MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL

February 13-15, 1949
May 15-17, 1949
September 18-20, 1949
November 13-15, 1949

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1949

OFFICERS:

President, Edward E. Brown
First Vice President, Charles E. Spencer, Jr.
Second Vice President, Robert V. Fleming
Director, W. Randolph Burgess
Director, Frederic A. Potts
Director, Sidney B. Congdon
Secretary, Herbert V. Prochnow

EXECUTIVE COMMITTEE:

Edward E. Brown
Charles E. Spencer, Jr.
Robert V. Fleming
W. Randolph Burgess
Frederic A. Potts
Sidney B. Congdon

MEMBERS:

Charles E. Spencer, Jr.	District No. 1
W. Randolph Burgess	District No. 2
Frederic A. Potts	District No. 3
Sidney B. Congdon	District No. 4
Robert V. Fleming	District No. 5
J. T. Brown	District No. 6
Edward E. Brown	District No. 7
W. L. Hemingway	District No. 8
Henry E. Atwood	District No. 9
James M. Kemper	District No. 10
J. E. Woods	District No. 11
Reno Odlin	District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

The Officers of this Council shall be a President, First Vice President, Second Vice President, three Directors, a Secretary, and an Associate Secretary, all of whom, except the Secretary and Associate Secretary, shall also serve as the Executive Committee.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice President shall serve.

ARTICLE III. SECRETARY AND ASSOCIATE SECRETARY

The Secretary shall be a salaried officer of the Council, and his duties and compensation shall be fixed by the Council. The Associate Secretary shall serve without compensation, except for remuneration for expenses incurred, and his duties shall be fixed by the Council.

ARTICLE IV. EXECUTIVE COMMITTEE

The Executive Committee, as indicated in Article I of the by-laws, shall consist of the President, First Vice President, Second Vice President and the three Directors.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with their regulations and promulgations, and communicate the same to the members of the Council, and to suggest to the Council, from time to time, special matters for consideration.

The Executive Committee shall have the power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

The Executive Committee shall have full power, as officers of the Council, to act for the Council between meetings of the Council.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum, and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September, and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request or any three members of the Council.

ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 13, 1949

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 13, 1949

The first and organizational meeting of the Federal Advisory Council for the year 1949 was convened in Room 1032 of the Mayflower Hotel, Washington, D. C., on Sunday, February 13, 1949, at 2:00 P.M.

Present:

Thomas P. Beal (Alternate for Mr. Charles E. Spencer, Jr.)	District No. 1
John C. Traphagen (Alternate for Mr. W. Randolph Burgess)	District No. 2
Frederic A. Potts	District No. 3
Sidney B. Congdon	District No. 4
Robert V. Fleming	District No. 5
J. T. Brown	District No. 6
Edward E. Brown	District No. 7
W. L. Hemingway	District No. 8
Henry E. Atwood	District No. 9
Joseph C. Williams (Alternate for Mr. James M. Kemper)	District No. 10
Herbert V. Prochnow	Secretary

Absent:

Charles E. Spencer, Jr., W. Randolph Burgess, James M. Kemper, J. E. Woods and Reno Odlin.

Mr. John C. Traphagen was elected Chairman *pro tem* and Mr. Herbert V. Prochnow, Secretary *pro tem.*

The Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1949.

The following officers were nominated and unanimously elected:

Edward E. Brown, President
Charles E. Spencer, Jr., First Vice President
Robert V. Fleming, Second Vice President
W. Randolph Burgess, Director
Frederick A. Potts, Director
Sidney B. Congdon, Director
Herbert V. Prochnow, Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at $2,500, which has been the Secretary's salary in previous years.

On motion, duly made and seconded, the Council adopted the existing by-laws, which are a part of these minutes.

The Secretary presented his financial report for the year 1948, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago. Copies of the report had been sent previously to the members of the Council. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the mimeographed notes of the meetings of the Council on November 14-15-16, 1948, and the printed minutes for the meetings held on February 15-16-17, 1948; April 25-26-27, 1948; September 19-20-21, 1948; and November 14-15-16, 1948, copies of which had been sent previously to the members of the Council, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Secretary to ask each Federal Reserve bank to contribute $350.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1949 and to draw upon it for that purpose.

A complete list of the items on the Agenda for the meeting and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* which follows on pages 8 and 9.

The meeting adjourned at 6:18 P.M.

HERBERT V. PROCHNOW
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1948

Balance on hand December 31, 1947	$ 6,570.73	Salaries	$ 2,500.00
		Conference Expenses	1,140.67
		Printing and stationery	362.70
Assessments—12 Federal Reserve Banks	4,200.00	Postage, telephone and telegraph	23.89
		Miscellaneous	9.57
		Balance on hand December 31, 1948	6,733.90
	$10,770.73		$10,770.73

Chicago, Illinois
February 1, 1949

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ended December 31, 1948, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO,
(Signed) J. J. Buechner
Assistant Auditor

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1949

At 10:00 A.M., the Federal Advisory Council reconvened in Room 1032 of the Mayflower Hotel, Washington, D. C.

Present: Mr. Edward E. Brown, President; Mr. Thomas P. Beal (Alternate for Mr. Charles E. Spencer, Jr.); Mr. Robert V. Fleming; Mr. John C. Traphagen (Alternate for Mr. W. Randolph Burgess); Messrs. Frederic A. Potts, Sidney B. Congdon, J. T. Brown, W. L. Hemingway, Henry E. Atwood; Mr. Joseph C. Williams (Alternate for Mr. James M. Kemper); and Herbert V. Prochnow, Secretary.

Absent: Messrs. Charles E. Spencer, Jr., W. Randolph Burgess, James M. Kemper, J. E. Woods, and Reno Odlin.

The Council reviewed its conclusions of the previous day regarding the items on the agenda and sent to the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 8 and 9, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12:25 P.M. on February 14, 1949.

The meeting adjourned at 12:10 P.M.

HERBERT V. PROCHNOW
Secretary.

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On the afternoon of February 14, 1949, the members of the Council informally attended the session of the Joint Committee on the Economic Report, at which session Chairman McCabe of the Board of Governors of the Federal Reserve System testified.

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON FEBRUARY 15, 1949

1. Discussion on bank reserves.

2. The President, in his Economic Report, recommended that Congress provide continuing authority to the Board of Governors to require banks to hold supplemental reserves up to a maximum of 10 per cent of demand deposits and 4 per cent of time deposits and that this authority be made applicable to all insured banks. For consideration in connection with the proposed legislation, the Board would like to know the views of the Council as to the desirability of making provision for authority to allow some return to the banks upon the supplemental reserves required.

In view of the close relationship between Items 1 and 2 on the agenda, it is desirable to discuss these two items together.

