of uncertainty had now pretty well worn off. The Council felt that trade this fall would be very high and for the first six months of 1956 business

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would increase somewhat, particularly when measured by value figures. Some further rise in prices was anticipated and the increase in physical volume would be less than the dollar figure. President Brown said that the Council wished there was not so much "boom psychology." The members were fearful that further wage increases would occur and this would trend toward higher prices. The general prosperity of business made it increasingly difficult to resist demands for such wage increases.

President Brown said that some of the members of the Council would speak in more detail on the farm situation. The over-all view was that the farmers were "growling" about the decline in hog prices and yet income of farm families in some of the most important agricultural areas of the country, such as the Middle West and North Central States, had not suffered much. In some sections where there had been widespread drought and in some segments like the dairy industry, farmers had been hard hit and their incomes had suffered. Many of the small farm units and tenant farmers were finding they could not benefit from mechanization. Their farms were not large enough to justify the investment in more machinery and, in any event, they did not have the money to buy such equipment. The surpluses of farm commodities were a serious threat to the whole economy unless some method was found for disposing of them and preventing further accumulations.

Mr. Campbell said that in the St. Louis District the family-size farm had traditionally been a big factor in the economy; now that type of farm was fast going out of business. The increase in costs of production

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and the higher prices for things the farmer buys had a good deal to do with this development, he said. The kind of farm-family operation he referred to could not afford the things it desired — an automobile, a truck, a tractor, and items for the house -- unless some of the members of the family supplemented farm income by working in factories. All over the Mississippi Valley, the small cotton farmer was disappearing. Farm units were increasing in size and were becoming mechanized. It was no longer feasible to "hand pick" cotton but the small farm could not buy a mechanical cotton picker. The large farm operator must have not only more machinery but good business judgment and productive land in order to stay in business. Mr. Campbell also referred to the large surpluses hanging over the market and said that these meant that prices would be reduced for the things the farmer had to sell. This situation, combined with further increases in the cost of farm machinery, meant that even with a large operation, the outlook was not "rosy" although some operators, of course, always made money. Actually, at the present time crops of cotton, corn, and beans were the largest in history in the Eighth District and while they would add to the surplus problem, this would help farmers in that section of the country to get prepared for what was coming next year.

Governor Shepardson referred to Mr. Campbell's statement on the trend in "family farming" and inquired whether Mr. Campbell meant to indicate there was a trend to "corporate" farming or whether he meant to indicate the trend was to larger "family units."

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Mr. Campbell said he had not observed an increase in corporate farming, but the increased size of farm units meant a drastic change in the method of farming since they used more machinery and hired or used less hand labor than formerly when small units were operated by individual tenant farmers.

Mr. Chandler said that in the Tenth District the agricultural situation was producing a lot of interest politically and it was a psychological factor. The district had had drought conditions to contend with this year in addition to acreage allotments. There had not been a great change in prices of land nor had there been any great amount of land changing hands.

Mr. Matkin said that in the Dallas District there had been an acreage reduction because of Government controls, and the dollar value of the cotton crop would be down 5 per cent and of rice 15 per cent. Acreage reductions were much greater but farmers had followed better production methods and were actually raising larger crops. In some cases they were paying off loans carried over from preceding years. Farmers were getting by, Mr. Matkin said, but were not happy about their situation.

Chairman Martin referred to the factor of "confidence" and noted that it was difficult to measure. He said he had observed two schools of thought since the President's illness. The illness had caused political uncertainty which would have been due in 1956 anyway. However, more recently there had been a resurgence of confidence with the reports and indications of improvement in the President's condition, and this had caused

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a reassessment of the whole picture. One school of thought now felt that the confidence in the outlook was greater than ever before. Another school of thought was represented by the group of persons who felt that there is no question but that the peak of the present boom was reached on September 24 and, while there would be testing, historically the chances of a new peak being reached were small. Chairman Martin inquired as to the feeling of the members of the Council on this point.

