

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 14, 1950

The second statutory meeting of the Federal Advisory Council for 1950 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on May 14, 1950, at 2:15 P.M., the President, Mr. Brown, in the Chair.

Present:

Walter S. Bucklin	District No. 1
N. Baxter Jackson	District No. 2
William Fulton Kurtz (Alternate for 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
Joseph F. Ringland	District No. 9
David T. Beals	District No. 10
James K. Lohead	District No. 12
Herbert V. Prochnow	Secretary

Absent:

Frederic A. Potts	District No. 3
J. E. Woods	District No. 11

On motion duly made and seconded, the mimeographed notes of the meeting held on February 19, 20, 21, 1950, copies of which had been sent previously to the members of the Council, were approved.

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 15 and 16.

The meeting adjourned at 5:50 P.M.

HERBERT V. PROCHNOW  
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 15, 1950

At 10:15 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

Present: Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson; William Fulton Kurtz (Alternate for Frederic A. Potts); Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway, Joseph F. Ringland, David T. Beals, James K. Lohead and Herbert V. Prochnow, Secretary.

Absent: Messrs. Frederic A. Potts and J. E. Woods.

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 15, and 16, 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 15, 1950.

The meeting adjourned at 12:05 P.M.

HERBERT V. PROCHNOW  
Secretary.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL  
ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE  
JOINT MEETING ON MAY 16, 1950

1. The Board would like to have the current views of the members of the Council regarding economic and business conditions during the next six months.

All the members of the Council report that prospects in their districts are for a continuance of a high level of business activity and employment in the next six months. Construction, automobile sales, and steel production are at high levels. Retail sales are off slightly. Some sections of the country have experienced a late spring, with heavy rains, and retarded crops, whereas the lack of moisture in other areas has greatly reduced the size of the crops, especially wheat. But unless industry is disrupted by continuing railroad strikes, or other major labor disputes, general business activity for the last half of 1950 should be high, and profits of business enterprises as a whole should be good, although there may be considerable spottiness in different lines of business and among companies in the same line.

2. Does the Council have any suggestions to make to the Board with respect to the Treasury refunding program and the manner in which the deficit should be financed during the remainder of the current calendar year?

In view of the large percentage of the debt in short term maturities, and the steady shortening of the outstanding longer term maturities, the Council on various occasions has suggested the desirability of shifting a portion of the debt to intermediate and longer maturities. Market conditions now seem favorable for taking definite steps in that direction. The Council believes that long term ineligible bonds at a  $2\frac{1}{2}$  per cent rate could be sold in considerable amounts and that a portion at least of the money required to meet the deficit should be raised by issuing such bonds. A portion of the refunding in the balance of the year should be done by bank eligible notes or bonds of intermediate maturities. The present practice of refunding and raising new money by bills, certificates and short term notes should be replaced by a policy of gradually extending the average maturity of the debt.

3. The Board would like to discuss with the Council the current situation with respect to bank holding company legislation.

The Council will be pleased to discuss with the Board the current situation relative to bank holding company legislation, and will appreciate the Board's views on the present status of the legislation. The Council is in general agreement with the Board that the substitute Robertson bill is not satisfactory.

4. At the last meeting of the Council a special committee was appointed under the chairmanship of Mr. Fleming to give further consideration to the proposal that reserve requirements of a member bank be based on the character of the bank's deposits rather than on the location of the bank. If the report of the committee will be available by the time of the forthcoming meeting, the Board would be glad to discuss it at that time.

No report of the special committee is available. The committee felt that the first matter requiring consideration under the proposed reserve plan was the problem con-

fronting the livestock banks. At the instance of the committee, members of the Board's staff and representatives of the livestock banks met on May 1 to discuss the reserve proposal. This meeting did not result in any formula or agreement in principle. The committee will continue its study. Members of the committee will be pleased to discuss the matter orally with the Board.

