May 15, 1949

The second statutory meeting of the Federal Advisory Council for 1949 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on Sunday, May 15, 1949, at 2:25 P.M., the President, Mr. Brown, in the Chair.

Present:

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
Herbert V. Prochnow	Secretary

On motion duly made and seconded, the mimeographed notes of the meeting held on February 13, 14 and 15, 1949, copies of which had been sent previously to the members of the Council, were approved.

President Brown reviewed the discussions which took place at a special meeting of the Executive Committee of the Council held in Washington, D. C., on May 10 and 11, 1949, in connection with Senate Bill 1775 and Senate Joint Resolution 87.

The Council then unanimously approved the statement made by President Brown on behalf of the Council before the Senate Committee on Banking and Currency on May 12, 1949, a copy of which is included with these minutes on pages 13 and 14.

The Council approved the suggestion that President Brown and Mr. Burgess each write to Senator Maybank, in answer to Senator Maybank's request for comments regarding the current economic and financial problems of the country, instead of having the Council prepare a written statement.

It was agreed that a copy of President Brown's letter to Senator McClelland on the Reorganization Bill be sent to the Board of Governors; a copy of this letter appears on page 15.

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 17, 18 and 19.

The meeting adjourned at 5:25 P.M.

HERBERT V. PROCHNOW
Secretary.

Statement on behalf of the Federal Advisory Council of the Federal Reserve System presented by Edward E. Brown, President of the Federal Advisory Council, to the United States Senate Committee on Banking and Currency, May 12, 1949. Mr. Brown is Chairman of the Board of The First National Bank of Chicago, Chicago, Illinois.

Senate Bill 1775 has two purposes. The first is making permanent the temporary power given the Reserve Board last summer to raise reserve requirements of member banks by 4 percentage points on demand deposits and 1½ percentage points on time deposits. This temporary power, as Chairman McCabe then indicated, was an anti-inflation measure. It gave the Board power to require member banks to immobilize some 4 billion dollars of their funds and made this money unavailable to lend or invest.

This is exactly the opposite of what the present situation requires. For some months business has been declining. The critical question is how far the recession will go.

This proposal to restrict the lending power of banks at a time when deflationary forces are under way is untimely.

The Board says it may not use the power granted and as evidence points out it has recently reduced reserve requirements. But the very possession of these powers by the Board is deflationary. Every prudent banker will feel he must keep enough extra money in short-term government securities to meet the reserves which the Board may call for in its discretion at any time. The sword of Damocles may not fall but nobody who lives under it can ignore its presence.

The proposed legislation is not only untimely; it is wholly unnecessary. No damage will be done by the lapse of these powers on June 30. The effects were demonstrated last week when the Board released about 1¼ billion of reserves. There was no disturbance to the money market or the government security market. The Reserve Banks sold to the member banks enough government securities to employ all the cash released. There was simply a transfer of these securities from the Reserve Banks to the member banks. The same thing will happen on June 30 if some 800 million of reserves are released by the lapse of the present temporary authority. The Reserve Banks and the Treasury have the powers to provide the securities to employ these funds pending demands from business borrowers.

The Board says it wants some more power for future emergencies. It already has powers with the discount rate and control of open market operations. If it wants still more power the Board can get it by reducing reserve requirements well below the legal maximum of 26, 20 and 14 per cent, so that they will have leeway to raise them later.

Reducing reserve requirements substantially would do no harm just as it did no harm last week. It would do good because it would tend to make the banks more aggressive in their loan policies with the larger lending power they would have. It would relieve the Reserve Banks of some of their overload of 20 billions of government securities.

On the second point, this bill goes far beyond the bill of last summer in its request for new and enlarged powers for the Board of Governors of the Federal Reserve System. They now ask the Congress for the first time for powers to require certain reserves from 6,500 non-member insured banks which are chartered by and are supervised by state banking authorities, and whose reserve requirements are now set solely by state laws.

If such a fundamental change should be contemplated in the American traditional dual system of banking, it ought to be the subject of separate and extended consideration and not hung on another bill. This proposal changes the status of 6,500 non-member banks, most of them country banks in all parts of the United States. There is no emergency to justify rushing through this basic change.

The Federal Advisory Council is opposed to any further extension of the powers of the Federal Reserve Board over consumer credit.

These powers were granted as a war measure for three purposes. The first was to channel the maximum amount of savings of individuals into government bonds, so as to enable the government to finance the war. The second purpose was to reduce the demand for scarce commodities and lessen the upward pressure on their prices. The third was to lessen possible credit expansion. As a war measure the powers were desirable and served their purpose.

Today the government has no difficulty in getting all the money it needs and none of the consumer durable goods are in short supply, with the exception of certain makes of lower-priced cars. Within a few months even these cars promise to be in ample supply. Credit today is declining and not expanding.

The emergency for which the powers were granted to the Federal Reserve Board is past, and the powers so granted should pass with the emergency.

The Council is unanimous in believing that control over installment credit has no permanent place in the American peacetime economy. To give any group of men, such as the Federal Reserve Board, power to regulate the terms and conditions of installment credit in peacetime can only injure the economy. The maximum terms of credit prescribed tend inevitably to become the minimum terms for the great majority. It is our belief that down payments, on the average, would probably be larger and terms of payment shorter if no Regulation W were now in effect. Governmental changes in terms and conditions from time to time on which installment credit can be extended cause confusion among merchants and manufacturers who have adopted and advertised given terms of payment.

The seller of goods and the grantor of credit are in a better position than any Board can be to judge what terms of credit should be extended to individuals and to vary such terms as among individuals, and in accordance with changing conditions.

The Federal Advisory Council, therefore, is opposed to the passage of Senate Bill 1775 and Senate Joint Resolution 87.

February 18, 1949

Dear Senator McClellan:

The Federal Advisory Council, a statutory body created under the Federal Reserve Act and consisting of one banker from each Federal Reserve District elected by the several Boards of Directors of the Federal Reserve Banks, has just met in Washington and has observed the action of the House of Representatives in the passage of HR-2361. The Council has also learned that hearings have been held on Senate Bill 526, both bills pertaining to the reorganization of Government agencies.

The Council has further learned that in the House of Representatives the Board of Governors of the Federal Reserve System, along with several other agencies, has been eliminated from the general reorganization provisions so as to require separate action in the event of a reorganization or change in any of its functions. We are also aware that in the event of such an occurrence, Congress, by action of both Houses, can disapprove within a sixty-day period.

As the members of the Council are all thoroughly conversant with the creation of the Federal Reserve System and the intent of the Congress when it was created, particularly under the guidance of the late Senator Glass, then Chairman of the House Banking and Currency Committee, that the Board of Governors of the Federal Reserve System was to be an agency of the Congress and not an agency subservient to the executive branch, which intent was reaffirmed in the Banking Act of 1935, it would appear to the Council that in the event of the reorganization provisions effecting the Board the Congress should have to act affirmatively rather than through disapproval of both Houses. We believe this is essential in our democratic form of Government because of the status of the Federal Reserve System in the economy of the Nation.

Since its establishment in 1913, the Federal Reserve System has effectively dealt with the problems of World War I, the intervening depression, World War II, and the subsequent problems which the postwar period have brought about, and we strongly emphasize that we believe the Board of Governors of the System should continue to be preserved as an agency of the Congress as now constituted.

We, therefore, respectfully request that the Board of Governors be exempted from the Reorganization Bill. In the event that it is later proposed to reorganize the Board of Governors, it should be done by legislation requiring the concurrence of both Houses of Congress. We hope this letter may be entered on your record and may be given the full weight of your thoughtful consideration.

Very sincerely yours,

(Signed) EDWARD E. BROWN
President

The Honorable John L. McClellan, Chairman
Committee on Expenditures in the Executive Departments
United States Senate
Senate Office Building
Washington 25, D. C.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 16, 1949

At 10:00 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

Present: Mr. Edward E. Brown, President; Messrs. Charles E. Spencer Jr., W. Randolph Burgess, Frederic A. Potts, Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway, Henry E. Atwood, James M. Kemper, J. E. Woods, Reno Odlin, and Herbert V. Prochnow, Secretary.

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 17, 18 and 19, 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 May 16, 1949.

The meeting adjourned at 12:15 P.M.

HERBERT V. PROCHNOW
Secretary.

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON MAY 17, 1949

1. Does the Board of Governors propose to secure introduction of bank holding company legislation in this session and attempt to obtain enactment; and if that is not intended in this session, what are the plans for bank holding company legislation?

Bank holding company legislation has been the subject of joint discussions by the Board and the Council on numerous occasions, but no legislation has been enacted. The Council would appreciate knowing what action the Board may be contemplating on such legislation.

2. Recently there has been renewed discussion of the suggestion that the Federal Deposit Insurance Corporation assessment be reduced and insurance coverage on deposits increased. In a recent reply to a request from the Senate Banking and Currency Committee for a report on a bill to increase the insurance coverage from $5,000 to $15,000, the Board stated that this change should not be considered without due regard to the reduction or elimination of assessments and a revision of the basis for such assessments, and that the Board had instituted a careful study with a view to placing itself in a position to respond to further inquiries that the Committee might wish to make. The Board would appreciate having the views of the Council on the matters that should be taken into account in making such a study and the conclusions that might be reached.

The Council is familiar with the discussions on this matter which the Federal Deposit Insurance Corporation has had with a committee of the American Bankers Association. Without being committed to any particular formula, the Council favors in general an approach to this subject on the basis of these discussions.