The Council wishes to preface its comments on this discussion with the following statement on bank reserves as expressed in the Council's Memorandum to the Board of Governors on November 22, 1948:

> "The Council further believes that increasing bank reserves is not the proper method of dealing with the problem of inflation. One of the results of an increase in bank reserves under current conditions is the transfer of government securities from banks to the Federal Reserve System, thereby largely nullifying any possible benefits from increasing the reserves and making the problem of debt management by the Treasury more difficult. An increase in member bank reserves not only makes membership in the System less desirable, but it also affects the earnings of some banks adversely. The over-all earnings of banks may be satisfactory, but the arbitrary character of an increase in reserves in all banks affects the earnings of individual banks unfairly."

Since the Memorandum of the Council to the Board on November 22, 1948, there has been a slackening in industrial activity in various phases of our economy, increasing unemployment, and the general price structure has turned downward, particularly in agricultural products. There is no way of knowing now how far this downward trend may proceed or when it will turn. In these circumstances and at this time introduction of legislation, sponsored by the Board, giving authority for higher bank reserves as proposed by the President in his Economic Report, might further unsettle the economy.

In the light of the above, the Council believes that the proposal for legislation giving authority to the Board to require banks to hold supplemental reserves up to a maximum of 10 per cent of demand deposits and 4 per cent of time deposits, applicable to all insured banks, should be reconsidered. If the Board should determine to press for this legislation, the Council would under existing conditions oppose the legislation as against the best interests of the economy, and would request permission from the Committees of Congress to appear and testify.

The Council is opposed to the payment of interest on all or any part of the balances carried by any bank in a Federal Reserve bank.

The Council does not believe it would be advisable to give the Federal Reserve System authority over the reserve requirements of nonmember banks, believing such authority would weaken the dual banking system, and might ultimately lead to its destruction. The Council believes in the maintenance of the dual banking system.

3. The Board would like to know whether the Council believes that the present situation justifies any relaxation in the terms of Regulation W and, if so, to what extent.

Without discussing the necessity or desirability of the legislation on consumer credit, the members of the Council have the following viewpoints regarding relaxation in the terms of Regulation W. All members of the Council are opposed to any relaxation in the terms of down payments on automobiles. On the question of extending the time for payments on new automobiles, the members of the Council are evenly divided. If the time for payments is extended, it should be to twenty-four months. All members are opposed to extending the time for payments on used automobiles. In connection with household furnishings and appliances, the Council favors eliminating these articles from control inasmuch as they are now, with minor exceptions, in ample supply.

4. What indications have the members of the Council observed in their respective districts as to business trends over the next few months and for the year 1949? In the light of these observations, what suggestions does the Council have to make with respect to future credit policies of the Federal Reserve System?

It is the consensus of opinion of the members of the Council who reported regarding business trends in their respective districts that a downward readjustment in the economy is taking place. The general feeling is that this is probably not the beginning of a severe depression, but that it is a recession. However, there is no assurance of how far the recession may proceed, and the feeling that this may be only a relatively minor economic setback is not as prevalent as it was even thirty days ago.

Sales, production and employment in many lines are down, in some lines very severely. Carloadings have also declined substantially. Even the sale of new houses has declined because of high prices. There is an increasing reluctance by most industries to engage in capital expansion until the economic outlook becomes clearer. This does not apply to electric and gas utilities, but the railroads due to decreased business are beginning to hesitate in ordering further equipment at present high prices. The mill demand for steel is still strong, but declines in the gray market and the falling off of conversion deals indicate that supply and demand in steel are tending to come into balance.

The psychology of the situation is an important factor, and there is danger of the recession becoming much more severe if increasing numbers of people should come to believe a depression was developing.

If the Board desires, the individual members of the Council will be glad to report briefly on business conditions and sentiment in their respective districts.

With the economy on balance declining, the Council believes it would not be desirable for the Board now to increase reserves, or to raise the rediscount rate, and that open market operations should be conducted at the present time for the purpose of stabilizing the rates on commercial borrowings at present levels.

5. Assessments of the Federal Deposit Insurance Corporation.

The Council desires to withdraw this item from consideration. It was put on the agenda because of different practices in different banks relative to the computation of their FDIC assessments, involving chiefly the treatment of float and reciprocal balances. The Council believes after discussion that this question should be taken up by the banks concerned, or by bankers' associations, with the FDIC rather than by the Council with the Board. However, if the Board or its staff can give any information to the Council regarding this matter of computing FDIC assessments, the members of the Council would welcome such information.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

February 15, 1949

At 10:30 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Thomas B. McCabe; Governors Marriner S. Eccles, M. S. Szymczak, Ernest G. Draper, James K. Vardaman, Jr., Lawrence Clayton; also Mr. S. R. Carpenter, Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Thomas P. Beal (Alternate for Mr. Charles E. Spencer, Jr.); Mr. Robert V. Fleming; Mr. John C. Traphagen (Alternate for Mr. W. Randolph Burgess); Messrs. Frederic A. Potts, Sidney B. Congdon, J. T. Brown, W. L. Hemingway, Henry E. Atwood; Mr. Joseph C. Williams (Alternate for Mr. James M. Kemper); Mr. Reno Odlin, and Herbert V. Prochnow, Secretary.

Absent: Messrs. Charles E. Spencer, Jr., W. Randolph Burgess, James M. Kemper, and J. E. Woods.

The President of the Council read the first and second items on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council* as printed on pages 8 and 9, of these minutes.

Chairman McCabe replied that many bankers he had interviewed during a recent trip were more optimistic about business conditions than the Council.

Mr. Eccles stated that the Board increased the required reserves only to the extent that the Board was forced to create reserves through its support of government securities. The ten and four proposal is a standby plan. Chairman McCabe then asked for the Council's proposal on reserves. President Brown replied that the Council is opposed to any increase in reserves now.

President Brown read the third item on the agenda and the conclusions of the Council as found in the *Confidential Memorandum* on pages 8 and 9, of these minutes. A discussion followed, during which several members of the Council emphasized their opposition to having Regulation W as a permanent part of our economy.

President Brown read the fourth item on the agenda, and the conclusions of the Council as given in the *Confidential Memorandum* previously mentioned. A brief discussion between members of the Council and Board followed.

President Brown read the fifth item on the agenda and the conclusions of the Council, as given in the *Confidential Memorandum* mentioned above.

Chairman McCabe remarked that the F. D. I. C. is acutely aware of the whole question of F. D. I. C. assessments, and the Board, after making some inquiry, will report to the Council.

President Brown advised the members of the Board of Governors that the members of the Council would ask to testify on the matter of reserves at the proper time.

The meeting adjourned at 1:20 P.M.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 15, 1949

At 2:32 P.M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Mr. Thomas P. Beal (Alternate for Mr. Charles E. Spencer, Jr.); Mr. Robert V. Fleming; Mr. John C. Traphagen (Alternate for Mr. W. Randolph Burgess); Messrs. Sidney B. Congdon, J. T. Brown, W. L. Hemingway; Mr. Joseph C. Williams (Alternate for Mr. James M. Kemper); Mr. Reno Odlin; and Mr. Herbert V. Prochnow, Secretary.

Absent: Messrs. Charles E. Spencer, Jr., W. Randolph Burgess, Frederic A. Potts; Henry E. Atwood, James M. Kemper, and J. E. Woods.