5. The Council would appreciate knowing the position of the Board on the proposed legislation (Bill S. 3527) giving the Federal Reserve Banks permanent authority to purchase direct obligations of the Government from the Treasury Department up to a maximum of \$5 billion at any one time. On previous occasions the Council has recommended that such authority be limited to a period of three years so the matter could be reviewed periodically by the Congress to determine whether there had been any abuse of the power and whether the power should be further continued or be permitted to lapse.

The Council would welcome a statement of the Board's position on this legislation. The Council continues to be unanimously of the opinion that the authority of the Federal Reserve Banks to purchase direct obligations of the Government from the Treasury Department, up to a maximum of \$5 billion at any one time, should be continued but limited to a period of not more than three years. The Council feels that the Congress should periodically review the exercise of this power to be sure it has not been abused.

6. The Board would like to have the views of the Council concerning the proposal with respect to financial aid to small business, including (1) proposed transfer of RFC to the Department of Commerce (2) insurance of loans to small business concerns by the Secretary of Commerce (3) setting up in the Federal Reserve System of proposed capital banks.

With respect to financial aid to small business,—

- (1) While the Council believes that the powers and activities of the RFC should be curtailed rather than expanded, it believes that the RFC should be continued as an independent agency to meet emergency situations and should not be transferred to the Department of Commerce.

- (2) The Council does not believe that it is either necessary or desirable for the Department of Commerce, or any other agency of the Government, to provide insurance of loans granted to small business concerns. The Council believes that the legitimate borrowing needs of small business are generally met by the banks of the country. In addition, numerous banks and insurance companies have in the past year inaugurated special departments for making longer term loans to small businesses and have advertised these facilities widely.

- (3) The Council is not convinced of the necessity of establishing capital banks of the type proposed in the President's message. Members of the Council have read Senator O'Mahoney's bill as introduced and have seen a late draft embodying various suggested amendments and improvements to it. But they have not seen any Administration bill to carry out the proposals made in the President's message to Congress. Until it can examine definite legislative proposals the Council does not feel that it can express any opinion as to whether such banks if established should be in or outside of the Federal Reserve System.

# MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 15, 1950

At 2:35 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. Walter S. Bucklin, N. Baxter Jackson; William Fulton Kurtz (Alternate for Frederic A. Potts); Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway, Joseph F. Ringland, David T. Beals and Herbert V. Prochnow, Secretary.

Absent: Messrs. Frederic A. Potts, J. E. Woods and James K. Lohead.

Five members of the Board Staff, under the leadership of Dr. Woodlief Thomas and Dr. Ralph Young, gave a visual-verbal presentation of the economic situation.

The meeting adjourned at 4:10 P.M.

HERBERT V. PROCHNOW  
Secretary.

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

May 16, 1950

At 10:35 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, and James K. Vardaman, Jr.; also, Mr. S. R. Carpenter, Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson; William F. Kurtz (Alternate for Frederic A. Potts); Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway, Joseph F. Ringland, David T. Beals, James K. Lohead and Herbert V. Prochnow, Secretary.

Absent: Messrs. Frederic A. Potts and J. E. Woods.

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 15 and 16 of these minutes.

Chairman McCabe asked if the Council discussed any of the dangers in the credit situation relative to installment credit, stock market credit and mortgage debt.

President Brown replied that the Council had discussed these subjects in general. Most of the mortgage credit is due to the activities of the government. The increase in installment credit is due largely to the automobile situation. There has been relatively little expansion in credit for the stock market.

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 then read the following statement of the Board's position on this agenda item:

The Treasury will need to raise in the market over \$1 billion to meet its cash needs during July, August, and September, in addition to net sales of savings bonds and notes, and will probably need at least \$2 billion more in the last quarter of this year. Treasury financing should be carried out in as noninflationary a manner as possible in view of growing strength in the business situation. This objective can best be accomplished by offering securities designed to tap directly funds as they accumulate in the hands of non-

bank holders. The availability of nonbank funds is indicated by changes in the distribution of the debt during the first four months of this year:

	Billions of Dollars
Total public debt (excluding holdings of Government agencies and trust funds)	<u>+0.6</u>
Commercial and Federal Reserve Banks	-2.6
Nonbank investors	<u>+3.2</u>
Mutual savings banks	+0.2
Insurance companies	+0.1
Other corporations and associations	+1.8
States and local governments	+0.2
Individuals	+0.9

The treasury should, as soon as possible, set up machinery for tapping on a current basis accumulating funds of institutional investors and other large savers. For this, the Treasury should offer nonmarketable redeemable bonds not eligible for purchase by banks except to a limited extent. The offering should remain open for an extended period of time. A nonmarketable issue with a 15-year maturity and a 2½ per cent coupon might attract enough funds in June, July, and August so as to avoid any other public offering. This method of financing should at least be given a trial.

In view of the business and credit situation, the Federal Reserve should have leeway for flexibility in its open market policies. Refunding of maturing issues, therefore, should be on terms which will not require special Federal Reserve support but will permit interest rates to reflect market forces. The Board agrees with the Council that the amount of short-term securities outstanding should be reduced. For this reason a portion of refunding issues should be in the form of intermediate and long-term notes. However, in view of the current economic prospects, it would not be advisable to offer additional bank-eligible bonds in the near future.

Should consideration be given to a restricted marketable bond which would be ineligible for banks, we should discuss the desirability of making it ineligible for Federal Reserve Banks also.

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Mr. Fleming stated that the A. B. A. Committee's report is essentially similar except on the feature making bonds ineligible for purchase by the Federal Reserve banks.

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.

Messrs. Szymczak, Eccles and Vardaman commented off-the-record on the proposed legislation.

President Brown read the fourth item on the agenda and the conclusions of the Council as stated in the *Confidential Memorandum* previously mentioned.

Mr. Beals stated that after the meeting held May 1, the livestock banks were given to understand that a report would be made by the Board Staff.

Chairman McCabe suggested that after the Board and the Council see the Staff report, perhaps a way can be found of meeting the problem of the livestock banks.

President Brown read the fifth item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum* referred to above. President Brown added that inasmuch as the Senate Banking and Currency Committee has voted for an extension of two years, the question is now academic.

The meeting adjourned at 1:10 P.M. for luncheon, which was attended by members of the Council, Chairman McCabe, Winfield W. Riefler, Assistant to Chairman McCabe, and the Secretary of the Council. At the luncheon, there was a lengthy off-the-record discussion of item six on the agenda and various other banking subjects.

The luncheon meeting adjourned at 3:35 P.M.

HERBERT V. PROCHNOW  
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 16, 1950

At 3:40 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. Walter S. Bucklin, N. Baxter Jackson; William F. Kurtz (Alternate for Frederic A. Potts); Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway, Joseph F. Ringland, David T. Beals, James K. Lochead, and Herbert V. Prochnow, Secretary.

Absent: Messrs. Frederic A. Potts and J. E. Woods.

The Federal Advisory Council moved unanimously that the Secretary of the Council be instructed to write the Secretary of the Board of Governors the following letter:

May 18, 1950

Mr. S. R. Carpenter, Secretary  
Board of Governors of the Federal Reserve System  
Washington, D. C.

Dear Mr. Carpenter:

The members of the Federal Advisory Council have further discussed the financing program of the Treasury. The Council favors offering at this time, or in the near future, a 2½ per cent, fifteen year tap issue, similar to the twelve year G bond, but with a table of redemption values adjusted to fifteen years.

The Council has not changed its opinion that a long-term, 2½ per cent, ineligible bond would also be desirable at a little later date.

Very sincerely yours,

HERBERT V. PROCHNOW  
Secretary.

The letter which follows accompanied the above letter to Mr. Carpenter.

May 18, 1950

Mr. S. R. Carpenter, Secretary,  
Board of Governors of the Federal Reserve System,  
Washington 25, D. C.

Dear Mr. Carpenter:

I am enclosing a letter which is self-explanatory.

The Council stated, if the Board desired it, that there was no objection to showing the letter to the Treasury as the views the Council has expressed.