Specifically, the Council believes any legislation should include the following points:

A. No increase should be made in the present insurance coverage of $5,000;

B. The maximum assessment in any one year should not exceed one-twelfth of one per cent;

C. Provision should be made for maintaining the integrity of the fund by establishing a statutory formula for an automatic scale of assessments, based on the previous years' losses and expenses, to range from no assessment, or an assessment of a nominal amount, under present conditions, to a maximum of one-twelfth of one per cent per annum.

In any study for the purpose of determining the adequacy of Federal Deposit Insurance Corporation funds and the rate of assessments, the Council suggests the importance of considering not only the possible losses of the Federal Deposit Insurance Corporation but also the effect on bank earnings, capital and dividends of the steady drain of assessments. These assessments reduce the power of the individual bank to make its own provision for losses.

3. In a recent letter to the Chairman of the Banking and Currency Committee of the House, the Board took the position that action on Bill H. R. 1161, a bill to provide for the conversion or absorption of national banks into State banks, should

be deferred until consideration had been given to the problem of reserve requirements. Subsequently, Mr. Brooks, past president of the State Bank Division of the American Bankers Association, wired the Board criticising that position. Copies of his wire and the Board's reply are attached. The Board would like to have the comments of the Council on the Board's position. (See pages 20 and 21.)

The members of the Council are in unanimous agreement that national banks should have a right to convert to state charters as easily as state banks can convert to national charters. The fact that state non-member banks may have different reserve requirements than national banks should not be considered in connection with legislation authorizing such conversion. The Council, therefore, feels that Congressional action on Bill H. R. 1161 should be considered without reference to reserve requirements.

4. It would be helpful to the Board if each member of the Council would be prepared at the joint meeting to give a brief summary of the current and prospective business and credit conditions in his Federal Reserve District.

Each member of the Council will be pleased to make a brief oral statement regarding the current and prospective business and credit conditions in his Federal Reserve District.

5. Since the Council met on February 13-15, 1949, the Board has relaxed the provisions of Regulation W on two occasions and has reduced margin requirements from 75 per cent to 50 per cent. The Board would welcome the comments of the members of the Council on these actions and their views as to what, if any, further steps the Board or the Federal Open Market Committee might take at this time to meet their responsibilities in the monetary and credit fields.

The Council is in agreement with the general direction of the action which the Board has taken in relaxing the provisions of Regulation W, but calls attention to the fact that the Board's action has not yet gone as far in some respects as the Council recommended in February. At that time the Council stated in its written memorandum to the Board,

> "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."

In view of the current economic trend, the Council feels even more strongly than it did in February regarding the elimination of articles from control, and it now recommends that all controls under Regulation W be dropped. As stated to the Senate Committee on Banking and Currency, the Council favors the termination of the Board's power over consumer credit.

The Council agrees with and approves the various steps the Board has taken in reducing margin requirements.

The Council believes that under present conditions bank reserves now required are unnecessarily high, and it recommends that the Board make further substantial reductions in required reserves. Decreases in bank reserve requirements increase bank lending power and encourage banks to proceed with more confidence in their lending and investing policies. They also enable banks to maintain their earnings, strengthen their ability to absorb losses, and strengthen their capital funds. The Council has noted with approval the action of the Open Market Committee in supplying securities to the market, and thus maintaining orderly conditions, when reserve requirements were recently reduced.

The Council continues to feel that changes in reserve requirements are not a suitable method of current credit control, but should be used only rarely for adjustment to basic changes in the monetary situation. Changes in reserve requirements make difficult the planning of banking operations.

There now seem to us to have been basic changes in the situation justifying lower required reserves than the twenty-six, twenty and fourteen per cent maximums of the Banking Act of 1935. It would seem wise to lower requirements to a level which can be maintained over a considerable period.

6. Consideration of the refunding of maturing Government obligations, having in mind the need of the banking system for obligations of medium term and the allied question of removal of restrictions against purchase by banks which now apply to certain of the outstanding Government obligations.

In connection with the refunding of maturing Government obligations, the Council recommends the following action:

A. The issuance of notes or bonds of intermediate maturities to meet a shortage of such securities in the market;

B. The shifting of a portion of the Federal debt to longer maturities. Even a '67-'72 maturity is not now long term. The policy of increasing the amount of the debt payable or in short term maturities may create a serious problem at a later date.

The Council is not prepared to recommend at this time the removal of restrictions applying to those Government securities which are now ineligible for purchase by commercial banks.

COPY OF WESTERN UNION TELEGRAM

Denver, Colorado
April 4, 1949

S. R. Carpenter,
Secretary, Board of Governors
Federal Reserve System.

Was greatly surprised and disturbed to learn of the opposition of the Board to H. R. Bill 1161 the bank conversion bill. Reference is made to your explanation of the Board's position in the March 30th issue of the American Banker. The argument given for the Board's stand seems feeble to us and is anything but convincing. In our opinion the Board has tremendously lowered its dignity by using its opposition to this bill as a club over the nonmember banks of the country. The Board's unfortunate stand on this question will definitely create ill will on the part of thousands and thousands of nonmember banks which will take years to erase. So much more can be accomplished by working together as supervisory agencies and banking systems. Surely harmony not dissension is the solution of our banking problems. I vigorously appeal to the Board through you to withdraw its opposition to this long overdue correction of equalization between the two great banking systems of the country.

ALWOOD M. BROOKS, President
Central Bank & Trust Co., Denver, Colorado
Immediate Past President of State Bank
Division American Bankers Association

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

April 21, 1949

Mr. Alwood M. Brooks, President,
Central Bank & Trust Co.,
Denver, Colorado

Dear Mr. Brooks:

The Board is glad that you expressed frankly in your wire of April 4 your views with respect to the position which the Board of Governors has taken in its letter to Chairman Spence with respect to H. R. 1161, the national bank conversion bill. It would appear, however, that you have misinterpreted the reasons for that position, and the Board has asked me to restate these reasons in the light of your comments.

It was not the intention of the Board to oppose the bill as "a club over the nonmember banks of the country" or as a means of influencing the passage of legislation applying supplemental reserve requirements to nonmember banks. Rather, the Board's position recognizes that as long as the present situation with respect to reserve requirements continues, member banks (including national banks) will be at a distinct disadvantage; and that, since this discrimination might influence a substantial number of national banks to convert into State institutions, it would not be a service to the dual banking system to remove the impediment to the conversion of national banks at this time.

In his testimony before the Joint Committee on the Economic Report last February, Chairman McCabe stated that, "It would be grossly inequitable to limit the (supplemental reserve) requirements to member banks alone. Member banks already carry higher effective reserves than nonmembers, while nonmember banks benefit by the strength which the very existence of the Federal Reserve System gives to the credit structure. It is unfair to have member banks bear the entire burden of actions in the monetary field undertaken in the public interest. I have found member banks, particularly small member banks, becoming restive because of the inequitable application of reserve requirements. Failure to include all insured banks would seriously impair the effectiveness of national monetary policy."

You refer to equalization between the two great banking systems of the country. It is to be remembered, however, that our dual banking system embraces not only a duality as between national banks and State banks but a duality also as between member banks of the Federal Reserve System and nonmember banks. Too often there is a tendency to forget that national banks and State member banks should be protected from discriminatory advantages possessed or sought by nonmember State banks and that this should be the equal concern of banking authorities along with the protection of nonmember State banks from discriminatory advantages possessed or sought by national banks as a class or State member banks as a class. It is under this principle that we feel that supervisory agencies and the banking systems, to use the phraseology in your telegram, should work together to the end that harmony and not dissension might bring a solution to our banking problems.

Congress must be the arbiter as regards discriminatory situations arising from Federal statutes respecting banking. Until such time as Congress gives adequate consideration to the problem of supplemental reserve requirements in relation to insured nonmember banks, we do not feel that H. R. 1161 should be enacted. Thus, in our recent letter to Chairman Spence of the House Banking and Currency Committee, the Board said: "In the circumstances the Board hopes that action with respect to H. R. 1161 can be deferred until consideration has been given to the problem of reserve requirements."

Very truly yours,
(s) S. R. CARPENTER

S. R. Carpenter
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 16, 1949

At 2:00 P.M., the Federal Advisory Council convened 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; Messrs. Charles E. Spencer Jr., W. Randolph Burgess, Frederic A. Potts, Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway, Henry E. Atwood, James M. Kemper, J. E. Woods, Reno Odlin, and Herbert V. Prochnow, Secretary.

Dr. Ralph A. Young, Associate Director, Division of Research and Statistics of the Federal Reserve System, spoke on the subject, "The Economic Situation and Outlook."

HERBERT V. PROCHNOW
Secretary.

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

May 17, 1949

At 10:38 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., and 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; Messrs. Charles E. Spencer Jr., W. Randolph Burgess, Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway, Henry E. Atwood, James M. Kemper, J. E. Woods, Reno Odlin, and Herbert V. Prochnow, Secretary.

Absent: Frederic A. Potts.

President Brown reported that the Council had requested that the Board of Governors be exempt from the Reorganization Bill. The Secretary of the Council gave the Secretary of the Board a copy of a letter on this subject included in these minutes on page 15.

Chairman McCabe stated that the Board has not engaged in any activity in its own behalf and that the Board appreciates the Council's action.

President Brown reported further that the Council unanimously approved the statement which he presented to the Senate Committee on Banking and Currency on behalf of the Council. The statement appears on pages 13 and 14.

The President of the Council read the first item 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 17, 18 and 19 of these minutes.

Chairman McCabe replied that it is the Board's intention to introduce legislation, but that this session of Congress may not consider the legislation even if it goes to hearings.