Mr. Fleming referred to the meeting of the Business Advisory Council near the end of October and noted that sentiment of businessmen at that meeting was "wonderful". Gross national product for the third quarter was $391.5 billion, and it was predicted that it would go to $400 billion by the end of the year. The stock market was up again and most of the decline that took place after the President's illness had been recovered. Mr. Fleming said that personally he did not think the peak had yet been reached. Growth in the future might be slower than it had been during the past year or so but, in his view, activity would at least hold the present level barring some emergency.

Chairman Martin noted that Mr. Matkin had indicated that the psychology of farmers was bad and he inquired whether there was any indication that the decline in farm prices was nearing an end or stabilizing.

Mr. Matkin said that in terms of the cotton situation, with which he was most familiar, he thought the outlook was "absolutely hopeless."

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He did not know what could happen to change this outlook. The United States could not sell in world markets because such high domestic prices had been developed under supports that other countries had now started raising cotton. Various substitutes for cotton had been brought into the market and over-all consumption domestically was relatively not as large as formerly. In sum, there just is not as much demand for cotton as there is production. A world war had gotten the cotton producer out of his last big problem before this one, and Mr. Matkin said that he saw no solution to the present problem.

Mr. Davis said that if support prices for cotton were withdrawn it was estimated the price would go quickly to 12 cents a pound. On the subject of confidence, he felt that a great majority of the public lived "day to day." The President's illness showed how easy it was to shock confidence. He did not think the current resurgence of confidence was deep-seated, and much of the feeling of strength in the outlook could disappear rapidly if some event occured to impress the public.

Mr. Davis also said that he would emphasize Mr. Campbell's remarks regarding small farm units which in the past had been of such great importance to the United States and which were now fast disappearing. His further comments were to the effect that this was an agricultural revolution, and the trend of population from the farm to the city was having significant social as well as economic effects.

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Mr. Ringland said that the Minneapolis District had been favored by good moisture conditions this year and excellent crop production. While crops are not bringing the prices they were, the increased quantities were holding up income. The wheat crop, which was one of the best in history, was moving slowly but would probably produce as much income as last year. Mr. Ringland did not think that the farm segment of the country would have been so unhappy except as it compared its current position with other segments of the economy which were benefiting more from the current boom.

President Brown said, in response to a comment by Governor Shepardson, that the dairy farmers in Wisconsin were having a much harder time currently than were grain or hog farmers. He agreed, however, that there had been some improvement in the butter situation during the past year or so.

Chairman Martin inquired whether there was general concurrence with the view expressed by Mr. Fleming that the peak of the boom was still to come, or whether there was a feeling that the economy was reaching the top of the current boom and that we could not look forward in 1956 to a substantially higher gross national product.

Mr. Fleming said he did not think the boom was topping out yet. He thought there would be less rapid rises in gross national product in 1956 than in 1955, but he still thought the economy would move upward.

Chairman Martin then referred to Mr. Davis' comment that the feeling of confidence was not deep-seated and could easily change. He said that

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he subscribed to this feeling. He then inquired how much of a factor the political uncertainty that would be present during 1956 because it was an election year might prove to be.

Mr. Fleming said that his feeling was that the uncertainties of 1956 would affect 1957 more than 1956, and he noted that plant expansion programs that would be started on the basis of the present outlook would not be completed in many cases for a year or two.

Mr. Denton said that businessmen in the Cleveland District, in his opinion, felt less certain than Mr. Fleming had indicated about the peak of the boom. The present atmosphere everywhere was the same as that described by Mr. Fleming in his comments on the Business Advisory Council meeting and Mr. Denton would have no qualms about the next six to nine months. However, a change in credit policy might be needed during the first quarter of 1956 if there were then signs that a decline might come in the second half of that year rather than waiting until 1957.

President Brown said that views regarding the effect of political uncertainties in 1956 depended largely on whom one might be talking with, and he cited a conversation with the head of one large firm who had said that if a change in administration were indicated next year, his company's expansion program for the next three years would be cut in half.