Very sincerely yours,

Secretary.

The meeting adjourned at 4:05 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 14, 1950, at 2:15 P. M., in Room 932 of The Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present, except Mr. Potts and Mr. Woods. Mr. William Fulton Kurtz served as an alternate for Mr. Potts.

The Council approved the Secretary's notes for the meetings of the Council held in February 1950.

THE BOARD WOULD LIKE TO HAVE THE CURRENT VIEWS OF THE MEMBERS OF THE COUNCIL REGARDING ECONOMIC AND BUSINESS CONDITIONS DURING THE NEXT SIX MONTHS.

E. E. Brown asks each member to express his views regarding the economic and business prospects in his district for the next six months.

Bucklin. General economic and business conditions are good. The textile and shoe industries have improved, although department store sales are down slightly. Prospects for the next six months look good.

Jackson. The garment industry has reported substantial increases in its business. Department and chain store sales are a little slow, but the economic and business outlook for the next six months looks good.

Kurtz. Business is excellent. Kurtz is not certain that the small business man is making as much profit as he should. In general, however, the outlook for the next six months is very good.

Congdon. Conditions in his district are substantially the same as those in the districts which have reported. The coal industry, however, is not good. Congdon raises the question of whether there may not be trouble in some industries because of a lack of steel. The outlook for the next six months is good.

Fleming. Although Fleming reports that his district is not essentially industrial, business is good. Building is showing large gains. The automobile business is flourishing. He reports some leaders in the automobile industry have told him that people may be buying cars with the thought that they will not be caught again without a new car in the event of a war. The hotel business is not doing as well as other industries. In general, the outlook is very good.

J. T. Brown. Conditions in his district are about the same as they are in other districts. The construction industry is doing especially well. There is an air of optimism in agriculture. There does not seem to be anything on the horizon to justify any change in optimism in the next six months. Retail trade is good.

E. E. Brown. Business in the seventh district is at a high level, but department store sales are off slightly. Building construction is strong. Unless industry is disrupted by labor disputes, general business activity for the last half of 1950 should be high, although profits may be spotty in different businesses.

Hemingway. Business in his district is good. There has been a great deal of rain with the result that crops have been retarded. In general the outlook for the next six months is good.

Ringland. Business activity is at a high level, but retail sales are off a little. His district has experienced the latest spring in years and has been plagued by a lack of moisture. He looks for a continuance of good business during the next six months.

Beals. The lack of rain has seriously affected the wheat crop. Retail trade is about the same as reported in the other districts. Lead and zinc prices are higher. The coal business is seasonably bad. The sale of farm machinery has been influenced by the lack of rain.

E. E. Brown. In the absence of Woods, Brown states that the condition of the wheat crop in the Panhandle in Texas is bad because of the lack of moisture. In Dallas, Houston, and Texas generally, commercial business seems to be good.

Lohead. Business activity is at a high level. Lumber mills have excellent business. Agriculture also looks good, including the canning industry. Fuel oil is backing up. Bank deposits are increasing. Business generally looks very good for the next six months.

DOES THE COUNCIL HAVE ANY SUGGESTIONS TO MAKE TO THE BOARD WITH RESPECT TO THE TREASURY REFUNDING PROGRAM AND THE MANNER IN WHICH THE DEFICIT SHOULD BE FINANCED DURING THE REMAINDER OF THE CURRENT CALENDAR YEAR?

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E. E. Brown asks Fleming to comment regarding this item.

Fleming speaks off-the-record and other members of the Council also talk off-the-record.

E. E. Brown believes the members of the Council who are on the A. B. A. Committee are in agreement regarding a program, but Brown would like other members of the Council to express their views.

Bucklin speaks off-the-record.

E. E. Brown speaks off-the-record.

Fleming. An examination of the whole debt structure shows there is too much short-term debt. Market conditions now are favorable for taking steps to correct this situation. Such cash as the Treasury needs should be spread over longer term maturities.