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

Chairman McCabe remarked that the Board's study is not complete, and that the Board therefore is reserving the right to make suggestions on the subject later.

The President of the Council read the third item on the agenda and the conclusions of the Council given in the *Confidential Memorandum,* mentioned above.

At the suggestion of Chairman McCabe, the fourth item of the agenda was deferred until the latter part of the meeting.

President Brown read the fifth item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum* referred to above. There was a lengthy discussion introduced by Dr. Burgess, part of it off the record, between members of the Board and the Council on the whole matter of reserves and monetary policy generally.

The President of the Council then read the sixth item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum* cited above. A brief discussion followed.

President Brown read the fourth item on the agenda, and each member of the Council commented briefly on business and credit conditions in his district.

The meeting adjourned at 1:23 P.M.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 17, 1949

At 2:15 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; Messrs. Charles E. Spencer Jr., W. Randolph Burgess, Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway, Henry E. Atwood, James M. Kemper, J. E. Woods, Reno Odlin, and Herbert V. Prochnow, Secretary.

Absent: Mr. Frederic A. Potts.

The Federal Advisory Council voted unanimously to give the Executive Committee of the Federal Advisory Council full power to act for the Council on any matters which might arise before the next meeting of the Council on September 18, 19 and 20, 1949.

The meeting adjourned at 2:18 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 May 15, 1949, at 2:25 P.M., in Room 932 of The Mayflower Hotel, Washintgon, D.C. All members of the Federal Advisory Council were present.

E. E. Brown asks for approval of the Secretary's notes of the last meeting of the Council, which was held on February 13, 14 and 15, 1949, and the notes were approved. Brown reviews the discussions which took place at the special meeting of the Executive Committee of the Council held in Washington, D.C. on May 10 and 11, 1949, in connection with Senate Bill 1775 and Senate Joint Resolution 87. Brown also reviews the testimony which Fleming had given on behalf of the American Bankers Association and which he and Burgess had given on behalf of the Federal Advisory Council before the Senate Committee on Banking and Currency. Brown then asks the Secretary to read the statement which Brown had made on behalf of the Federal Advisory Council before the Senate Committee. Each member of the Council was also given a copy of the statement. On motion made by Fleming and seconded by J. T. Brown, the Council unanimously approved the statement which Brown had made on Senate Bill 1775 and Senate Joint Resolution 87 before the Senate Committee on Banking and Currency on May 12, 1949. A copy of the statement is included in the minutes of the Executive Committee meeting for May 10 and 11, 1949.

SUGGESTIONS TO SENATOR MAYBANK REGARDING THE ECONOMIC SITUATION

E. E. Brown states that Senator Maybank had asked Brown during his testimony to transmit to the Senate Committee any suggestions the Council might care to make that would be helpful in meeting the current economic and financial problems of the country. Brown says that if the Council prepared a written communication, it probably would be necessary for the Council to comment on taxes, housing, the budget, and many other subjects. In his experience with the Council, Brown has found it is not advisable to issue broad public statements of this character, as such statements tend to destroy the effectiveness of the Council on banking matters. He suggests that he and Burgess write letters to Senator Maybank, which course of procedure met with the approval of the members of the Council.

REORGANIZATION BILL

Fleming discusses what has taken place regarding the Reorganization Bill and asks that the copy of President Brown's letter to Senator McClellan on the Reorganization Bill be given to the Board of Governors in order that the Board may see what the Council has done in its effort to be helpful to the Board.

E. E. Brown suggests that a copy of Fleming's letter to Brown on this subject also be given to the Board of Governors. Copies of these letters had been previously sent to members of the Council.

DOES THE BOARD OF GOVERNORS PROPOSE TO SECURE INTRODUCTION OF BANK HOLDING COMPANY LEGISLATION IN THIS SESSION AND ATTEMPT TO OBTAIN ENACTMENT: AND IF THAT IS NOT INTENDED IN THIS SESSION, WHAT ARE THE PLANS FOR BANK HOLDING COMPANY LEGISLATION?

E. E. Brown states that at a dinner to which Burgess had invited Wolcott the latter said the bank holding company bill was dead or dormant. Wolcott doubts whether it will be brought up at this session of Congress.

Odlin wishes to have the question brought up to the Board. The proposed bank holding company legislation has been the subject of discussion by the Council and the Board on various occasions, and many bankers in his district would like to know what action the Board may be contemplating on the proposed legislation.

E. E. Brown advises that he will raise the question of bank holding company legislation with the Board and will ask Odlin to comment regarding it.

RECENTLY THERE HAS BEEN RENEWED DISCUSSION OF THE SUGGESTION THAT THE FEDERAL DEPOSIT INSURANCE CORPORATION ASSESSMENT BE REDUCED AND INSURANCE COVERAGE ON DEPOSITS INCREASED. IN A RECENT REPLY TO A REQUEST FROM THE SENATE BANKING AND CURRENCY COMMITTEE FOR A REPORT ON A BILL TO INCREASE THE INSURANCE COVERAGE FROM $5,000 TO $15,000, THE BOARD STATED THAT THIS CHANGE SHOULD NOT BE CONSIDERED WITHOUT DUE REGARD TO THE REDUCTION OR ELIMINATION OF ASSESSMENTS AND A REVISION OF THE BASIS FOR SUCH ASSESSMENTS, AND THAT THE BOARD HAD INSTITUTED A CAREFUL STUDY WITH A VIEW TO PLACING ITSELF IN A POSITION TO RESPOND TO FURTHER INQUIRIES THAT THE COMMITTEE MIGHT WISH TO MAKE. THE BOARD WOULD APPRECIATE HAVING THE VIEWS OF THE COUNCIL ON THE MATTERS THAT SHOULD BE TAKEN INTO ACCOUNT IN MAKING SUCH A STUDY AND THE CONCLUSIONS THAT MIGHT BE REACHED.

Fleming states that Eccles told him he thought the assessment should be reduced.

E. E. Brown says that a committee of the American Bankers Association is working on this matter. He states that Stonier talked with Harl and Harl does not wish the assessment eliminated. The American Bankers Association formula has a scale of assessments running from one-twelfth of one per cent to one-ninety-sixth of one per cent per year. The expenses of operating the Federal Deposit Insurance Corporation plus the losses would come out of the earnings of the fund. The assessments would vary, depending upon the relationship of the expenses and the losses to the earnings. There does not seem to be any pressure by Harl to raise the coverage above $5,000. Harl, Vandenberg and Snyder will have the most influence on any proposed legislation.

Hemingway. Vandenberg wishes the assessment reduced from one-twelfth to one-twenty-fourth.

Atwood states Harold Amberg told him Harl would accept the proposal of one twenty-fourth of one per cent per annum.

Odlin asks whether there is anything sacred about dealing in figures of one-twelfth, one-forty-eighth and one-ninety-sixth of one per cent.

Fleming believes that the activity in behalf of legislation on this matter should be directed through the American Bankers Association Committee which is working with the F.D.I.C.

Brown thinks that the Council can say to the Board of Governors that the Council is familiar with the discussions on this matter which have been carried on by the Federal Deposit Insurance Corporation and the Committee of the American Bankers Association. Without being committed to any particular formula, the Council may say that it favors in general an approach to this subject on the basis of these discussions. The Council believes any legislation should include the following points: (1) No increase in the present insurance coverage; (2) A maximum assessment not in excess of one-twelfth of one per cent per year; and (3) A scale of assessments, based on the losses and expenses of previous years, to range from no assessment, or an assessment of a nominal amount, under present conditions, to a maximum of one-twelfth of one per cent per annum.

IN A RECENT LETTER TO THE CHAIRMAN OF THE BANKING AND CURRENCY COMMITTEE OF THE HOUSE, THE BOARD TOOK THE POSITION THAT ACTION ON BILL H. R. 1161, A BILL TO PROVIDE FOR THE CONVERSION OR ABSORPTION OF NATIONAL BANKS INTO STATE BANKS, SHOULD BE DEFERRED UNTIL CONSIDERATION HAD BEEN GIVEN TO THE PROBLEM OF RESERVE REQUIREMENTS. SUBSEQUENTLY, MR. BROOKS, PAST PRESIDENT OF THE STATE BANK DIVISION OF THE AMERICAN BANKERS ASSOCIATION, WIRED THE BOARD CRITICIZING THAT POSITION. COPIES OF HIS WIRE AND THE BOARD'S REPLY ARE ATTACHED. THE BOARD WOULD LIKE TO HAVE THE COMMENTS OF THE COUNCIL ON THE BOARD'S POSITION.

E. E. Brown asks the opinion of the members of the Council on this question which the Board has submitted.

Hemingway believes national banks should have the right to convert readily to state charters.

Burgess states that there is no relationship between Bill H. R. 1161 and the matter of reserve requirements.

Hemingway agrees.

E. E. Brown says that many national banks may wish to get out of the Federal Reserve System because of reserve requirements.

Congdon does not believe obstacles should be placed in the way of conversion or absorption of national banks into state banks.

Woods thinks the Board wishes the Council's views on the Board's correspondence with Mr. Brooks.

Fleming believes that national banks should have the right to convert to state charters as readily as state banks can convert to national charters.

E. E. Brown asks how many members of the Council believe that national banks should have a right to convert to state charters as easily as state banks can convert to national charters. All members agree that national banks should have this right. The Council also believes that the fact that state non-member banks may have different reserve requirements than national banks should not prevent such conversion. In view of this position of the Council, the Council sees no reason why Congress should postpone action on Bill H.R. 1161 until consideration has been given to the problem of reserve requirements.