After some discussion, the Council unanimously approved a motion voicing its opposition to making Regulation W a permanent power of the Board of Governors. In view of the fact that the demand for automobiles is in excess of the supply at present, the Council has no objection to an extension of the Regulation for a short period. Articles should be dropped from control as rapidly as they are in supply.

The members of the Council gave the Executive Committee power to act for the full Council in the event it became necessary to take action or to testify on bank reserve legislation or legislation relating to Regulation W.

The meeting adjourned at 3:10 P.M.

HERBERT V. PROCHNOW
Secretary.

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

H.V.P.

The Secretary's notes on the meeting of the Federal Advisory Council on February 13, 1949, at 2:00 P.M. in Room 1032 of the Mayflower Hotel, Washington, D.C. All members of the Federal Advisory Council were present except, Messrs. Spencer, Burgess, Kemper, Odlin and Woods. Mr. Thomas P. Beal, President, The Second National Bank of Boston, Boston, served as an alternate for Mr. Charles E. Spencer, Jr. Mr. John C. Traphagen, Chairman of the Board, Bank of New York and Fifth Avenue Bank, New York City, served as an alternate for Mr. W. Randolph Burgess. Mr. Joseph C. Williams, President, Commerce Trust Company, Kansas City, Missouri, served as an alternate for Mr. James M. Kemper. Mr. Reno Odlin was unavoidably delayed until Tuesday morning, February 15, because of transportation difficulties, and Mr. Woods found it necessary unexpectedly to cancel his plans to attend.

Mr. John C. Traphagen was elected Chairman pro tem and Mr. Herbert V. Prochnow, Secretary pro tem.

The Secretary stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1949.

The following officers were elected unanimously:

Mr. E. E. Brown, President
Mr. Charles E. Spencer, Jr., First Vice President
Mr. Robert V. Fleming, Second Vice President
Mr. Herbert V. Prochnow, Secretary

The following three members were elected directors to serve on the Executive Committee together with Messrs. Brown, Spencer, and Fleming, members ex officio:

Mr. W. Randolph Burgess
Mr. Frederic A. Potts
Mr. Sidney B. Congdon

The salary of the Secretary was fixed at $2,500, as in previous years.

The Council readopted the existing by-laws which will be printed and attached to the formal printed minutes.

The Secretary presented his financial report for the year 1948, copies of which had been previously sent to the members of the Council. The report was approved and ordered placed on file. It will be printed and attached to the formal printed minutes.

The printed minutes for the meetings held in 1948, copies of which had been sent previously to the members of the Council, were approved.

A resolution was adopted authorizing the Secretary to draw upon each Federal Reserve bank for $350 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1949.

DISCUSSION ON BANK RESERVES.

THE PRESIDENT, IN HIS ECONOMIC REPORT, RECOMMENDED THAT CONGRESS PROVIDE CONTINUING AUTHORITY TO THE BOARD OF GOVERNORS TO REQUIRE BANKS TO HOLD SUPPLEMENTAL RESERVES UP TO A MAXIMUM OF 10 PER CENT OF DEMAND DEPOSITS AND 4 PER CENT OF TIME DEPOSITS AND THAT THIS AUTHORITY BE MADE APPLICABLE TO ALL INSURED BANKS. FOR CONSIDERATION IN THIS CONNECTION WITH THE PROPOSED LEGISLATION, THE BOARD WOULD LIKE TO KNOW THE VIEWS OF THE COUNCIL AS TO THE DESIRABILITY OF MAKING PROVISION FOR AUTHORITY TO ALLOW SOME RETURN TO THE BANKS UPON THE SUPPLEMENTAL RESERVES REQUIRED.

E. E. Brown reads items 1 and 2 on the agenda, as given above, and states that there is such a close relationship between the items that it would be desirable to discuss them together. He says that the words "some return to the banks" in the second item on the agenda actually is a provision for the Federal Reserve banks to pay interest on reserves.

Fleming comments that the increase in the reserves passed at the Special Session was a compromise because 1948 was a political year.

Congdon remarks that the payment of interest on reserves looks like bait on the hook to break down the resistance of banks.

E. E. Brown. The idea will be more palatable to non-member banks if interest is paid. (At this point there was an off-the-record discussion).

Traphagen asks whether there is a fair chance of the present law being allowed to lapse.

Fleming thinks there is a chance that the present law may be permitted to lapse.

Traphagen states that raising reserves has simply resulted in banks selling government securities and losing earning assets.

Fleming believes there may well be some concern about the downward trend of the economy.

E. E. Brown thinks the Council should tell the Board that the economy is declining and that we are in a recession, but no one knows definitely how far the recession will go. Brown states that the President's recommendation for increases of ten and four should be reviewed in the light of the current economic trend. There are two questions also which the Council should consider: (1) should the Federal Reserve System be given powers over the reserves of non-member banks; and (2) should the Federal Reserve System be permitted to pay interest on reserves?

Beal believes the present power should be allowed to lapse and reserves should not now be increased.

Fleming. It is entirely too early now to determine the direction of the economy. Consequently, consideration of any legislation should be deferred.

Traphagen thinks the Council should be against an increase in reserves and against the payment of interest on reserves. He believes the emergency legislation of last August should be allowed to lapse as the legislation never served a real purpose. Sproul has done his best to persuade McCabe not to press for increased reserves.

E. E. Brown and Fleming believe McCabe wishes the power to require higher reserves.

Atwood states that the Council should be in favor of permitting the emergency reserve legislation to expire in June.

Hemingway. If the Council favors permitting the present emergency legislation to expire, it may strengthen the views of those in the Administration who agree with us.

Fleming states that the Board would wish to include non-member banks.

E. E. Brown asks whether it would correctly reflect the Council's view if the Council stated that business has declined and may decline further, and that therefore the Council believes it is desirable to permit the present legislation to expire on June 30, 1949. Furthermore, the Council believes that until the economic trend becomes clearer, any action leading to higher reserves would be highly unsettling to the economy.

Fleming. If any legislation for additional reserve powers is proposed, the Council would feel impelled to testify against the proposed legislation.

Congdon favors using, as a preface to any statement of the Council on reserves, quotations from the Confidential Memorandum to the Board on November 22, 1948, on the subject of reserves.

E. E. Brown believes that the loan demand may slacken and money become easier after the tax payments in March. This may not be a 1921 recession, but it may be more like 1937. He thinks the Council may say that industrial activity has slackened, prices have turned downward, and the decline may go further before levelling off. The introduction of legislation as proposed by the President may unsettle the economy further. The present legislation does not expire before June 30. The advisability of legislation along the lines proposed by the President should be reconsidered. If the Board sees fit to press for legislation, the Council will oppose the proposed legislation and will testify against it. The Council prefers to have the legislation of last August expire on June 30. The Council is definitely opposed to the ten and four proposal. In addition, the Council is opposed to the payment of interest on all or any part of the balances carried by any bank in a Federal Reserve bank.

Beal. Is there any thought of allowing banks to pay interest on demand deposits?