Congdon suggests an eight to ten year, eligible, 1 3/4 per cent issue. He agrees with Fleming's statement. He is not certain it would be possible to sell \$2 1/2 billion of long term ineligibles.

J. T. Brown would favor a statement similar to Fleming's.

E. E. Brown. Some insurance companies believe that perhaps \$2 1/2 billion of ineligible bonds could be sold.

Ringland favors Fleming's statement. He believes with E. E. Brown that there is a considerable market for long term ineligibles.

Hemingway favors Fleming's statement also. He believes the maturities should be lengthened.

Fleming states it would be unwise to meet the cash needs of the Treasury for the next few months by bills.

Beals favors Fleming's statement.

Lohead doubts if it would be possible to sell \$2 1/2 billion of ineligibles.

E. E. Brown states that the Council may summarize its position along the lines of the comments Fleming has made and include a suggestion for eight to ten year, 1 3/4 per cent, eligible bonds and also some longer-term, ineligible bonds with a 2 1/2 per cent rate.

THE BOARD WOULD LIKE TO DISCUSS WITH THE COUNCIL THE CURRENT SITUATION WITH RESPECT TO BANK HOLDING COMPANY LEGISLATION.

E. E. Brown reviews the history of the bank holding company legislation, including off-the-record comments.

Hemingway reports that he has been told the bill is dead.

E. E. Brown. The Council may say that it would be pleased to have the Board's views on the present status of the proposed legislation. The Council does not believe the substitute Robertson bill is satisfactory. Brown also understands that the chances of enacting bank holding company legislation are small.

AT THE LAST MEETING OF THE COUNCIL A SPECIAL COMMITTEE WAS APPOINTED UNDER THE CHAIRMANSHIP OF MR. FLEMING TO GIVE FURTHER CONSIDERATION TO THE PROPOSAL THAT RESERVE REQUIREMENTS OF A MEMBER BANK BE BASED ON THE CHARACTER OF THE BANK'S DEPOSITS RATHER THAN ON THE LOCATION OF THE BANK. IF THE REPORT OF THE COMMITTEE WILL BE AVAILABLE BY THE TIME OF THE FORTHCOMING MEETING, THE BOARD WOULD BE GLAD TO DISCUSS IT AT THAT TIME.

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Fleming is surprised that the Board included this item on the agenda. He had a difficult time getting a clearance for the meeting of the livestock banks and the Board Staff. The Board Staff is not yet ready with its report of that meeting.

Beals. A meeting of representatives of the livestock banks and the Board Staff was held on May 1. The livestock banks explained fully the problem which would confront them if they were to operate under the proposal that reserve requirements should be based on the character of a bank's deposits. Beals questioned whether inter-bank deposits are more volatile. Members of the Board Staff reported that they had accepted as a fact that interbank deposits were more volatile than other demand deposits. Dr. Tow of the Federal Reserve Bank of Kansas City said after the meeting he understood the nature of inter-bank balances of the livestock banks better than he had before the meeting. Dr. Tow stated that he recognized the livestock banks are necessary to the agricultural economy, and that some of the interbank business of the livestock banks is different. However, Dr. Tow stated he did not believe a large part of the interbank business of the livestock banks was different from interbank business in other banks. Dr. Tow did not believe the Board would introduce any legislation which would adversely affect the livestock banks. The economist from the Federal Reserve Bank of St. Louis thought the proposed legislation would benefit branches. The general impression following the meeting was that the Board would not promote legislation that would injure a group of banks, but that the livestock banks had not shown that all their interbank balances were different. Consequently, if they were given special consideration, other banks with large country bank balances would object. A committee of livestock banks is prepared to organize banks to oppose the proposal.

Fleming. The two bad features of the proposal are: (1) that 10 per cent of the country banks would have higher reserves and; (2) that the livestock banks as a group would be affected adversely.

Hemingway. Bopp made a good presentation of this reserve proposal at a meeting in the St. Louis district which was attended by some banks. However after Bopps' presentation, Hemingway did not hear any bankers who favored the proposal.