2. What are the probable changes in the volume and purposes of bank loans (a) during the remainder of 1955, (b) during the first six months of 1956? Without limiting in any way

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the scope of this question, it is hoped that the members of the Council will report fully on developments and prospects in the field of real estate credit.

The Council believes there will be a moderate increase in bank loans between now and the end of the year. A seasonal reduction in loans should occur after the first of the year, but the Council anticipates that the reduction will be less than usual.

However, by mid-year of 1956, there probably will be an increase in the total volume of bank loans now outstanding. With the present and anticipated production of automobiles and other durable goods, it is inevitable that the amount of bank loans required to carry consumer credit will increase.

Almost all of the large amount of outstanding commitments for new residential construction will be used. These commitments, even though made by nonbanking institutions, will have to be financed by the banks until the final holders of the mortgages—mostly insurance companies, mutual savings banks and Savings and Loan Associations—have the funds to provide the permanent financing. New commitments for financing residential construction are being reduced. Banks are screening requests for construction loans of all kinds carefully. However, the existing volume of arrangements of various types for financing and carrying real estate credit probably will result in an increase in the total of loans for this purpose over the next six months, after which the total should decline.

Bank credit for industrial construction should not increase materially. Although the volume of industrial construction is large and may increase, a larger portion of it than formerly is presently being financed by longer-term borrowings, either through insurance companies or in the open market, and less by borrowings from banks.

President Brown said that the commitments which bankers had already made to insurance companies had to be carried out and the insurance companies had to carry out their commitments to mortgage bankers and builders or there would be numerous bankruptcies with attendant difficulties for

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banks and the whole economy. On the other hand, mortgage bankers know that they are going to have difficulty obtaining additional financing, and they are not making commitments to builders in the manner that they were earlier. Since the outstanding commitments have to be carried out if widespread bankruptcies are to be avoided, there will not be a down trend in real estate credit until perhaps near the middle of 1956. With respect to consumer credit, President Brown recalled that the Council had brought out in September that not only direct loans by banks but also loans to finance companies and retailers were important in maintaining the volume of funds available to consumers. The Council felt that the total volume of all types of loans would be higher in the first six months of 1956 than a year earlier, except that Mr. Denton had some doubts that this would be the case.

Mr. Denton said that the difference in his position was primarily a matter of degree, that he was perhaps a little less optimistic than the other members of the Council as to the increase that might take place in the volume of bank loans during the next six months.

Governor Balderston inquired whether new model automobiles were selling in accordance with dealer expectations.

President Brown said that reports indicated the new models were moving well and he then called upon Mr. Alexander for comment.

Mr. Alexander said he believed it to be true that the new model automobiles were moving according to expectations. The major companies were scheduled to produce at full capacity for the next six to eight weeks.

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They are encouraged by the way the models are moving out to dealers and out of dealers' hands. Dealers had an excellent close out of 1955 model cars, Mr. Alexander said, with much more modest stocks than were carried over a year before. He thought the new car market was still strong and he also said that, despite some reports by some individual dealers to the contrary, the average new car dealer had a very fine year in handling the 1955 models with profits for one large group averaging about double their profits from handling the 1954 models. More money would be required in financing the 1956 models even if there were no further "worsening" of terms, Mr. Alexander said, partly because the terms already had been lengthened this year and partly because prices had been increased from two to five per cent on most cars. He doubted there would be further major lengthening of terms; in any event, he said there always seemed to be credit available in some manner to finance the man who wants to buy a new automobile. Mr. Alexander also said that he did not know the answer to a question asked by Governor Robertson as to whether dealers were being "pressured" unduly by manufacturers to take automobiles. He cited instances in which some dealers could not make delivery of cars and stated that, while some dealers were overstocked, others (particularly those who held themselves to be "volume" dealers) wished they could get more cars.

Mr. Mitchell said that in the Philadelphia District new cars were moving just as fast as the dealers could get them. There was no accumulation

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of inventories as yet. Mr. Mitchell said that automobile dealers did not seem to have bothered to solicit potential buyers very much and that their sales were being made largely to persons who came in to buy or at least to look at the new models.