IT WOULD BE HELPFUL TO THE BOARD IF EACH MEMBER OF THE COUNCIL WOULD BE PREPARED AT THE JOINT MEETING TO GIVE A BRIEF SUMMARY OF THE CURRENT AND PROSPECTIVE BUSINESS AND CREDIT CONDITIONS IN HIS FEDERAL RESERVE DISTRICT.

E. E. Brown states that he will call on each member of the Council to comment relative to this item when the Council meets with the Board.

SINCE THE COUNCIL MET ON FEBRUARY 13-15, 1949, THE BOARD HAS RELAXED THE PROVISIONS OF REGULATION W ON TWO OCCASIONS AND HAS REDUCED MARGIN REQUIREMENTS FROM 75 PER CENT TO 50 PER CENT. THE BOARD WOULD WELCOME THE COMMENTS OF THE MEMBERS OF THE COUNCIL ON THESE ACTIONS AND THEIR VIEWS AS TO WHAT, IF ANY, FURTHER STEPS THE BOARD OR THE FEDERAL OPEN MARKET COMMITTEE MIGHT TAKE AT THIS TIME TO MEET THEIR RESPONSIBILITIES IN THE MONETARY AND CREDIT FIELD.

E. E. Brown says he told the Senate Committee that up to the first of this year the Board had done a comparatively good job in administering Regulation W, but since January 1 he did not believe the Board had acted soon enough. The Board may have been afraid to abandon credit controls for fear that the Board's position might be weakened when it asked for an extension of Regulation W.

Fleming thinks the Board was pushed into action.

Congdon. The Board is asking whether the Council approves or disapproves of the Board's action.

E. E. Brown says the Council may say that it agrees with the action the Board has taken in reducing margin requirements and that the Council approves the actions taken by the Board under Regulation W since the Council's last meeting with the Board. The Council may also say that in view of the current economic trend the Council feels even more strongly than it did in February regarding the elimination of articles from control, and it now recommends that all controls under Regulation W be dropped.

Hemingway asks whether the Board should have the power over margin requirements.

E. E. Brown states that it is in the law. If margin requirements are reduced further it may frighten the public. A further reduction in margin requirements on stocks might be misunderstood.

Burgess doubts whether margins should be reduced further now. Such action might be misinterpreted.

E. E. Brown says that Burgess and he both stated in their testimony to the Senate Committee that reserves should be reduced. A reduction in reserves would give the Board more leeway to increase them at a later date, if necessary.

Hemingway thinks that if the Council urges the Board to decrease reserves so they can increase them at a later date, the Council is in part agreeing with the argument of the Board about the use of reserves as an instrument of credit control.

Burgess. There are other reasons for reducing reserve requirements. The Federal Reserve System has too many government securities and reducing reserves would move out some of these securities. Reducing reserves would also strengthen the earning position of banks and help them build their capital positions. Sproul said in his statement that reserves should not be used as an instrument of day-to-day control.

E. E. Brown believes that reserves should only be changed at rare intervals.

Burgess thinks the present reserves are too high, particularly in view of bank earnings and the amount of governments held by the Federal Reserve System.

Odlin believes that the Council might well state in its memorandum to the Board that the Council continues to feel that changes in reserve requirements are not a suitable method of current credit control, but should be used only rarely for adjustment to basic changes in the monetary situation. Changes in reserve requirements make difficult the planning of banking operations. There have been basic changes in the situation justifying lower required reserves than the twenty-six, twenty and fourteen per cent maximums of the Banking Act of 1935. It would seem wise to lower requirements to a level which can be maintained over a considerable period.

E. E. Brown. Assuming a continuance of the present economic trend, a substantial reduction in reserves would be desirable.

CONSIDERATION OF THE REFUNDING OF MATURING GOVERNMENT OBLIGATIONS, HAVING IN MIND THE NEED OF THE BANKING SYSTEM FOR OBLIGATIONS OF MEDIUM TERM AND THE ALLIED QUESTION OF REMOVAL OF RESTRICTIONS AGAINST PURCHASE BY BANKS WHICH NOW APPLY TO CERTAIN OF THE OUTSTANDING GOVERNMENT OBLIGATIONS.

(At this point there was an off-the-record discussion)

Burgess believes that if reserve requirements are reduced the Open Market Committee should be prepared to offer notes or bonds of intermediate maturities to meet a shortage of such securities in the market.

Congdon believes the Treasury should put out intermediate maturities especially with the possible lapse of the emergency reserve legislation.

Fleming thinks the policy of constantly increasing the amount of demand and short term issues outstanding will create a serious problem at a later date.

E. E. Brown agrees. Brown states that the Council may recommend: (1) The issuance of notes or bonds of intermediate maturities to meet a shortage of such maturities in the market; and (2) the shifting of a portion of the federal debt to longer maturities. Even a '67-'72 maturity is not now long-term.

The meeting adjourned at 5:25 P.M.

THE COUNCIL CONVENED AT 10 A.M. ON MAY 16, 1949, IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D.C. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT.

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 May 17, 1949. The Memorandum was delivered to the Secretary of the Board of Governors at 12:25 P.M. on May 16, 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 12:15 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON MAY 17, 1949

1. Does the Board of Governors propose to secure introducduction of bank holding company legislation in this session and attempt to obtain enactment; and if that is not intended in this session, what are the plans for bank holding company legislation?

Bank holding company legislation has been the subject of joint discussions by the Board and the Council on numerous occasions, but no legislation has been enacted. The Council would appreciate knowing what action the Board may be contemplating on such legislation.

2. Recently there has been renewed discussion of the suggestion that the Federal Deposit Insurance Corporation assessment be reduced and insurance coverage on deposits increased. In a recent reply to a request from the Senate Banking and Currency Committee for a report on a bill to increase the insurance coverage from $5,000 to $15,000, the Board stated that this change should not be considered without due regard to the reduction or elimination of assessments and a revision of the basis for such assessments, and that the Board had instituted a careful study with a view to placing itself in a position to respond to further inquiries that the Committee might wish to make. The Board would appreciate having the views of the Council on the matters that should be taken into account in making such a study and the conclusions that might be reached.

The Council is familiar with the discussions on this matter which the Federal Deposit Insurance Corporation has had with a committee of the American Bankers Association. Without being committed to any particular formula, the Council favors in general an approach to this subject on the basis of these discussions.

Specifically, the Council believes any legislation should include the following points:

A. No increase should be made in the present insurance coverage of $5,000;

B. The maximum assessment in any one year should not exceed one-twelfth of one per cent;

C. Provision should be made for maintaining the integrity of the fund by establishing a statutory formula for an automatic scale of assessments, based on the previous years' losses and expenses, to range from no assessment, or an assessment of a nominal amount, under present conditions, to a maximum of one-twelfth of one per cent per annum.

In any study for the purpose of determining the adequacy of Federal Deposit Insurance Corporation funds and the rate of assessments, the Council suggests the importance of considering not only the possible losses of the Federal Deposit Insurance Corporation but also the effect on bank earnings, capital and dividends of the steady drain of assessments. These assessments reduce the power of the individual bank to make its own provision for losses.

3. In a recent letter to the Chairman of the Banking and Currency Committee of the House, the Board took the position that action on Bill H. R. 1161, a bill to provide for the conversion or absorption of national banks into State banks, should be deferred until consideration had been given to the problem of reserve requirements. Subsequently, Mr. Brooks, past president of the State Bank Division of the American Bankers Association, wired the Board criticising that position. Copies of his wire and the Board's reply are attached. The Board would like to have the comments of the Council on the Board's position.

The members of the Council are in unanimous agreement that national banks should have a right to convert to state charters as easily as state banks can convert to national charters. The fact that state non-member banks may have different reserve requirements than national banks should not be considered in connection with legislation authorizing such conversion. The Council, therefore, feels that Congressional action on Bill H. R. 1161 should be considered without reference to reserve requirements.

4. It would be helpful to the Board if each member of the Council would be prepared at the joint meeting to give a brief summary of the current and prospective business and credit conditions in his Federal Reserve District.

Each member of the Council will be pleased to make a brief oral statement regarding the current and prospective business and credit conditions in his Federal Reserve District.

5. Since the Council met on February 13-15, 1949, the Board has relaxed the provisions of Regulation W on two occasions and has reduced margin requirements from 75 per cent to 50 per cent. The Board would welcome the comments of the members of the Council on these actions and their views as to what, if any, further steps the Board or the Federal Open Market Committee might take at this time to meet their responsibilities in the monetary and credit fields.

The Council is in agreement with the general direction of the action which the Board has taken in relaxing the provisions of Regulation W, but calls attention to the fact that the Board's action has not yet gone as far in some respects as the Council recommended in February. At that time the Council stated in its written memorandum to the Board,

> "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."

In view of the current economic trend, the Council feels even more strongly than it did in February regarding the elimination of articles from control, and it now recommends that all controls under Regulation W be dropped. As stated to the Senate Committee on Banking and Currency, the Council favors the termination of the Board's power over consumer credit.

The Council agrees with and approves the various steps the Board has taken in reducing margin requirements.

The Council believes that under present conditions bank reserves now required are unnecessarily high, and it recommends that the Board make further substantial reductions in required reserves. Decreases in bank reserve requirements increase bank lending power and encourage banks to proceed with more confidence in their lending and investing policies. They also enable banks to maintain their earnings, strengthen their ability to absorb losses, and strengthen their capital funds. The Council has noted with approval the action of the Open Market Committee in supplying securities to the market, and thus maintaining orderly conditions, when reserve requirements were recently reduced.