E. E. Brown states that this point will be discussed in connection with item 5 on the agenda. He doubts whether interest payments by the Federal Reserve System on reserves will lead to the payment of interest on demand deposits by banks. However, it may lead banks to request permission to pay interest on correspondent bank balances to hold these balances if the Federal Reserve banks pay interest.

Atwood. If the Federal Reserve banks pay interest on demand deposits, they may destroy the correspondent bank business.

E. E. Brown asks whether the Board should have power over the reserves of non-member banks. In Illinois, the state banks have no reserve requirements. If the Board asks for power over the reserves of non-member banks, they will have trouble with the legislation. The Council in 1948 was against giving the Federal Reserve System authority over non-members, because it may spell the doom of the dual banking system. In its Memorandum to the Board of Governors on December 3, 1948, in connection with the Staff Report of the Hoover Commission, the Council stated strongly its belief in the maintenance of the dual banking system.

Hemingway agrees that the Federal Reserve System should not have authority over non-member bank reserves.

Williams says Kemper is strongly opposed to giving the Federal Reserve System this authority.

E. E. Brown states that the Council has previously recommended that the Federal Reserve System should have the maximum practical independence of thought and action in relation to the Treasury. The Council commented on this matter in its Memorandum to the Board of Governors on December 3, 1948, in connection with the Staff Report of the Hoover Commission.

Fleming reads a letter from Chester Morrill quoting a provision in the Reorganization Bill providing for separate treatment of certain agencies, one of which is the Board of Governors of the Federal Reserve System.

E. E. Brown believes the Board would like to see itself placed entirely outside of any reorganization. It is one thing for the Board to be subject to a one-shot treatment, and it is another thing to be subject to none.

Atwood asks whether it is necessary to bring up this matter as long as the Council discussed certain aspects of it in its Memorandum of December 3, 1948, to the Board of Governors relative to the Staff Report of the Hoover Commission.

Fleming thinks the Board of Governors should be exempt from the Reorganization Bill. He believes that the Council should ask the Board what the legislative situation is as it relates to the Board and the Reorganization Bill.

E. E. Brown agrees and other members of the Council also express agreement.

THE BOARD WOULD LIKE TO KNOW WHETHER THE COUNCIL BELIEVES THAT THE PRESENT SITUATION JUSTIFIES ANY RELAXATION IN THE TERMS OF REGULATION W AND, IF SO, TO WHAT EXTENT.

E. E. Brown reads the third item on the agenda as given above.

Fleming says that this item was probably brought up because the Board has been under some pressure to relax the provisions of the Regulation.

E. E. Brown. The historical position of the Council is that Regulation W is wrong in principle and that the Board should not have these powers. The pressure is coming from certain automobile groups who desire easier terms. If the terms are to be relaxed, Brown believes it should be on articles in ample supply.

Hemingway states that Cravens' Committee is opposed to Regulation

Traphagen believes that over-buying on credit is a bad factor in our economy. He believes Regulation W should be extended but not relaxed.

Potts reports that he has visited with officials of the CIT. They believe the Regulation should be continued now with relaxation on home appliances.

Atwood reads a report from an official of his bank who deals with the Regulation. Most of those who deal with the Regulation in extending credit favor the Regulation because they find it helpful to them, but actually Atwood believes that the Regulation should be abolished.

Hemingway states that those with whom he has discussed the Regulation report that it has not had much effect on their businesses. Other factors in the economy have influenced their businesses a great deal more. One customer told Hemingway that by having Regulation W his competitors would not be able to relax their terms.

Potts states that William Kurtz is in favor of continuing Regulation W with no relaxation of its terms.

E. E. Brown. Many of the large companies like CIT are not strong for the Regulation.

Potts suggests that there should be no relaxation except on home furnishings and home appliances.

Hemingway has been told that some firms have not trained salesmen for five years, and as a result these companies are now facing difficulty in their sales programs.

Traphagen believes it is a serious matter to have the American people oversold if we should enter a depression.

Hemingway comments that in the last depression this paper was well paid, but future sales may have been curtailed.

J. T. Brown also states that future sales may have been curtailed in the last depression.

Beal says that those who favor relaxation wish a "shot in the arm" for the economy.

Congdon thinks that the person who is going into debt will find some way of doing it regardless of the Regulation.

Brown asks the Council, without discussing the necessity or desirability of the legislation, to vote on certain questions relating to relaxation of the terms of Regulation W . He reports that the members of the Council voted as follows: All members of the Council are opposed to any relaxation in the terms of down payments on automobiles. On the question of extending the time for payments on new automobiles, the members of the Council are evenly divided. If the time for payments is extended, it should be to twenty-four months. All members are opposed to extending the time for payments on used automobiles. In connection with household furnishings and appliances, the Council favors eliminating these articles from control inasmuch as they are now, with minor exceptions, in ample supply.

WHAT INDICATIONS HAVE THE MEMBERS OF THE COUNCIL OBSERVED IN THEIR RESPECTIVE DISTRICTS AS TO BUSINESS TRENDS OVER THE NEXT FEW MONTHS AND FOR THE YEAR 1949? IN THE LIGHT OF THESE OBSERVATIONS, WHAT SUGGESTIONS DOES THE COUNCIL HAVE TO MAKE WITH RESPECT TO FUTURE CREDIT POLICIES OF THE FEDERAL RESERVE SYSTEM?

E. E. Brown reads item 4 on the agenda, as given above, and asks Beal who represents the first Federal Reserve district to comment.

Beal states that the paper, jewelry, and textile industries, and to a certain extent, leather, are down. Some business men believe there is enough buying power to maintain reasonably good business. Certain woolen and worsted people are having a hard time. A great deal of our prosperity following the war was due to filling up pipe lines and was temporary. December retail sales were better than had at first been anticipated.

Traphagen states that he is reporting essentially the views of Burgess. He believes that the decline may be a relatively minor one, but he is not so sure as he was thirty days ago. Sproul agrees with this viewpoint. More plants are having close-downs. Many manufacturers expect their profits in 1949 to be lower. Burgess says that the psychology of the public may materially influence the situation, and it may be bad. Business men have lost some of the confidence they had.

Potts. Alfred Williams reports that his men in the field in Western Pennsylvania report that the economic trend is downward. Weather has affected coal sales adversely. Bank deposits and loans are down. Some of the large ship-building concerns have been busy on oil tankers and they have good backlogs. One oil company has shut down one of its refineries. Car loadings in the district are lower.

Carpet manufacturers are busy but have lighter forward orders. The expansion plans of some industries have been curtailed, and there have been some reductions in inventories in anticipation of a recession.

Congdon. The trend of the economy in his district is downward. Employment is below the average of forty hours per week for the first time since 1940. Employment is down. Retail sales generally are going down compared with last year. The machine tool industry is spotty. Congdon hears of no new plans for expansion outside of the utility and oil industries. He understands that manufacturers of clothing have had good orders. There have been some holdups in the schedules of motor car manufacturers.