Chairman Martin stated that he had received a number of letters from dealers suggesting that restrictions on consumer credit terms along the lines of the former Regulation W should be restored. He thought this was an indication that some dealers were having difficulties. He also said that at some point, if the manufacturers forced the market too hard, it ceased to be a free market. He had observed in recent months an increasing number of statements by dealers that they were being told by manufacturers that they must take so many cars or give up their franchise. While there was unquestionably a middle ground, he felt this was a point to be observed in terms of a free market.

Mr. Alexander agreed that some dealers and associations of dealers have the attitude that dealers are under pressure from manufacturers, and that some favor a return to regulation of credit. While he did not know how large the number of dealers having that view might be, there seemed to be a growing feeling among dealers that they would like some form of regulation of credit terms. Mr. Alexander also noted that a Congressional committee was looking into anti-trust aspects of the automobile industry and he expressed the view that some dealers would be brought in to testify who would make complaints about the way in which cars were being forced on them.

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3. Is there any concern about the proportion of new car installment paper acquired by banks that has less than standard down payments and very long terms?

The Council does not believe that the proportion of new car installment paper, so far acquired by banks, which has less than standard down payments and very long terms, threatens serious losses to banks except in isolated and unusual cases. The Council is concerned with the effect on the over-all economy of loans, made either by banks or finance companies, with smaller down payments and on longer terms, because they tend to accentuate the present boom and the intensity of any subsequent recession.

President Brown said that the members of the Council had wondered what the Board considered to be "standard down payments" and "standard length maturities." The Council's comments would vary, depending upon whether the Board considered a standard down payment to be one-third or one-fourth of the selling price of the car, and whether it considered a standard maturity to be 24 months or 30 or 36 or more months. He went on to say that some members of the Council presented statistics showing a large amount of new automobile paper having terms of longer than 30 months and that in some sections of the country it was reported that 36 months maturity was quite usual.

Governor Balderston inquired as to the views of the Council with respect to the thinness of equities in car deals. He understood, he said, that after down payment of 25 per cent with 36 months maturity, the buyer would have about a 10 per cent equity on the depreciated value of the car at the end of a year; he also understood that in a considerable proportion of new car deals, there was no equity for the purchaser for six months or more.

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Mr. Ireland said that in the Boston District there had been some concern on the part of bankers regarding the terms for new automobile sales and that statistics had been collected recently which showed that more than 51 per cent of the new car paper during September carried maturities of 31 to 36 months. The variation among bankers was wide, however, with one reporting bank showing only nine per cent of its automobile contracts having maturities in the 31 to 36 months range, whereas a bank at the other extreme showed 83 per cent of its new car contracts having maturities in that range. Seventy-five per cent of the contracts reported showed down payments of 33 per cent or more including trade-ins, while five per cent showed down payments of less than 25 per cent including trade-ins. Mr. Ireland said that the trend was undoubtedly toward further lengthening of maturities rather than further reductions in the down payments. He also commented that as far as banks were concerned, the more liberal terms were being granted by the larger banks in larger centers while smaller banks in outlying sections were less ready to extend their terms.

Governor Robertson said that he was interested in knowing whether there was an "inching up" in terms, both in lengthening of maturities and reducing down payments, and that the Board's question was directed more to the trend than to a specific level of terms.

Mr. Mitchell said that for several months earlier this year there had been considerable deterioration in terms but that during October and November there had been some upgrading in the Philadelphia District, even

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to the point where banks were losing some business. He had seen figures for some banks in that District which showed from 35 to 55 per cent of their contracts with maturities ranging between 30 and 36 months, with down payments in all cases ranging between 25 and 33 per cent. Mr. Mitchell had the impression that in the Metropolitan area the greatest pressure for lengthening terms had come from the finance companies, and he also expressed the view that, as far as banks were concerned, the lengthening of terms had pretty much reached its limits.

President Brown noted that one aspect of the question related to the solvency of banks, whereas another related to the effect of the lengthened terms on the over-all economy, and he asked that members of the Council comment on these points.