The Council continues to feel that changes in reserve requirements are not a suitable method of current credit control, but should be used only rarely for adjustment to basic changes in the monetary situation. Changes in reserve requirements make difficult the planning of banking operations.

There now seem to us to have been basic changes in the situation justifying lower required reserves than the twenty-six, twenty and fourteen per cent maximums of the Banking Act of 1935. It would seem wise to lower requirements to a level which can be maintained over a considerable period.

6. Consideration of the refunding of maturing Government obligations, having in mind the need of the banking system for obligations of medium term and the allied question of removal of restrictions against purchase by banks which now apply to certain of the outstanding Government obligations.

In connection with the refunding of maturing Government obligations, the Council recommends the following action:

A. The issuance of notes or bonds of intermediate maturities to meet a shortage of such securities in the market;

B. The shifting of a portion of the Federal debt to longer maturities. Even a '67-'72 maturity is not now long term. The policy of increasing the amount of the debt payable on demand or in short term maturities may create a serious problem at a later date.

The Council is not prepared to recommend at this time the removal of restrictions applying to those Government securities which are now ineligible for purchase by commercial banks.

COPY OF WESTERN UNION TELEGRAM

Denver, Colorado
April 4, 1949

S. R. Carpenter,
Secretary, Board of Governors
Federal Reserve System

Was greatly surprised and disturbed to learn of the opposition of the Board to H. R. Bill 1161 the bank conversion bill. Reference is made to your explanation of the Board's position in the March 30th issue of the American Banker. The argument given for the Board's stand seems feeble to us and is anything but convincing. In our opinion the Board has tremendously lowered its dignity by using its opposition to this bill as a club over the nonmember banks of the country. The Board's unfortunate stand on this question will definitely create ill will on the part of thousands and thousands of nonmember banks which will take years to erase. So much more can be accomplished by working together as supervisory agencies and banking systems. Surely harmony not dissension is the solution of our banking problems. I vigorously appeal to the Board through you to withdraw its opposition to this long overdue correction of equalization between the two great banking systems of the country.

ALWOOD M. BROOKS, PRESIDENT
CENTRAL BANK & TRUST CO., DENVER, COLORADO
IMMEDIATE PAST PRESIDENT OF STATE BANK
DIVISION AMERICAN BANKERS ASSOCIATION

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April 21, 1949

Mr. Alwood M. Brooks, President,
Central Bank & Trust Co.,
Denver, Colorado

Dear Mr. Brooks:

The Board is glad that you expressed frankly in your wire of April 4 your views with respect to the position which the Board of Governors has taken in its letter to Chairman Spence with respect to H. R. 1161, the national bank conversion bill. It would appear, however, that you have misinterpreted the reasons for that position, and the Board has asked me to restate these reasons in the light of your comments.

It was not the intention of the Board to oppose the bill as "a club over the nonmember banks of the country" or as a means of influencing the passage of legislation applying supplemental reserve requirements to nonmember banks. Rather, the Board's position recognizes that as long as the present situation with respect to reserve requirements continues, member banks (including national banks) will be at a distinct disadvantage; and that, since this discrimination might influence a substantial number of national banks to convert into State institutions, it would not be a service to the dual banking system to remove the impediment to the conversion of national banks at this time.

In his testimony before the Joint Committee on the Economic Report last February, Chairman McCabe stated that, "It would be grossly inequitable to limit the (supplemental reserve) requirements to member banks alone. Member banks already carry higher effective reserves than nonmembers, while nonmember banks benefit by the strength which the very existence of the Federal Reserve System gives to the credit structure. It is unfair to have member banks bear the entire burden of actions in the monetary field undertaken in the public interest. I have found member banks, particularly small member banks, becoming restive because of the inequitable application of reserve requirements. Failure to include all insured banks would seriously impair the effectiveness of national monetary policy."

You refer to equalization between the two great banking systems of the country. It is to be remembered, however, that our dual banking system embraces not only a duality as between national banks and State banks but a duality also as between member banks of the Federal Reserve System and nonmember banks. Too often there is a tendency to forget that national banks and State member banks should be protected from discriminatory advantages possessed or sought by nonmember State banks and that this should be the equal concern of banking authorities along with the protection of nonmember State banks from discriminatory advantages possessed or sought by national banks as a class or State member banks as a class. It is under this principle that we feel that supervisory agencies and the banking systems, to use the phraseology in your telegram, should work together to the end that harmony and not dissension might bring a solution to our banking problems.

Congress must be the arbiter as regards discriminatory situations arising from Federal statutes respecting banking. Until such time as Congress gives adequate consideration to the problem of supplemental reserve requirements in relation to insured nonmember banks, we do not feel that H. R. 1161 should be enacted. Thus, in our recent letter to Chairman Spence of the House Banking and Currency Committee, the Board said: "In the circumstances the Board hopes that action with respect to H. R. 1161 can be deferred until consideration has been given to the problem of reserve requirements."

Very truly yours,

(s) S. R. CARPENTER

S. R. Carpenter,
Secretary.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2 P.M. ON MAY 16, 1949, TO HEAR DR. RALPH A. YOUNG, ASSOCIATE DIRECTOR, DIVISION OF RESEARCH AND STATISTICS, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

ALL MEMBERS OF THE COUNCIL WERE PRESENT.

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E. E. Brown presents Dr. Ralph A. Young, who speaks on the subject "The Economic Situation and Outlook". A copy of Dr. Young's talk is attached.

STRICTLY CONFIDENTIAL

THE ECONOMIC SITUATION AND OUTLOOK

by

Dr. Ralph A. Young, Associate Director,
Division of Research and Statistics,
Board of Governors of the Federal Reserve System.

Economic tendencies since last fall and particularly since the turn of this year suggest that the immediate postwar restocking and inflation boom has largely run its course. In fact, recent developments have shown a sufficiently broad and consistent pattern of downward drift as to justify an expectation of continuing moderate recession for the remainder of 1949. Whether actual economic decline will extend this long, or continue longer, is, of course, a moot question. No one possesses full insight into the economic forces at work. After ten years of inflationary upsurge, there is probably a substantial accumulation of disparities and distortions to be corrected before forces of economic expansion again become dominant. At the same time, it is important to recognize that there are various powerful sustaining forces in the current situation that were not present in past culminations of extended periods of inflationary economic expansion. These forces may carry us through a period of readjustment without serious idleness of manpower and capacity.

While a readjustment period which might be characterized as stagnation at relatively high levels of activity is a possibility, the weight of evidence, I think, supports an expectation of more or less extended recession running at least through this year. If downward drift turns out to be the dominant course of economic tendency, the words "depression" and "deflation" will increasingly supplant the expression "healthy readjustment" in describing the over-all situation. What are the grounds for believing that the composite indications of recent economic tendencies point towards a continuing downward drift:

First is the generality of the declines since last fall in industrial production, in factory manhours and employment, and in prices. Declines have been much more widespread and noteworthy than in preceding "soft" phases of postwar activity, e.g., the spring and summer of 1947 and the first quarter of last year. Since October last, employment has fallen in every major non-agricultural area except public utilities, and manhours worked are off in each major industrial group in manufacturing. Industrial production has contracted in thirteen of the nineteen industry groups covered by the Federal Reserve index of industrial production, and in the other six groups there has been either no or only a very moderate increase.

Second, while declines in broad measures of economic activity and prices have thus far been moderate, many of the more sensitive measures have shown declines that cannot fairly be described by any other adjective than "large". The general level of wholesale prices at the end of April was 8 per cent below the peaks of last summer, and the index of basic commodity prices was off 26 per cent. Industrial production in April was 8 per cent below its postwar peak of late 1948. Total manhours worked in factories in March were 9 per cent below a year ago. Declines in manhours have been particularly sharp in durable and semi-durable manufacturing lines. Declines in physical production have been especially large in lumber, machinery, textiles, paper, rubber, chemicals, and alcoholic beverages.

Third, even in such industries as metals and metal products, in which a few months ago demand appeared to be the strongest, there is now considerable evidence of weakness. Steel consumption in recent weeks has been declining, tending to make the current rate of steel output in excess of consumption.

Fourth, sustained high levels of postwar production at rising prices have virtually eliminated deferred demands for most consumer goods, and to a large extent for houses. Furthermore, inventories generally have been replenished at all stages of production and distribution. Many industries have been left producing at higher rates than are being sustained by current sales to consumers at current high prices and tendencies towards involuntary inventory accumulation, notably of finished goods, are reasonably well marked. Attempts to reduce inventories and to bring them in line with apparent demand is resulting in cutbacks in production and price reductions, with particularly sharp price reductions for materials.

Fifth, the scrappage of passenger cars since the war has been running significantly below the prewar rate, suggesting a continuing large backlog of demand. On the other hand, the industry has shifted its output quite markedly towards medium and higher priced cars. It used to be said that it took a $5,000 annual income to buy and maintain a car costing $2,000. The purchase of new cars in this price class has increased, relative to prewar, eight to twelve times the increase in income receivers in the $5,000 and over income class. The medium and high-priced automobile market may experience considerable softening after this present seasonal buying period is over.

Sixth, the housing market is commencing to feel the impact of a tapering off in the rate of family formation, in the birth rate, and in average family size. These are basic market factors and their appearance concurrently with the substantial satisfaction of backlog housing demand can seriously aggravate any softening of residential construction activity. It should be pointed out that residential construction has a large multiplier effect in spending for streets, water supply, sewage disposal, schools, and other facilities. The impact on the economic situation of declining construction of new housing is not fully absorbed by an offsetting expansion in other types of construction.