Fleming explains the Bopp proposal for the benefit of Kurtz and Ringland who were not present at the last meeting. (At this point there were various off-the-record comments by several members of the Council)

Hemingway. There is no scientific basis for the percentages fixed in the proposal. Many bankers feel that what the Federal Reserve System has been trying to do is to eliminate the correspondent bank business.

E. E. Brown states that the Council may say to the Board that no report is available from the Committee. The Committee felt the first problem was to work out the situation confronting the livestock banks. The Council may also state that a conference of the representatives of the livestock banks and the Board Staff was held May 1 without any conclusive results and without any agreement in principle. Until the problem confronting the livestock banks is solved, it is difficult for the special Committee of the Council to proceed.

THE COUNCIL WOULD APPRECIATE KNOWING THE POSITION OF THE BOARD ON THE PROPOSED LEGISLATION (BILL S 3527) GIVING THE FEDERAL RESERVE BANKS PERMANENT AUTHORITY TO PURCHASE DIRECT OBLIGATIONS OF THE GOVERNMENT FROM THE TREASURY DEPARTMENT UP TO A MAXIMUM OF \$5 BILLION AT ANY ONE TIME. ON PREVIOUS OCCASIONS THE COUNCIL HAS RECOMMENDED THAT SUCH AUTHORITY BE LIMITED TO A PERIOD OF THREE YEARS SO THE MATTER COULD BE REVIEWED PERIODICALLY BY THE CONGRESS TO DETERMINE WHETHER THERE HAD BEEN ANY ABUSE OF THE POWER AND WHETHER THE POWER SHOULD BE FURTHER CONTINUED OR BE PERMITTED TO LAPSE.

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Fleming reports that the Senate Banking and Currency Committee has reported out a bill limiting the authority of the Federal Reserve banks to purchase direct obligations of the government to two years.

E. E. Brown asks the Council's opinion and all members of the Council are opposed to extension of the authority on a permanent basis.

Fleming advises the Council, off-the-record, of a discussion he has had on this matter. He thinks the Council should ask for the Board's opinion and also restate its previous position on this matter.

THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE COUNCIL CONCERNING THE PROPOSAL WITH RESPECT TO FINANCIAL AID TO SMALL BUSINESS, INCLUDING (1) PROPOSED TRANSFER OF RFC TO THE DEPARTMENT OF COMMERCE (2) INSURANCE OF LOANS TO SMALL BUSINESS CONCERNS BY THE SECRETARY OF COMMERCE (3) SETTING UP IN THE FEDERAL RESERVE SYSTEM OF PROPOSED CAPITAL BANKS.

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E. E. Brown asks the Council its opinion regarding the transfer of the R. F. C. to the Department of Commerce.

Congdon. There might be some value in the idea of putting the R. F. C. in a regular department of government.

E. E. Brown states that Jesse Jones says the R. F. C. should be terminated. The Council has stated previously that the R. F. C. should be used only in the case of disaster and emergency situations. At present when the local officers of R. F. C. decline a loan, the borrower may go to Washington to the R. F. C. and obtain it. The Secretary of Commerce is probably as much subject to political pressure as the R. F. C.

Fleming. There is no history of loaning experience in the Department of Commerce.

Jackson. Proposals for this type of aid have often been made in the past. In the depression of the 1930's the New York banks set up offices and advertised to get loans, but practically no loans were made. Then the credit pools were organized at the time Hanes spoke over the country. In New York only a couple of loans were made. Unless the Council is convinced that there is a shortage of available capital, it may be time to point out that there is no practical need for such facilities as are here proposed. If one wants to give money away, it is always possible to find those who will take it.

Kurtz. The Council may say it is opposed to the general idea and that these facilities are not needed. However, does the Council wish to be in this position if a legislative proposal should have a good chance of being approved by the Congress?

Jackson believes it might be desirable to ask the Board to prove there is a need for legislation providing financial aid to small business.