Mr. Fleming stated that his bank had been holding to a 25 to 30 month maturity generally speaking with variations where the credit report seemed to justify it. Experience with such loans had been excellent and, while there were instances of loss, they were negligible in relation to the reserves that had been set up to cover such losses. Mr. Fleming also felt that there would be increased pressure during the next year for further easing of terms.

Mr. Alexander said that he thought the smaller finance companies had been offering more liberal terms than the larger organizations. He also felt that the larger finance companies would be "inching out" in their terms, but he did not know whether the banks would extend their terms further.

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President Brown reported a conversation with an official of one of the largest finance companies recently who had informed him that his company would meet whatever competition developed for more liberal terms. It was quite clear, he said, that there would be a gradual lengthening of the whole range of terms. He also expressed a personal opinion (and not a judgment of the Federal Advisory Council) that the lengthening of terms had not threatened the solvency of banks, although it might have threatened the solvency of some of the small finance companies.

Mr. Mitchell expressed the view that the upgrading in terms in the past two months in the Philadelphia District to which he had referred had been due in part to the general credit restraint program of the System. He felt that the general shortage of money had been a factor in enabling the banks to be more selective.

Mr. Denton said that the Cleveland District was benefiting from the tendency of finance companies to meet competition at the local level rather than to offer easier terms voluntarily. His observation was that recently maturities in that district had been shortened and down payments increased. Banks were reducing the proportion of automobile contracts having maturities over 30 months, and this was resulting in finance companies also tightening up. The general shortage of money was enabling banks to pick and choose more than they could six to nine months ago.

Governor Shepardson said that he had had reports of maturities of from 42 to 48 months in the Dallas District, particularly in the Houston

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area, and Mr. Matkin responded that he was not familiar with terms of that length in the El Paso area, although he would not say that such terms did not exist in the Houston region.

Mr. Denton stated, in response to a question from Governor Vardaman, that the shortening of terms to which he had referred had not been accomplished by a "ballooning" of contracts at the end of the shorter maturity; it represented a "straight-out" reduction in the length of the contracts.

Mr. Alexander said that the trend was more and more for finance companies to finance dealers in their wholesale operations on more favorable terms. Also, the finance companies more and more were taking retail paper from dealers without recourse. This eased the position of the dealer and encouraged him to take more paper having more liberal terms.

President Brown said that the long-run effects of the easing of instalment credit terms on the economy, in the opinion of the Council, accentuated booms and depressions. It meant that the boom would go farther and extend longer and that any subsequent recession would probably be accentuated also. This was true not only of the automobile credit but also of other consumer credit. While the solvency of individual banks or finance companies might not seem to be greatly affected by the lengthening of the terms, he was convinced that this tendency would intensify booms and depressions.

4. What are the views of the members of the Council with respect to the System's current credit policies and what, if any, changes might be called

for by developments during the balance of this calendar year or during the first three months of 1956?

The Council feels that the System's credit policies since the last meeting have been excellent and that the present tightness of money is desirable under existing business conditions. The Council does not believe that the present policies should be changed during the balance of this calendar year or during the first three months of 1956 unless some unexpected development occurs in the economy. In short, the Council does not favor making money either tighter or easier at present.

Banks should have access to the discount window and such access should not be restricted or discouraged, as credit for productive uses must be available at some reasonable rate. Every member of the Council feels strongly on this point. Any indication that use of the discount window might be restricted or severely discouraged would result in a feeling of panic among bankers. The Council is not disturbed by the recent increase in member bank borrowings. If the legitimate credit demands of business are to be met, and if business continues at its present level or increases, borrowings from the Federal Reserve banks must be allowed to increase, or some relief must be provided by open market operations or through a reduction in reserve requirements (which the Council believes undesirable at the present time) or both, to bring about a moderate increase in the reserves of the member banks.

The Council feels that any small increase in the rediscount rate at present would not appreciably discourage borrowings and would have an adverse and undesirable effect on the government bond market.