Seventh, high prices in relation to costs and in relation to current demand, in many markets, together with various conspicuous disparities among prices, suggest that more price adjustments are needed to establish a sustainable level and balance of prices. Meanwhile, buyers who have funds or financing available may in many cases be inclined to wait for further price reductions.

Eighth, farm prospects, assuming favorable growing and harvest conditions, are for large crops and continued pressure of supply on prices.

Ninth, foreign demands for American industrial goods are less urgent than earlier and are tending to taper off. On the other hand, foreign supplies of materials and other goods are more ample and available and hence a more active supply influence in domestic market conditions.

Tenth, private expenditures for plant and equipment and construction purposes have been declining recently and current indications are for further declines. Business has been spending on plant and equipment at an unprecedented rate in an attempt to make up for under-investment during the war and to provide adequate capacity for meeting demand arising out of high postwar incomes. With many of the early expansion plans completed or nearing completion, new expenditures are now being curtailed. Planned outlays for current or additional programs show a moderate reduction for 1949 as a whole, and, except for the utility industry, a substantial decline for the second half year.

Eleventh, the ratio of personal savings in relation to disposable income which has been rising steadily since the second quarter of last year, has continued to rise this year despite some decline in disposable income. There is also evidence of a tendency towards larger liquid asset holdings of individuals. Apparently these tendencies are associated with the mounting buyer resistance which has been encountered at current price levels in many durable goods lines and in the urban dwelling area, especially for houses in the upper price brackets.

Twelfth, credit and capital demands have tapered off and an excess of maturities over new credits has reduced sharply the volume of outstanding loans at banks. New security financing, total corporate profits, and undistributed earnings have all been at a somewhat lower level in the first quarter of this year. In this connection, it is also significant that the direct use of personal savings for investment by farm operators and other unincorporated business also appears to have fallen off.

Thirteenth, indicative of the over-all strength of recent contractive influences is the fact that business activity and prices have been declining since last fall despite a substantial increase in Federal expenditures on goods and services. While such expenditures will probably increase further during 1949, it is unlikely that the additional increase will fully offset declines in private spending.

Further recession which might be expected from these indications may take any one of a number of patterns, differing with respect to timing and severity. As I implied in my introductory comment, in view of the existence of important strengths and cushions not available in prewar business recessions, a moderate recession pattern seems to be the most reasonable expectation. Such a pattern would envisage further gradual and shallow declines in various broad measures of activity in relation to current levels. Thus by the end of the year, a moderate pattern of decline would contemplate industrial production at about 170, wholesale prices down about 10 per cent, consumer prices down about 6 per cent, and unemployment in the neighborhood of 5 million. A sizeable operating cash deficit for the Federal Government amounting to about 2 billion dollars for the calendar year, and to about 5 billion for the fiscal year 1950, would be consistent with a moderate recession extending through the first half of next year.

It is obviously impossible to say with any assurance that such a moderate pattern of recession will actually describe economic tendencies during the months ahead. In evaluating prospects and possibilities considerable weight should be given to the following strengths and supporting factors which will work to cushion further downward readjustment and to prevent it from becoming cumulative:

First, as employment declines the Government automatically pays out unemployment compensation benefits which partially maintain the income and expenditures of the unemployed.

Second, payments under the farm support program similarly help to maintain income and reduce the dangers of unlimited price declines.

Third, Federal expenditures on goods and services are in large peacetime volume and some further increase is probable. State and local government expenditures are expected to expand steadily because of pressing needs for schools, hospitals, other public buildings, and roads.

Fourth, individual holdings of liquid assets are large and fairly widely distributed.

Fifth, current income also is probably better distributed than in any prior boom period.

Sixth, the most recent survey of consumer buying expectations indicates that there still remains a great deal of underlying demand for automobiles, appliances, and houses. Potential demands for goods and services at lower prices are great. Where substantial price reductions have occurred recently, increased buying has tended to absorb previously excessive stocks.

Seventh, industry and trade have had little occasion to exercise real merchandising ingenuity since before the war. Their merchandising skills are rusty. Putting these skills again to work so that our mass production system becomes fully reconverted to a mass merchandising-production system will reestablish a sensitive contact between consumption and production.

Eighth, commitments by producers considering capital outlays are in part held back by present high construction and equipment costs. There are no doubt substantial programs of capital expenditures awaiting some downward readjustment in these costs.

Ninth, the fact of high and inflexible wage costs in industry will increase the emphasis placed on capital expenditures for cost cutting improvements. Many new capital expenditure programs will doubtless be developed and initiated under the pressure of narrower margins between costs and prices.

Tenth, while a reduction in personal incomes and housing prices may make part of our large mortgage debt vulnerable from the standpoint of the borrower, Government guarantees backing a significant proportion of such debt offer important protections to the lender.

Eleventh, the fact that the postwar period has generally been free of speculative excesses in the securities markets, the strong financial status of industry, and the great strength of the banking system are factors that make a prolonged and drastic liquidation less likely than in other periods of decline.

Twelfth, it seems quite unlikely that the money supply will contract materially -- if at all; in fact, it seems likely that Treasury deficit financing through the banks will more than offset any loan contraction which might occur, thus having an expansive impact on the money supply.

In view of recent declines and the prospect for still further declines in economic activity and prices, it seems clear that public policy should now be directed away from programs designed to curb inflation and directed towards the attainment of stable output and employment at a satisfactorily high level. Appropriate programs are those that would:

(a) Encourage business and consumer expenditures

(b) Ease remaining restrictive policies affecting such expenditures

(c) Assure the continued availability of an ample supply of low cost credit to worthy borrowers, and

(d) Improve the economy's fiscal and financial structure.

Recent policy measures of the Reserve System, liberalizing consumer instalment credit and stock market regulations and lowering member bank reserve requirements, are fully consistent with these objectives and on this occasion have been taken in good time. Some further liberalizations in these policy areas may prove to be needed later. Conceivably it may also become desirable to move in such directions as the issuance of a bank supervisory statement designed to encourage bank lending to business, perhaps combined with some voluntary program of loan encouragement sponsored by the bankers themselves. If something more than moderate recession is involved, some positive Federal Reserve (Section 13b) industrial loan program may be needed.

Although the foregoing comments as to the economic situation and outlook have carried a bearish tone, it is important for perspective to remember that declines in activity and prices to date have been relatively moderate. Employment is still at a high level. Unemployment is relatively small and since mid-February its rate of increase has tapered off. Consumer prices are only 3 per cent lower than their peaks of last summer and for two months have shown little change. Gross national product in the first quarter was only 2 per cent below its peak rate in the final quarter of last year and total personal income by less than 2 per cent. In terms of real purchasing power, the decline in personal incomes has been partly offset by lower consumer prices.

Another point worth remembering is that we still have much unexpended inflationary fuel, and if we do experience further moderate recession with Treasury deficit financing expanding the money supply, we will be storing up still more inflation fuel. The readjustment we have been having and seem likely to continue to have is in part a composite response to spending decisions of consumers, businessmen, and farmers. A rapid change in the general climate of expectation could reverse the trend of spending propensities by each of these groups. Resumption of inflationary tendencies at some stage is not without the bounds of possibilities. If we succeed as an economy in maintaining reasonably high levels of activity as a longer run matter, I am inclined to think that, with our huge financial liquidity, we will encounter recurrent periods of marked inflationary pressures.

In conclusion, it is clear that, with the economy in a phase of rapidly changing activity and prospects, current tendencies will need to be constantly reappraised. If further developments are such as to require substantial modification of the expectations here suggested, no hesitancy should be felt in doing so. Economic projection is a fallible art and not an exact science. The purpose of economic projection is merely to set forth, on the basis of a careful sifting of various current data, a tentative picture of possible tendencies which monetary and banking policy ought to take into account in making current decisions. The decisions might be just as good in the absence of such a picture, but again they might be less good. What makes for good policy decisions is not the availability of information, but the effective interpretation and use of that information by the policy making mind.

On May 17, 1949, at 10:38 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 Mr. Potts, who had been present for the meetings of the Council on May 15 and 16, but found it necessary to return to his bank before this meeting of the Council and the Board. 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.

REORGANIZATION BILL

E. E. Brown reports that he has written Senator McClellan on behalf of the Federal Advisory Council to request that the Board of Governors be exempted from the Reorganization Bill and that in the event it is later proposed to reorganize the Board of Governors it should be done by legislation requiring the concurrence of both houses of Congress. He also states that Fleming has visited with Senator McClellan on the same matter. Brown comments that the Council has tried to be helpful to the Board on this matter. He asks the Secretary of the Council to give to the Secretary of the Board copies of correspondence of Brown and Fleming on this subject.

Fleming states that McClellan informed him he believed the Board should be retained as an agency of the Congress.

Vardaman reports that McClellan said yesterday in the Senate that there were two points in the Reorganization Bill on which he would not yield. One of the points was that he wished no exemption of any agency under the Bill, and the other that he wished to give either House of Congress the right to veto.

McCabe reports that the Board has not engaged in any activity in its own behalf on the Reorganization Bill, and the Board appreciates the Council's action.

SENATE BILL 1775 AND SENATE JOINT RESOLUTION 87

E. E. Brown states that the Secretary of the Board has been given a copy of the statement he presented on behalf of the Council before the Senate Committee on Banking and Currency on May 12, 1949. The Executive Committee of the Council was called into session because hearings on Senate Bill 1775 and Senate Joint Resolution 87 were called for May 11, 12 and 13, 1949, which was a few days before the Council expected to meet on May 15. The Executive Committee of the Council had full power to act and approved unanimously the statement which Brown presented to the Senate Committee. The full Federal Advisory Council has now also approved the statement unanimously.