Fleming reports that he attended a meeting at which it was strongly urged that there was not enough equity capital unless the insurance companies would take equities. He does not believe this proposal can be taken too lightly. The last thing the insurance companies wish is to be required to take equities. The insurance companies may favor this proposal in order to take the pressure from them. Fleming agrees with Kurtz that we may not need these facilities, but if we are going to have them, it might be better to have the capital banks in the Federal Reserve System.

J. T. Brown asks whether as a political proposition this proposal can be successfully opposed.

E. E. Brown does not believe there is any shortage of loan capital in general, but some persons like Bimson state that in their particular communities there is a shortage of capital. Brown thinks the R. F. C. should be restricted in its activities, but he doubts whether there is a chance to do it. Brown reports that he sat with a committee of small business men and they maintained the trouble was the tax system. He believes it is better to have the R. F. C. as a separate agency rather than to transfer it to the Department of Commerce. There is no need for loans in the more densely settled states, but there may be need in some of the sparsely settled sections of the country. It would seem unfortunate to legislate for the whole country on a matter which is apparently of concern only to a small section.

Kurtz states that if he were making O'Mahoney's report, he could bring in dozens of statements by economists, business leaders and others showing a need for equity capital.

E. E. Brown says that his bank has set up a department to make small term loans. A number of companies which have borrowed money have grown substantially. The bank has had a larger percentage of losses on these loans than it has had on other loans. These small term loans have not directly been a source of large profit in the bank. However, the officers have received training in granting credit, and the bank has been indirectly benefitted.

Kurtz believes it might be possible for the banks of the country to organize such capital banks and to get the insurance companies to insure the loans.

E. E. Brown asks the opinion of the Council regarding each of the points raised on this matter by the Board. Summarizing, the members of the Council believe that the activities of the R. F. C. should be curtailed but that the R. F. C. should be continued as an independent agency to meet emergency situations. It should not be transferred to the Department of Commerce. The Council does not believe it is either necessary or desirable for the Department of Commerce to provide insurance of loans granted to small business concerns. The Council is also not convinced of the necessity of establishing capital banks of the type proposed in the President's message.

Kurtz. The Council is against the general idea, but if such legislation should be approved by the Congress, perhaps the banks should have a substitute proposal. Kurtz thinks a 10 per cent limitation on loans to one borrower should be included in any provision for capital banks. Perhaps the percentage limitation should be even lower, in view of the type of risk.

E. E. Brown. The Council may say that it is not convinced of the necessity of establishing capital banks of the type proposed. The Council has seen a late draft of the O'Mahoney bill with suggested amendments and improvements, but it has not seen any Administration bill to carry out the proposals made in the President's message. Until the Council can examine legislative proposals, the Council does not feel it can express any opinion as to whether such banks, if established, should be in or out of the Federal Reserve System.

Hemingway. The Federal Reserve System was not established to handle or supervise loans of this character.

The meeting adjourned at 5:50 P. M.

THE COUNCIL CONVENED AT 10:15 A.M.,  
ON MAY 15, 1950, IN ROOM 932 OF THE  
MAYFLOWER HOTEL, WASHINGTON, D. C.  
ALL MEMBERS OF THE FEDERAL ADVISORY  
COUNCIL WERE PRESENT EXCEPT MR. POTTS  
AND MR. WOODS. MR. WILLIAM F. KURTZ  
SERVED AS ALTERNATE FOR MR. POTTS.

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 16, 1950. The Memorandum was delivered to the Secretary of the Board of Governors at 12:25 P.M. on May 15, 1950. 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 12:05 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS  
FROM THE  
FEDERAL ADVISORY COUNCIL  
RELATIVE TO THE AGENDA FOR THE JOINT MEETING  
ON MAY 16, 1950

1. The Board would like to have the current views of the members of the Council regarding economic and business conditions during the next six months.