President Brown said that the Council had spent most of its time in discussing this topic. Each member of the Council felt it desirable under present conditions to keep credit as tight as it has been during the last few months. While borrowings from the Reserve Banks have gone up, the banks doing the borrowing have been kept under continuous pressure to cut down on their borrowings, and they have done this by selling Governments

and reducing loans where possible. President Brown said that any feeling such as developed in 1953 that the discount window was going to be closed or severely restricted would create a "panic-feeling" among banks and would cause dumping of Government bonds. If the rediscount rate were increased to, say, 4-1/2 per cent, as had been done by the Bank of England, the effect would be serious. If the rediscount rate were raised 1/4 or 1/2 per cent, the Council felt that it would not have an important effect in discouraging borrowing by member banks but it would result in lowering prices of intermediate-term Government bonds severely. He did not think such declines in bond prices would be sufficient to threaten the solvency of banks; but banks do not like the red figures they now have in their bond portfolios, and above all they don't want to see them increase.

Mr. Fleming said the Council was in accord with the present policy of the System to keep credit tight; the Council thought it should not get tighter or easier. All members expect loans to increase but they do not expect deposits to increase. The attractiveness of the short rate recently has caused corporation treasurers to use funds in buying short-term securities, which meant that their balances with banks have been reduced well below the figures they usually would carry. Mr. Fleming thought that it might be necessary for the System to put a moderate amount of reserves into the market during the next few weeks if it was to hold the present tightness about where it is, and he said that this expressed the sentiment of all members of the Council.

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President Brown commented further on bank deposits in relation to levels a year ago, emphasizing that at larger banks deposit totals had declined in this period. He also said that he thought the willingness of insurance companies to make commitments for a year or two ahead reflected the expectation of lower interest yields on long-term bonds and mortgages. President Brown commented that expenditures for capital purposes were running well ahead of capital formation in this country at the present time. To the extent that the public spent more money on capital goods than was accumulated through capital formation, it was necessary to finance these expenditures through bank borrowing and in time this process was bound to lead to further inflation and attendant difficulties for the economy. President Brown expressed the view that the restrictive credit policy that had been followed had been slow in going into effect, but that it was beginning to work to contract the total amount of bank credit.

Mr. Mitchell agreed that money should not be made much tighter or easier at this time, but if it was a question whether a change should be toward credit tightness or ease, he would feel there was much less danger in making it tighter than easier. The danger of inflation during the next year was much greater than any risk of deflation, he said, and with the inflationary tendencies that were currently present, any easing in the money market was likely to set off an inflationary spiral that would be very difficult to control.

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Mr. Alexander referred to Chairman Martin's earlier question about "confidence". Business psychology had recovered in an amazing way from the shock it received with the announcement of the President's illness in September. Perhaps it was because the President was better, Mr. Alexander said, or perhaps it was because businessmen feel the country is on solid ground. Whatever the explanation, the degree of business confidence that prevails is amazing. It is not unanimous, he said, but it is overwhelming. A few serious minded persons (mostly observers rather than businessmen) think that the crest of the boom has passed but the majority think it is out ahead. Mr. Alexander said that he thought the crest was probably out ahead, but it is a fact that consumer and other demands are pressing on maximum productive capacity. This is true in steel, certain lines of chemicals, building materials, and in a way it is true in the automobile industry. Mr. Alexander thought there was danger of further price advances when production got close to the limits of capacity, as is now the case.

The strength of the long-term capital market is almost amazing, Mr. Alexander said. There seems to be a conviction that the interest rate probably will move lower rather than higher, and various classes of investors are buying and committing for securities, mortgages, and other long-term capital issues. Mr. Alexander said that he felt the bankers were the only credit grantors who were in a position to brake the demand; the Federal

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Reserve made the rules but the commercial banks had to live by them. He thought the bankers had done a good job in handling credits this year. Loans have been rising. Total deposits are up a little although in New York City they are down almost a billion since a year ago; banks have been selling Governments to meet loan demand and on the whole Mr. Alexander thought the banking situation had been very orderly. Banks are much less liquid than they were a year ago, however, and he cited loan-deposit ratios of some of the New York City banks as high as 65 per cent with most of them in the 45-60 per cent range. This bank credit was being granted to meet the need for building more production, which is the best answer to the pressure of limited capacity, Mr. Alexander said. A banker who made loans of that type was following good banking and good economics.