Fleming reports that there is not much heavy industry in his district. Department stores sales were good at the end of December. There is an almost insatiable demand for electric power in the district. Improvement plans have been held up in some instances. Expenditures for schools and hospitals will continue high. Foreclosures are beginning to appear. Meat products have dropped in price. Many executives plan to hold down their inventories. Any pressure for a fourth round of wages will probably be in the form of requests for pension plans and benefits instead of wages. There are few price increases except for utilities and railroads. There is a widespread feeling of uncertainty, and this has increased in recent weeks. The general feeling is that this is a readjustment and will not be a major depression unless mass psychology becomes bad.

J. T. Brown. The sixth district is largely agricultural. Department store sales at Christmas were disappointing. Many persons may have waited for the post-Christmas sales. For the first time since the war, the price of crude is off. Lumber in the low grades has been hit hard. The textile industry has been unfavorably affected by the general downward trend. The used-new car situation with high premiums has ended. There is a definite feeling that the buggy ride is over.

E. E. Brown. Except for the steel mills, the agricultural implement industries and the Big Three companies in automobiles, almost all businesses have experienced a let-down or anticipate one. The steel mills expect to sell all the steel they produce to the end of the year. Some agricultural implement dealers are experiencing cancellations. Price declines in agricultural products have affected the farm industry adversely, but the farmers still have large purchasing power. With the decline in carloadings, railroads are finding they do not need as many new cars as they had anticipated. The public utilities may spend as much or more than they did in 1948. Stocks of canned goods are very large. Fuel oil prices have declined. The general feeling is that this is not a depression, but it is a recession and no one knows how far it may actually go.

Hemingway. The story in his district is essentially similar to the pattern already presented. The sales of consumer goods are down. Many stores had sales in December. Employment is not off a great deal. There are many evidences that business is slowing down. Business men have confidence, but it is not as strong as it was a month ago.

Atwood. Conditions in the Ninth District are essentially the same as those described in other districts. The farmers still have plenty of money. Business men have less confidence, and there is a general tendency to curtail operations.

Williams. Industry in the district is disturbed. There will undoubtedly be a curtailment in the drilling of oil wells. Department store sales are off, but the heavy winter weather may have influenced these sales, so comparisons with previous years may not be accurate. Construction is slowing down. Inventories have been reduced somewhat, but there is still an over-inventoried condition in home appliances. Business will probably decline, but it is still good.

E. E. Brown. With the economy on balance showing a decline, no increase in reserves is advisable in the foreseeable future. The Board should not act to make money dearer or increase the rediscount rate.

Fleming. Bonds and notes are coming due in large amounts. The ABA Committee has considered the problem carefully. Eccles maintains the whole debt is a demand debt. If it is agreed that the entire debt should not be short term, then the government must offer a "basket" of certificates, notes, and bonds.

E. E. Brown. It is not advisable now to increase reserves, and it is not advisable to raise the rediscount rate. The Federal Reserve banks should dispose of their long term government bonds, particularly the ineligibles. Open market operations should be conducted at the present time for the purpose of stabilizing the rates on commercial borrowings at present levels.

ASSESSMENTS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION

E. E. Brown asks Potts to comment on item 5 of the agenda as given above.

Potts talks off-the-record.

E. E. Brown states that the Council may say that it desires to withdraw this item from consideration. It was put on the agenda because of different practices in different banks relative to the computation of their FDIC assessments, involving chiefly the treatment of float and reciprocal balances. The Council believes after discussion that this question should be taken up by the banks concerned, or by bankers' associations, with the FDIC rather than by the Council with the Board. However, if the Board or its staff can give any information to the Council regarding this matter of computing FDIC assessments, the members of the Council would welcome such information.

MARGIN REQUIREMENTS

Atwood asks whether it would be advisable in connection with tem 4 on the agenda to comment on margin requirements.

Fleming suggests it would be best not to include it in the written Memorandum to the Board.

E. E. Brown states that it may be possible to ask informally about the matter of lowering margin requirements.

The meeting adjourned at 6:18 P.M.

The Council convened at 10 A.M. on February 14,1949, in Room 1032 of the Mayflower Hotel, Washington, D.C. All members of the Federal Advisory Council were present except, Messrs. Spencer, Burgess, Kemper, Odlin and Woods. Mr. Thomas P. Beal, President, The Second National Bank of Boston, served as an alternate for Mr. Charles E. Spencer, Jr. Mr. John C. Traphagen, Chairman of the Board, Bank of New York and Fifth Avenue Bank, New York City, served as an alternate for Mr. W. Randolph Burgess. Mr. Joseph C. Williams, President, Commerce Trust Company, Kansas City, Missouri, served as an alternate for Mr. James M. Kemper. Mr. Reno Odlin was unavoidably delayed until Tuesday morning, February 15, because of transportation difficulties, and Mr. Woods found it necessary unexpectedly to cancel his plans to attend.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the agenda for the joint meeting of the Council and the Board on February 15, 1949. The Memorandum was delivered to the Secretary of the Board of Governors at 12:25 P.M. on February 14, 1949. It will be noted that each item of the agenda is listed with the comments of the Council on the item.

The meeting adjourned at 12:10 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 15, 1949

1. Discussion on bank reserves.

2. The President, in his Economic Report, recommended that Congress provide continuing authority to the Board of Governors to require banks to hold supplemental reserves up to a maximum of 10 per cent of demand deposits and 4 per cent of time deposits and that this authority be made applicable to all insured banks. For consideration in connection with the proposed legislation, the Board would like to know the views of the Council as to the desirability of making provision for authority to allow some return to the banks upon the supplemental reserves required.

In view of the close relationship between Items 1 and 2 on the agenda, it is desirable to discuss these two items together.

The Council wishes to preface its comments on this discussion with the following statement on bank reserves as expressed in the Council's Memorandum to the Board of Governors on November 22, 1948:

> "The Council further believes that increasing bank reserves is not the proper method of dealing with the problem of inflation. One of the results of an increase in bank reserves under current conditions is the transfer of government securities from banks to the Federal Reserve System, thereby largely nullifying any possible benefits from increasing the reserves and making the problem of debt management by the Treasury more difficult. An increase in member bank reserves not only makes membership in the System less desirable, but it also affects the earnings of some banks adversely. The over-all earnings of banks may be satisfactory, but the arbitrary character of an increase in reserves in all banks affects the earnings of individual banks unfairly."

Since the Memorandum of the Council to the Board on November 22, 1948, there has been a slackening in industrial activity in various phases of our economy, increasing unemployment, and the general price structure has turned downward, particularly in agricultural products. There is no way of knowing now how far this downward trend may proceed or when it will turn. In these circumstances and at this time introduction of legislation, sponsored by the Board, giving authority for higher bank reserves as proposed by the President in his Economic Report, might further unsettle the economy.

In the light of the above, the Council believes that the proposal for legislation giving authority to the Board to require banks to hold supplemental reserves up to a maximum of 10 per cent of demand deposits and 4 per cent of time deposits, applicable to all insured banks, should be reconsidered. If the Board should determine to press for this legislation, the Council would under existing conditions oppose the legislation as against the best interests of the economy, and would request permission from the Committees of Congress to appear and testify.