McCabe says he understands some members of the Council feel that he has shown bad faith because the hearings were called a few days before the Federal Advisory Council was to meet. He states that he frankly did not have in mind the specific dates of the meeting of the Council.

Fleming reports that the American Bankers Association was apparently the only bankers group which was advised regarding the legislation.

DOES THE BOARD OF GOVERNORS PROPOSE TO SECURE INTRODUCTION OF BANK HOLDING COMPANY LEGISLATION IN THIS SESSION AND ATTEMPT TO OBTAIN ENACTMENT; AND IF THAT IS NOT INTENDED IN THIS SESSION, WHAT ARE THE PLANS FOR BANK HOLDING COMPANY LEGISLATION?

E. E. Brown reads the above item on the agenda and states that Odlin particularly has given a great deal of thought to the proposed legislation and is very much interested in its enactment. He asks the Board what the plans are for bank holding company legislation.

McCabe replies that no one has given more thought, or is more interested in the legislation, than the Board. The Board has talked with all the various banking groups and has submitted the proposed legislation to the FDIC and to the Treasury. McCabe has also talked to Senators Maybank and Tobey. Senator Robertson has asked Senator Lucas and Vice President Barkley whether a priority may be obtained on the legislation. Senator Robertson is willing to conduct hearings when the bill is introduced. McCabe expects to introduce the bill.

Odlin. The Board has discussed this subject frequently with the Council, and on other occasions in its printed publications. The Council is particularly interested in knowing of the plans of the Board for the advancement of this legislation through the Congress. Odlin says some bankers in his district are so naive they think he can find out from the Board exactly what the Board expects to do regarding this proposed legislation. Odlin asks if there is any chance of the bill going through this session of Congress. He also asks whether the legislation definitely will be introduced.

McCabe. Senator Robertson has said that if the legislation comes to him he will conduct hearings. Senators Robertson and Tobey are for the legislation, and McCabe believes Senator Maybank also favors it.

Odlin asks whether the Board will introduce legislation so hearings can take place.

McCabe. It is our intention to introduce legislation, but the proposed legislation may go to hearings and still not be considered by Congress in this session. However, if it goes to hearings and is not considered at this session, it should be near the top in priority in the next session of Congress.

Odlin states he would like to tell the banks on the Pacific Coast that the legislation will be introduced and that hearings will be held.

McCabe says he would like the express approval of the three banking agencies on the proposed legislation.

Vardaman. The bill must go to the Budget before it is sent to Congress.

McCabe. The bill could go to the Budget first before the three agencies approve it.

Eccles agrees this could be done.

RECENTLY THERE HAS BEEN RENEWED DISCUSSION OF THE SUGGESTION THAT THE FEDERAL DEPOSIT INSURANCE CORPORATION ASSESSMENT BE REDUCED AND INSURANCE COVERAGE ON DEPOSITS INCREASED. IN A RECENT REPLY TO A REQUEST FROM THE SENATE BANKING AND CURRENCY COMMITTEE FOR A REPORT ON A BILL TO INCREASE THE INSURANCE COVERAGE FROM $5,000 TO $15,000, THE BOARD STATED THAT THIS CHANGE SHOULD NOT BE CONSIDERED WITHOUT DUE REGARD TO THE REDUCTION OR ELIMINATION OF ASSESSMENTS AND A REVISION OF THE BASIS FOR SUCH ASSESSMENTS, AND THAT THE BOARD HAD INSTITUTED A CAREFUL STUDY WITH A VIEW TO PLACING ITSELF IN A POSITION TO RESPOND TO FURTHER INQUIRIES THAT THE COMMITTEE MIGHT WISH TO MAKE. THE BOARD WOULD APPRECIATE HAVING THE VIEWS OF THE COUNCIL ON THE MATTERS THAT SHOULD BE TAKEN INTO ACCOUNT IN MAKING SUCH A STUDY AND THE CONCLUSIONS THAT MIGHT BE REACHED.

E. E. Brown reads item two, as given above, and the conclusions which the Council had submitted in its Confidential Memorandum to the Board dated May 17, 1949. A copy of this Memorandum is a part of these notes. Brown states that the discussions of the FDIC and the ABA committee provide for a minimum assessment of 1/96 of 1 per cent and a maximum assessment of 1/12 of 1 per cent per year. There is a sliding scale of assessments based on the losses and expenses of previous years. The last figures of the FDIC for 1945 show 96.5 per cent of the number of all deposits are covered by insurance and 43 per cent of the dollar volume of deposits. The Council is familiar with the Pittsburgh plan and other proposals, but believes the discussions of the FDIC and the ABA committee provide the best approach. The Council believes the assessment should be reduced.

McCabe asks whether the Council has considered assessments based on risk and non-risk assets.

E. E. Brown states that the Council knows of this suggestion. It would give the large banks the advantage, and politically it would therefore not have a chance of approval.

Fleming understands the FDIC favors the ABA approach.

E. E. Brown believes Harl favors a plan along the lines of Harl's discussions with the A.B.A. committee.

McCabe asks whether a bill will be introduced.

E. E. Brown says any bill needs the approval of the Treasury, FDIC and other groups.

McCabe asks whether the Council has talked with Snyder.

Fleming replies that Snyder was not much interested in this matter some time ago, but is more interested now. There is little possibility that the bill will be introduced and passed this session.

McCabe reports that the Board is proceeding with its study of the matter. The Board feels that the questions of assessments and of increasing coverage should be considered together.

Fleming states that some small banks want more coverage.

Eccles. The Board took a position several years ago against reducing assessments until the capital had been paid off. The capital was finally paid off last year.

Fleming thinks that the principle of not reducing the assessment until the capital was paid off was sound, but now that has been done. In his bank the Federal Deposit Insurance Corporation assessment amounts to about $6.00 on each share of stock.

Hemingway. Another objective was to build the fund to $1 billion and that goal has been reached.

Burgess believes that the situation is such that a little extra shove would be helpful in getting this whole matter off dead center.

Vardaman asks whether a copy of the proposal of the American Bankers Association Committee and the Federal Deposit Insurance Corporation is available.

Fleming will be glad to leave in confidence with the Board the copy Eccles now has. The credit for the plan and the formula should be given to the Federal Deposit Insurance Corporation and Harl. Fleming thinks the Pittsburgh plan is dead.

(At this point there was an off-the-record discussion)

Eccles. The Board has a definite interest in this matter. Perhaps 80 per cent of the Federal Deposit Insurance Corporation funds come from member banks. An assessment of 1/12 of one per cent amounts to over $100 million annually and is a very large item to come out of bank earnings. This question is related also to debt management.

Burgess states that the Federal Deposit Insurance Corporation assessment amounts to more than one-third as much as the stockholders of banks receive.

McCabe does not think the Board's ideas on this whole subject may be greatly different from Harl's formula, but the Board reserves the right to make any suggestions indicated from the study it is now making on the subject.

IN A RECENT LETTER TO THE CHAIRMAN OF THE BANKING AND CURRENCY COMMITTEE OF THE HOUSE, THE BOARD TOOK THE POSITION THAT ACTION ON BILL H. R. 1161, A BILL TO PROVIDE FOR THE CONVERSION OR ABSORPTION OF NATIONAL BANKS INTO STATE BANKS SHOULD BE DEFERRED UNTIL CONSIDERATION HAD BEEN GIVEN TO THE PROBLEM OF RESERVE REQUIREMENTS. SUBSEQUENTLY, MR. BROOKS, PAST PRESIDENT OF THE STATE BANK DIVISION OF THE AMERICAN BANKERS ASSOCIATION, WIRED THE BOARD CRITICIZING THAT POSITION. COPIES OF HIS WIRE AND THE BOARD'S REPLY ARE ATTACHED. THE BOARD WOULD LIKE TO HAVE THE COMMENTS OF THE COUNCIL ON THE BOARD'S POSITION.

E. E. Brown reads this item and the conclusions which the Council has submitted in its Confidential Memorandum to the Board on May 17, 1949. This Memorandum is a part of these minutes.

Burgess says that the State Bank Division of the American Bankers Association is for the bill.

E. E. Brown understands that the bill has no chance of passage in this session of Congress.

(AT THE SUGGESTION OF McCABE ITEM 4 OF THE AGENDA WAS DEFERRED FOR DISCUSSION UNTIL THE LATTER PART OF THE MEETING)

SINCE THE COUNCIL MET ON FEBRUARY 13-15, 1949, THE BOARD HAS RELAXED THE PROVISIONS OF REGULATION W ON TWO OCCASIONS AND HAS REDUCED MARGIN REQUIREMENTS FROM 75 PER CENT TO 50 PER CENT. THE BOARD WOULD WELCOME THE COMMENTS OF THE MEMBERS OF THE COUNCIL ON THESE ACTIONS AND THEIR VIEWS AS TO WHAT, IF ANY, FURTHER STEPS THE BOARD OR THE FEDERAL OPEN MARKET COMMITTEE MIGHT TAKE AT THIS TIME TO MEET THEIR RESPONSIBILITIES IN THE MONETARY AND CREDIT FIELD.

E. E. Brown reads Item five, as given above, and the conclusions of the Council as expressed in the Council's Confidential Memorandum to the Board which is included in these minutes.

McCabe states that the Board has talked with the finance companies and the automobile companies, and has found that although these people are opposed to Regulation W as a permanent power they do not favor the suspension of the regulation now. The automobile manufacturers favor keeping the one-third down payment but are divided on the maturity. On other items under Regulation W, there are many different views. The Board's position is to modify the terms as rapidly as conditions permit.