Mr. Alexander did not think borrowings at the Reserve Banks were alarmingly high, particularly because the loans they were supporting were going into production and helping to meet the demands of the public. He was not in favor of easing the pressure on banks at this time but he did believe that as the demand increased later this year, it would be necessary for the System to put more reserves into the market. Credit should not get any tighter, he said; it is tight enough now. He was afraid that if credit became any tighter the banks would be denying some productive credit that the economy needed. He did not believe the current tight policy had yet had its full effect although it was beginning to have more and more effect

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as more deposit ratios got up to the 50-65 per cent area. He thought that the build-up of pressure that would come with year-end developments would be sufficient for any further restraint that might be needed. Mr. Alexander said that he looked upon consumer credit as representing inventory. He did not think the $34 billion of consumer credit was high in relation to gross national product of $392 billion, although it was a substantial figure and if something should cause consumers to cease buying or if the business concept should change a little the whole situation could change very rapidly. Mr. Alexander reiterated that nothing should be done at this time to change credit policy.

President Brown said that all of the members of the Council felt very strongly that the discount window should not be restricted. This had been stressed by the Council when it met with the Board in September, at which time the Board members had assured the Council that there was no intention to discourage the use of the discount window or to add to the apprehension of bankers about being able to use the discount window. President Brown inquired whether there had been any change in the views expressed by the members of the Board on this point in September.

Chairman Martin stated that he concurred fully in what he understood to be the position the members of the Board had taken at the last meeting with the Council and none of the other members of the Board indicated any change in their views since that time.

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This concluded the discussion of the topics which had been submitted to the Council by the Board prior to the meeting.

President Brown then referred to a bill, H. R. 569, introduced by Mr. Patman, to increase to 12 the number of members of the Board of Governors and to provide that their terms of office shall be six years and to abolish the Federal Open Market Committee and transfer its functions to such Board. He noted that a copy of this bill had been sent to the Council by the Secretary of the Board yesterday for any views that the Council might wish to express on the proposed legislation. President Brown said that the Council was unanimously opposed to all three of the proposals contained in Mr. Patman's bill. The Council would be glad to prepare a formal resolution expressing these views if the Board so desired, or the Board was at liberty if an occasion arose to state the views of the Council as expressed at this meeting by President Brown.

Chairman Martin stated that he thought the views expressed at this meeting would be sufficient for the needs of the Board and that it would not seem necessary to prepare a formal resolution unless some new development made that seem desirable. He went on to say that he did not think this was a proposal which could be dismissed lightly, that it or something similar was likely to get sufficient support to make it necessary for the Federal Reserve System to continue to be alert to the problem.

President Brown stated that the next meeting of the Council would be held on Sunday, February 19, 1956, and that the Council would meet with

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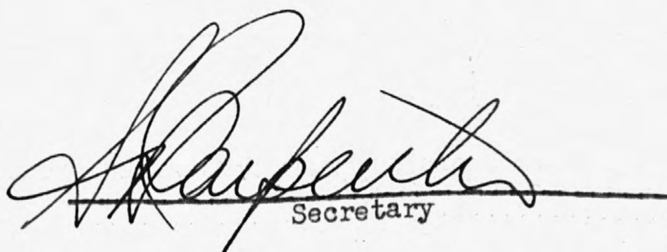
the Board on Tuesday, February 21, unless the Board had some reason for preferring another date. It was agreed that the suggested dates were satisfactory.

President Brown then noted that a number of the members of the Council including himself were attending their last meeting of the Council today and that their successors would be present at the meeting to be held in February.

Chairman Martin and others expressed appreciation of the service which President Brown during the 20 years of membership, and the others whose appointments would end this year, had rendered as members of the Council.

Thereupon the meeting adjourned.



Secretary

for FRASER