The Council is opposed to the payment of interest on all or any part of the balances carried by any bank in a Federal Reserve bank.

The Council does not believe it would be advisable to give the Federal Reserve System authority over the reserve requirements of nonmember banks, believing such authority would weaken the dual banking system, and might ultimately lead to its destruction. The Council believes in the maintenance of the dual banking system.

3. The Board would like to know whether the Council believes that the present situation justifies any relaxation in the terms of Regulation W and, if so, to what extent.

Without discussing the necessity or desirability of the legislation on consumer credit, the members of the Council have the following viewpoints regarding relaxation in the terms of Regulation W. All members of the Council are opposed to any relaxation in the terms of down payments on automobiles. On the question of extending the time for payments on new automobiles, the members of the Council are evenly divided. If the time for payments is extended, it should be to twenty-four months. All members are opposed to extending the time for payments on used automobiles. In connection with household furnishings and appliances, the Council favors eliminating these articles from control inasmuch as they are now, with minor exceptions, in ample supply.

4. What indications have the members of the Council observed in their respective districts as to business trends over the next few months and for the year 1949? In the light of these observations, what suggestions does the Council have to make with respect to future credit policies of the Federal Reserve System?

It is the consensus of opinion of the members of the Council who reported regarding business trends in their respective districts that a downward readjustment in the economy is taking place. The general feeling is that this is probably not the beginning of a severe depression, but that it is a recession. However, there is no assurance of how far the recession may proceed, and the feeling that this may be only a relatively minor economic setback is not as prevalent as it was even thirty days ago.

Sales, production and employment in many lines are down, in some lines very severely. Carloadings have also declined substantially. Even the sale of new houses has declined because of high prices. There is an increasing reluctance by most industries to engage in capital expansion until the economic outlook becomes clearer. This does not apply to electric and gas utilities, but the railroads due to decreased business are beginning to hesitate in ordering further equipment at present high prices. The mill demand for steel is still strong, but declines in the gray market and the falling off of conversion deals indicate that supply and demand in steel are tending to come into balance.

The psychology of the situation is an important factor, and there is danger of the recession becoming much more severe if increasing numbers of people should come to believe a depression was developing.

If the Board desires, the individual members of the Council will be glad to report briefly on business conditions and sentiment in their respective districts.

With the economy on balance declining, the Council believes it would not be desirable for the Board now to increase reserves, or to raise the rediscount rate, and that open market operations should be conducted at the present time for the purpose of stabilizing the rates on commercial borrowings at present levels.

5. Assessments of the Federal Deposit Insurance Corporation.

The Council desires to withdraw this item from consideration. It was put on the agenda because of different practices in different banks relative to the computation of their FDIC assessments, involving chiefly the treatment of float and reciprocal balances. The Council believes after discussion that this question should be taken up by the banks concerned, or by bankers' associations, with the FDIC rather than by the Council with the Board. However, if the Board or its staff can give any information to the Council regarding this matter of computing FDIC assessments, the members of the Council would welcome such information.

On February 15, 1949, at 10:30 A.M. the Federal Advisory Council held a joint meeting with the Board of Governors of the Federal Reserve System in the Board Room of the Federal Reserve Building.

All members of the Council were present except Messrs. Spencer, Burgess, Kemper and Woods. Mr. Thomas P. Beal, President, The Second National Bank of Boston, served as an alternate for Mr. Charles E. Spencer, Jr. Mr. John C. Traphagen, Chairman of the Board, Bank of New York and Fifth Avenue Bank, New York City, served as an alternate for Mr. W. Randolph Burgess. Mr. Joseph C. Williams, President, Commerce Trust Company, Kansas City, Missouri, served as an alternate for Mr. James M. Kemper. Mr. Woods found it necessary unexpectedly to cancel his plans to attend. The following members of the Board of Governors were present: Chairman McCabe; Governors Eccles, Szymczak, Draper, Vardaman and Clayton; also Mr. Carpenter, Secretary of the Board of Governors.

DISCUSSION ON BANK RESERVES

THE PRESIDENT, IN HIS ECONOMIC REPORT, RECOMMENDED THAT CONGRESS PROVIDE CONTINUING AUTHORITY TO THE BOARD OF GOVERNORS TO REQUIRE BANKS TO HOLD SUPPLEMENTAL RESERVES UP TO A MAXIMUM OF TEN PER CENT OF DEMAND DEPOSITS AND FOUR PERCENT OF TIME DEPOSITS AND THAT THIS AUTHORITY BE MADE APPLICABLE TO ALL INSURED BANKS. FOR CONSIDERATION IN CONNECTION WITH THE PROPOSED LEGISLATION, THE BOARD WOULD LIKE TO KNOW THE VIEWS OF THE COUNCIL AS TO THE DESIRABILITY OF MAKING PROVISION FOR AUTHORITY TO ALLOW SOME RETURN TO THE BANKS UPON THE SUPPLEMENTAL RESERVES REQUIRED.

E. E. Brown reads items 1 and 2 on the agenda, as given above, and the conclusions which the Council had submitted in its Confidential Memorandum to the Board, dated February 15, 1949. A copy of this Memorandum is a part of these notes. Brown adds that the members of the Council believe we are in a recession, but that no one knows how far the recession will go before there is a turn. The decline in recent months has entered new lines of industry. The psychology of the American people is an important factor in the situation. It was not brought out in Mr. McCabe's testimony yesterday before the Joint Committee on the Economic Report that if authority is given to increase reserves the banks will tend to place themselves in a position to meet the new requirements as soon as they reasonably can. If requirements of ten and four were too high last August, they are too high now with the economy on balance declining. To give the Board of Governors authority over reserves of non-member banks may be the first step in giving the Board authority over all reserves of all banks.

Fleming. The Board was quick to use over half of the authority to increase reserves which was given to it last August. Therefore, many bankers believe that historically the Board has established a record of using any new power given it almost immediately with the grant of the power. If the Board had foreseen the present economic decline, it would undoubtedly not have increased reserves.

McCabe says he can understand the Council's viewpoint, but many of the bankers he interviewed on his recent trip over the country were more optimistic regarding business conditions. He believes the banks are in the best position they have ever been in relation to the body politic. That cannot be said of other financial groups.

Fleming mentions that McCabe did not say yesterday in his statement to the Joint Committee on the Economic Report that the American Bankers Association and bankers generally took strong voluntary action in dampening down speculative credit.

McCabe replies that he has emphasized this point on various occasions, although he may not have stated it specifically yesterday in his statement to the Joint Committee on the Economic Report. The trend in banks now is to move from short-term to long-term government securities, despite the recommendation of the President for the ten and four increase in reserves. He mentions that the Board had authority to require higher reserves in the Central Reserve cities, but actually was slow in doing so. He states further that the Board is not championing the payment of interest on reserves, but some bankers have written asking why interest should not be paid on reserves in view of the substantial earnings of the Federal Reserve banks. McCabe says some banks in the Dallas District were for the payment of interest on reserves, until they learned it might injure their correspondent banking business, and then they pulled back. He thinks an overwhelming number of the member banks would favor including nonmember banks under the reserve requirements, and he says that this certainly should apply to insured banks, as they have all the advantages of membership without having to meet the same reserve requirements as the member banks.