Vardaman asks whether the people who wish an extension of Regulation W desire trade regulation and not credit regulation. He believes that those who wish extension may wish it because they desire to have it used for trade regulation purposes.

McCabe states that small business seems to want the regulation, but many big businesses apparently favor competition and the elimination of controls. He says that Vardaman's question depends upon the groups to whom you speak.

Atwood asks whether Vardaman may not be right.

McCabe states again that it depends upon the business men with whom you talk.

E. E. Brown says that he is surprised at McCabe's statement as the large finance companies have testified in favor of letting the regulation lapse.

Spencer believes that another factor requiring consideration is that of profits.

Odlin states that in his experience the terms under the regulation become not the maximum terms but the minimum terms.

Eccles says that Congress gave the authority under Regulation W for the purpose of dealing with an inflation. Eccles believes the regulation should be repealed when it has served its purpose of controlling credit. It was not intended to be an instrument for trade regulation.

McCabe asks what effect the lowering of reserve requirements may have on interest rates.

Spencer says there will be pressure for lowering them.

Burgess states that when the reserve requirements were lowered recently a good job was done in supplying securities to the market. If reserves are lowered further, there should be an increased supply of notes or bonds of intermediate maturities to meet a shortage of such securities in the market. F's and G's might also be made available to banks.

McCabe. In the absence of any action by the Treasury in supplying securities, will the lowering of reserves reduce interest rates and thus reduce bank earnings?

Burgess replies that the Federal Reserve System is holding a large amount of short-term securities which the banks could buy. There may be some tendency to reduce rates, but the net result for the banks would be to increase earnings.

McCabe asks whether there is any weakening in commercial bank lending rates.

Spencer says that there is some evidence of weakening.

Burgess states that there was evidence of some weakening in rates even before the recent decrease in reserves.

Eccles. When bank credit was increasing rapidly the reserves required were increased. The banks did not suffer. In fact, 1948 was the best year for bank earnings. Now we are in an opposite situation. We are experiencing the most rapid decline in bank loans in history. Banks are losing earnings because of the payment of loans. Other lenders like insurance companies are competing with banks for the loans available. If the Board could feel that banks would buy the short-term securities with the funds received if reserves were lowered, the result would be good. However, there is a possibility that banks would use any funds received from the lowering of reserves for the purpose of making undesirable loans and cutting interest rates. Therefore, a reduction in reserves, which presumably would be desirable in a period like the present, might not actually work out for the good of the economy.

E. E. Brown agrees with Eccles that banks may be in for a licking on earnings.

Vardaman understands that some bank examiners are placing emphasis on a six to one ratio of risk assets to capital structure.

Congdon reports that Robertson says this is not true.

Woods. In an examination recently of a bank with which he is familiar, this ratio was brought up by the examiner. All assets, except cash and short-term governments were considered risk assets.

Congdon thinks this matter will be clarified by a letter from the Comptroller's office.

Vardaman. Emphasis on such a ratio is bad in a period of recession.

Eccles. If you had a high enough reserve requirement, you could prevent a sloppy security market and keep a more stable interest structure.

Burgess. At some point perhaps consideration should be given to lifting the restrictions on some longer term bonds.

(At this point there was an off-the-record discussion)

McCabe. If it is assumed that the Treasury does nothing about issuing intermediate securities, does the Council still believe reserves should be reduced?

E. E. Brown. The Council still believes reserves should be reduced, and it hopes the Treasury will supply the securities.

Burgess. If reserves are reduced, the Federal Reserve System can do a great deal with its portfolio of $20 billion, even if the Treasury does not issue intermediate notes or bonds.

Atwood. If the reserves are reduced, the Board will have some leeway later to increase reserves if necessary. Otherwise, the reserves merely go higher and higher.

Eccles. Outside of the money market banks, other banks want higher rates than bills and certificates provide. After the banks have all the bills and certificates they feel they need, further reductions in interest rates will result.

Burgess does not agree. Many banks would like to increase their short-term holdings. Any program of reducing reserves should proceed by steps.

CONSIDERATION OF THE REFUNDING OF MATURING GOVERNMENT OBLIGATIONS, HAVING IN MIND THE NEED OF THE BANKING SYSTEM FOR OBLIGATIONS OF MEDIUM TERM AND THE ALLIED QUESTION OF REMOVAL OF RESTRICTIONS AGAINST PURCHASE BY BANKS WHICH NOW APPLY TO CERTAIN OF THE OUTSTANDING GOVERNMENT OBLIGATIONS.

E. E. Brown reads Item six, as given above, and the conclusions of the Council as given in the Council's Confidential Memorandum to the Board which is included in these minutes.

McCabe states that the Executive Committee of the Open Market Committee will meet Friday, June 3, and will be glad to consider the Council's recommendations.

Eccles. What does the '67-'72 phrase mean? Does the Council mean to include both eligible and ineligible securities in its comments?

E. E. Brown. When the Council states that even a '67-'72 maturity is not now long term, it refers to the fact that five years have elapsed since the bond was issued as a long term.

Eccles does not believe a long term (20 year) eligible is desirable for banks. When a government offers a twenty-year security eligible for banks, the government is, in a sense, placing its approval on the purchase of the security by banks. In a period of rising interest rates, the banks might suffer losses. Referring to Point B under Item 6 of the Council's conclusions as given in the Confidential Memorandum, Eccles states that there is no problem of the government raising the money.

E. E. Brown replies that the problem to which the Council refers is not one of whether the government can raise the money. It is an overall major problem of concentrating too large a portion of the debt in demand or short-term maturities and the difficulties that might result therefrom.

IT WOULD BE HELPFUL TO THE BOARD IF EACH MEMBER OF THE COUNCIL WOULD BE PREPARED AT THE JOINT MEETING TO GIVE A BRIEF SUMMARY OF THE CURRENT AND PROSPECTIVE BUSINESS AND CREDIT CONDITIONS IN HIS FEDERAL RESERVE DISTRICT.

E. E. Brown reads Item four of the agenda, as given above, and asks each member of the Council to comment briefly regarding business and credit conditions in his district.

Spencer reports that the business situation is spotty. The shoe industry is off. The textile industry is also down. There have been one or two cases of social lending through the R.F.C. The loans were for social relief and were not business loans. Copper and brass are also down. However, some concerns in various lines are doing fairly well.

Burgess states that his analysis of the economic situation is not much different from that given by Ralph Young in his report to the Council. The downward trend is becoming evident in new places where it was formerly thought conditions were good. For example, there are now evidences of weakness in copper and steel. Conditions in his district follow in general the pattern for the country.

Congdon. Construction was satisfactory for the first three months of 1949, but there was a letdown in the fourth month. Department store sales are down. New and used car sales are good. There are some strikes and some unemployment, but the decline in employment has not been drastic and labor is more efficient.

Fleming states that his district is not primarily industrial. Department store sales are down. Automobile sales are up with the exception of one or two cities. Savings are down. Construction, other than expansion by utilities, is slowing down and the building of homes is tapering off. The total income for the district will be less for 1949 than for 1948.

J. T. Brown states that his report is somewhat similar to that of Fleming's. His district is not industrial but is largely agricultural. There is a severe curtailment in the cotton textile industry. There is very heavy planting of cotton, and if weather conditions are favorable there will be an especially large cotton crop.

E. E. Brown states that his district is represented by agricultural and manufacturing industries. Manufacturing activity is down except automotive and steel, and the latter two industries expect declines. Some industries that have been closed down have been opening up on a relatively normal basis. With fresh vegetables coming in, vegetable canners may have to take cuts on some of their products now held in inventory. The meat packing industry has had heavy declines on some of its products including lard. The steel companies expect to operate at perhaps 70 per cent to 75 per cent by the end of the year. Both management and labor are becoming more efficient.

Hemingway finds a little more pessimism among business men than was present two or three months ago. There is a decline in building activity. Housing permits are off about one-third from last year; unemployment is not particularly large, but the hours are down considerably. Some manufacturers feel that they are getting nearer the bottom.

Atwood states that the milling industry is unhappy. The price of flour is less than the cost of wheat. Some marginal concerns are out of business. Residence building is down. There are increasing "for sale" signs. He does not expect their loans to decline a great deal.

Kemper. The economic situation in the tenth district conforms substantially to that of the other districts. There is a very large wheat crop of 225 to 250 million bushels. The oil industry is operating at full capacity, but is about to cut down on its exploration activity. In his district, agriculture and orders for defense have tended to bolster the situation.

Woods. Department store sales are down about eight per cent for the first four months over the same period last year. Construction contracts for the same period are down about 15 per cent. There is a marked decrease in oil production. Notwithstanding the declines in business, 1949 will not be too bad compared to 1948. There is heavy cotton planting and a tremendously heavy wheat crop. Good rains have fallen in Texas, including the dry western part.

Odlin believes the recession may be a little more serious than it had originally been indicated it might be. California has had decreased activity in various industries, but has now had some comeback. The movies have had serious problems. 1949 promises to be a good tourist year for the Pacific Coast. Lumber, plywood and paper have had difficulties. The general pattern is similar to that of the rest of the country, but possibly the decline in business may have been felt a little more severely.

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The meeting adjourned at 1:23 P.M.

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It was agreed that the next meeting would be held on September 18-19-20, 1949.

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The Council reconvened in the Board Room at 2:15 P.M. on May 17, 1949, with all members present except Potts.

The Council voted unanimously to give the Executive Committee of the Council full power to act for the Council on any matters which might arise before the next meeting of the Council on September 18-19-20, 1949.

The meeting adjourned at 2:18 P.M.