Fleming. If the Federal Reserve banks pay interest on reserves, requests will come for the payment of interest on the demand deposits of banks which, with the FDIC assessment, will seriously affect bank earnings. Regardless of how efficiently the Federal Reserve banks operate, they cannot be as close to their correspondents as the banks are now which have correspondents.

Odlin. Once you open the door of control over the reserve requirements of non-member banks, how far will this control go? Government control is a creeping paralysis. A state bank charter is an escape door and a check against Federal control going too far. The tendency of a government bureau is to confuse itself with God.

Clayton says that on that basis national banks should not be compelled to join the Federal Reserve System. (At this point some members of the Council mentioned that a national bank has the possibility of changing its business over to a state charter, which is a safeguard).

Eccles thinks an important aspect regarding bank reserves is being overlooked. When the reserves were increased last Fall, it was at a time when the Federal Reserve System had to pay out billions, because there was a heavy sale of governments. The Board did not raise reserves more than enough to lock up the reserves the Board was forced to create through its support of government securities. The ten and four proposal is a standby proposal. Eccles says he made the same proposal last April. If the deflationary trend keeps up, the banks will go into an extremely easy money situation. Currency will flow back to the banks as business declines. Some gold will continue to come into the country. As loans are paid off, through the reduction of inventories, accompanied by falling prices, reserves will be released to the banking system. Large tax payments will go into the war loan deposit account.

Fleming says that only the withholding tax goes into the war loan deposit account.

Eccles replies that, nevertheless, over a period of two or three weeks, the money from tax payments will be back in the banks. The banks are buying bank eligibles now and are forcing them to a premium, causing yields to decline. Banks are selling short-term government securities heavily, as they have great confidence in intermediate and long-term bank eligibles. The Federal Reserve System is about out of long-term eligibles.

Traphagen. The reserve requirements are so high that the banks are being forced into long-term governments to obtain earnings.

Eccles. If the Board got the new legislation to increase reserves, or a continuation of the present authority, the banks would more likely purchase short-term securities. If the deflation continues, reserve requirements will necessarily have to be decreased. It is amazing the amount of short-term securities that are being sold.

Traphagen. If you raise reserves, the banks may buy more short-terms, but the economy would be affected adversely, as banks would hesitate to extend credit.

Atwood asks why the short-terms should be supported.

Fleming comments that the American Bankers Association committee believes that a "basket" of maturities should be offered.

E. E. Brown. Eccles has referred to the proposed ten and four legislation, and also to the extension of the four and one and a half authority. Has the Board taken a definite position on these two matters?

Eccles. If the four and one and a half authority lapses, the banking situation will become even easier.

Traphagen. If the four and one and a half authority lapses, the net effect will be a reversal of what happened last Fall when the reserves were raised.

Atwood states that the Board apparently believes the only answer to monetary problems is to raise reserves.

Eccles. The Board believes in only one peg--the long-term peg. The Board does not believe in the short-term peg. The Board would like a higher short-term rate. The need for the authority over reserves would be reduced, if the Board had flexibility in rates.

McCabe. What is the proposal of the Council on reserves?

E. E. Brown. The Council believes that any higher reserve requirements now, such as the ten and four proposal, would be bad. If the economy is in balance by June 1, with the downward trend halted, then consideration might be given to a continuation of the four and one and a half. However, if the recession continues, then the four and one and a half authority should be permitted to lapse. In the present circumstances, the ten and four proposal should not be introduced.

Congdon states that he hears more and more reports of slackening industrial activity.

McCabe. Prices have declined most in the lines that went up the most.

Congdon replies that not only have prices declined, but volume has declined.

McCabe believes that 1949 will be a good year. It may not be as good as 1948, but it should be very good.

Fleming agrees this may be possible, unless a bad public psychology develops.

McCabe. The group around this table is a very responsible group in this country, and they cannot afford to signal for a depression. The request for the ten and four authority is a bold move. The situation requires boldness. Not doing anything is to signal that a recession may be anticipated.

Potts. When the Board asks for the ten and four authority in the face of a decline, the Council differs with the Board.

McCabe states he would like to see bold and aggressive thinking by business leaders, instead of the type of thinking which has so often characterized the National Association of Manufacturers and even the United States Chamber of Commerce.

Eccles. The great inflation we have had has brought many economic distortions. The mistake that was made was that proper restraints were not available in the last three years. We may prolong the situation by deficit financing or more bank credit. The government tried to reduce the Federal debt, but bank credit expanded. Some of the controls were taken off too soon. Tighter reserves and credit two years ago were desirable. So long as the military expenditures and foreign aid are on a balanced budget basis, they have very little inflationary effect. The present large Federal budget of expenditures will continue, whereas the revenue may decline. The result will be a budgetary deficit, and the government will be spending more than it takes out of the economy. The result will be anti-deflationary. Some readjustments are desirable, and they will help to avoid demands for a fourth round of wage increases.

Odlin thinks the Board has cause and effect mixed. The bank credit expansion is the result of other developments in the economy, which the Council has presented at some length on previous occasions. Bank credit expansion develops because a bank has a customer who wishes to borrow money. The bank does not create the demand for the money.

Szymczak. The Board could have failed to support government securities, and that would have halted expansion.

E. E. Brown. The Council believes the Board has ample authority in the present situation and does not need the proposed ten and four legislation. Whether the four and one and a half authority should be continued or allowed to lapse depends on what economic conditions are a little later.

THE BOARD WOULD LIKE TO KNOW WHETHER THE COUNCIL BELIEVES THAT THE PRESENT SITUATION JUSTIFIES ANY RELAXATION IN THE TERMS OF REGULATION W AND, IF SO, TO WHAT EXTENT.

E. E. Brown reads item three on the agenda and the conclusions of the Council as expressed in the Confidential Memorandum presented to the Board, a copy of which is a part of these notes. He adds that under household furnishings and appliances, all of the articles which the Board controls through the Regulation are in ample supply, with the possible exception of sewing machines and television sets. The less expensive makes of cars produced by the Big Three are still not in ample supply.

McCabe reports that the Board's check of automobile companies shows that these companies do not wish a new pattern of twenty-four months, but they prefer to leave the terms as they now are, until such time as the eighteen months can be lifted. The automobile companies are opposed to a new pattern of payments to twenty-four months.

Fleming. The Council believes when an article is in ample supply it should be eliminated from control.

Eccles. If the Board eliminates articles from control, it is notice to the people that now is the time to go into debt at present prices. The Board doubts whether this is the time to go into debt.

Fleming. If the Board has checked with the principal automobile manufacturers, it would be best to follow the advice of the manufacturers on this matter.

E. E. Brown. The majority of the Council has not felt that Regulation W should be a permanent part of the economy. In war-time it may have had a place, but it has no place in a peace-time economy. In answer to Eccles, Brown states that he doubts whether prices will fall a great deal, unless wages are decreased or efficiency is increased. Brown disagrees with Eccles that people will consider it the time to buy, if articles are taken out of control.

Hemingway. A number of concerns would like to see controls continued, because it cuts out competition.

Congdon reports that his consumer credit man favors the Regulation. This is probably the viewpoint of all of those who find the Regulation helpful in their daily operations. However, the Council's view is that when an item is in ample supply it should be taken out of control.

Eccles. The Board's control of Regulation W has not stopped the growth of consumer financing. When consumer credit levels off and begins to turn down, it is a better time to take off controls.

E. E. Brown cites illustrations of large sellers who state that the demand for consumer credit has begun to level off.

Szymczak. The real reason for the control on consumer credit is that this type of credit is so dynamic.

Vardaman asks whether the Federal Advisory Council believes Regulation W should lapse on June 30, 1949, or should be continued.

E. E. Brown. The question the Board asked was whether the terms of the Regulation should be relaxed. The Board did not ask regarding extension of the Regulation. A majority of the Council would be against having Regulation W on a permanent basis, but might favor a short extension for a year or so until the few items which are not readily available now are in ample supply.

J. T. Brown. The Council called attention in its Memorandum to the fact that it favored eliminating articles from control which were in ample supply and, therefore, went even further than the Board requested in the question submitted to the Council. The person who handles personal loans in his bank favors the Regulation, but J. T. Brown states, from the standpoint of the best welfare of the economy, it should not be made a permanent power of the Board.

WHAT INDICATIONS HAVE THE MEMBERS OF THE COUNCIL OBSERVED IN THEIR RESPECTIVE DISTRICTS AS TO BUSINESS TRENDS OVER THE NEXT FEW MONTHS AND FOR THE YEAR 1949? IN THE LIGHT OF THESE OBSERVATIONS, WHAT SUGGESTIONS DOES THE COUNCIL HAVE TO MAKE WITH RESPECT TO FUTURE CREDIT POLICIES OF THE FEDERAL RESERVE SYSTEM?

E. E. Brown reads item four and the conclusions of the Council as expressed in the Memorandum to the Board, which Memorandum is a part of these notes.

McCabe asks for an explanation of the last part of the last sentence of the Council's conclusion on this item reading "that open market operations should be conducted at the present time for the purpose of stabilizing the rates on commercial borrowings at present levels."

E. E. Brown believes that within the limits that the Treasury will permit, the Open Market Committee can hold short-term rates fairly stable.

Eccles. As long as the Board is stuck with a short-term peg and with banks buying long-terms, there is nothing the Board can do to prevent the prices of long-term government securities from rising in price with the resultant fall in yields.

McCabe understands the Council would like to see the short-term rate go up.

Fleming agrees.

Traphagen. The Council believes this would help hold down the long-term governments.

Eccles. It will be very difficult justifying an increase in the short-term rate in a deflationary period. The Board should have had support for a higher short-term rate.

Fleming. The Board has an argument for it in the securities coming due.

Atwood asks whether Eccles believes we are in a deflationary period.

Eccles believes we are in a deflationary period, and have been since the middle of November.

ASSESSMENTS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION.

E. E. Brown reads item five of the agenda with the statement of the Council regarding the item as expressed in the Confidential Memorandum to the Board of Governors which is a part of these notes.

McCabe reports that the FDIC is acutely aware of this problem and the Board would like to make some inquiry and report to the Council at its next meeting.

REORGANIZATION BILL

Fleming asks what the situation of the Board is in relation to the Reorganization Bill.

Eccles reports that the Board cannot be reorganized in a general bill, but it may obtain in a general bill some of the functions of other groups. A separate bill can become a law in sixty days unless both houses of Congress defeat it. This is obviously an undesirable situation, but it is a delicate matter for the Board to do anything about it. He states that the Council is in a position to make recommendations relating to the Reorganization Bill, but the Board is not.

COUNCIL TESTIMONY BEFORE CONGRESSIONAL COMMITTEES

E. E. Brown. In view of the fact that the Council declined the invitation of Senator O'Mahoney to testify yesterday before the Joint Committee on the Economic Report, the Council wishes now to advise the Board that the Council will ask to testify on the matter of reserves at the proper time.

McCabe suggests that Brown advise Senator O'Mahoney that the Council would like to testify when the bills come up.

Eccles believes the proper time to testify would be when the bills actually come up.

The meeting adjourned at 1:20 P.M.

The Council reconvened at 2:32 P.M., with all of the members present who had been at the joint meeting in the morning, with the exception of Mr. Atwood and Mr. Potts.

COUNCIL TESTIMONY BEFORE CONGRESSIONAL COMMITTEES

E. E. Brown. If the Administration should shift its support to a continuance of the present four and one and a half authority, should members of the Council testify or should we let it pass without testifying against it? Brown adds that Fleming will tell Senator O'Mahoney that members of the Council were present yesterday simply to listen to the testimony before the Joint Committee on the Economic Report and that they will testify later if the Senator wishes them to do so.

Fleming suggests that he advise Senator O'Mahoney that the members of the Council were present yesterday simply to listen to the testimony, but that they will testify later if he desires. Otherwise the members of the Council will testify before the Banking and Currency Committees. If Senator O'Mahoney wishes a statement, a brief summary of the Council's position, as expressed in the Confidential Memorandum to the Board of Governors, dated February 15, 1949, will be sent to the Senator. It is agreed that the members of the Council will avoid testimony before the Joint Committee on the Economic Report but will give a concise written statement to this Committee if necessary.

E. E. Brown believes that the Council must testify against the proposed ten and four legislation if a bill of that kind is introduced. Brown suggests that Fleming, Burgess, and Hemingway (all former presidents of the American Bankers Association) and Congdon (a former president of the Association of Reserve City Bankers) should testify. Brown states that he may be out of the country at the time members of the Council are requested to testify, but if he is here, he will testify. Brown suggests that Potts also should testify.

Potts agrees to testify.

Congdon is willing to testify. He leaves for Bermuda this week-end for two weeks, but following his return he is willing to testify.

Hemingway agrees to testify.

Fleming agrees to testify.

Beal. The question of Spencer's testifying is a matter of when he will be back in Boston from his vacation. Beal agrees to testify, if needed.

E. E. Brown asks what the position of the Council will be if they testify on Regulation W.

J. T. Brown states that the Council believes automobiles should be protected by the Regulation for a time. The Council may say it favors the extension of Regulation W for a limited time.

Hemingway is opposed to extending Regulation W, with the exception of control over automobiles.

Odlin. The Council may say that it is opposed to the extension of Regulation W as a permanent power.

E. E. Brown notes in a motion which is approved by all members of the Council, that the Council is opposed to making Regulation W a permanent power of the Board of Governors. In view of the fact that the demand for automobiles is in excess of the supply at present, the Council has no objection to the extension of the Regulation for a short period of six months or one year. Articles should be dropped from control as soon as they are in supply.

The meeting adjourned at 3:10 P.M.

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The next meeting of the Council will be on May 15 - 17, 1949.