All the members of the Council report that prospects in their districts are for a continuance of a high level of business activity and employment in the next six months. Construction, automobile sales, and steel production are at high levels. Retail sales are off slightly. Some sections of the country have experienced a late spring, with heavy rains, and retarded crops, whereas the lack of moisture in other areas has greatly reduced the size of the crops, especially wheat. But unless industry is disrupted by continuing railroad strikes, or other major labor disputes, general business activity for the last half of 1950 should be high, and profits of business enterprises as a whole should be good, although there may be considerable spottiness in different lines of business and among companies in the same line.

2. Does the Council have any suggestions to make to the Board with respect to the Treasury refunding program and the manner in which the deficit should be financed during the remainder of the current calendar year?

In view of the large percentage of the debt in short term maturities, and the steady shortening of the outstanding longer term maturities, the Council on various occasions has suggested the desirability of shifting a portion of the debt to intermediate and longer maturities. Market conditions now seem favorable for taking definite steps in that direction. The Council believes that long term ineligible bonds at a  $2\frac{1}{2}$  per cent rate could be sold in considerable amounts and that a portion at least of the money required to meet the deficit should be raised by issuing such bonds. A portion of the refunding in the balance of the year should be done by bank eligible notes or bonds of intermediate maturities. The present practice of refunding and raising new money by bills, certificates and short term notes should be replaced by a policy of gradually extending the average maturity of the debt.

3. The Board would like to discuss with the Council the current situation with respect to bank holding company legislation.

The Council will be pleased to discuss with the Board the current

situation relative to bank holding company legislation, and will appreciate the Board's views on the present status of the legislation. The Council is in general agreement with the Board that the substitute Robertson bill is not satisfactory.

4. At the last meeting of the Council a special committee was appointed under the chairmanship of Mr. Fleming to give further consideration to the proposal that reserve requirements of a member bank be based on the character of the bank's deposits rather than on the location of the bank. If the report of the committee will be available by the time of the forthcoming meeting, the Board would be glad to discuss it at that time.

No report of the special committee is available. The committee felt that the first matter requiring consideration under the proposed reserve plan was the problem confronting the livestock banks. At the instance of the committee, members of the Board's staff and representatives of the livestock banks met on May 1 to discuss the reserve proposal. This meeting did not result in any formula or agreement in principle. The committee will continue its study. Members of the committee will be pleased to discuss the matter orally with the Board.

5. The Council would appreciate knowing the position of the Board on the proposed legislation (Bill S. 3527) giving the Federal Reserve Banks permanent authority to purchase direct obligations of the Government from the Treasury Department up to a maximum of \$5 billion at any one time. On previous occasions the Council has recommended that such authority be limited to a period of three years so the matter could be reviewed periodically by the Congress to determine whether there had been any abuse of the power and whether the power should be further continued or be permitted to lapse.

The Council would welcome a statement of the Board's position on this legislation. The Council continues to be unanimously of the opinion that the authority of the Federal Reserve Banks to purchase direct obligations of the Government from the Treasury Department, up to a maximum of \$5 billion at any one time, should be continued but limited to a period of not more than three years. The Council feels that the Congress should periodically review the exercise of this power to be sure it has not been abused.

6. The Board would like to have the views of the Council concerning the proposal with respect to financial aid

to small business, including (1) proposed transfer of RFC to the Department of Commerce (2) insurance of loans to small business concerns by the Secretary of Commerce (3) setting up in the Federal Reserve System of proposed capital banks.

With respect to financial aid to small business, --

(1) While the Council believes that the powers and activities of the RFC should be curtailed rather than expanded, it believes that the RFC should be continued as an independent agency to meet emergency situations and should not be transferred to the Department of Commerce.

(2) The Council does not believe that it is either necessary or desirable for the Department of Commerce, or any other agency of the Government, to provide insurance of loans granted to small business concerns. The Council believes that the legitimate borrowing needs of small business are generally met by the banks of the country. In addition, numerous banks and insurance companies have in the past year inaugurated special departments for making longer term loans to small businesses and have advertised these facilities widely.

(3) The Council is not convinced of the necessity of establishing capital banks of the type proposed in the President's message. Members of the Council have read Senator O'Mahoney's bill as introduced and have seen a late draft embodying various suggested amendments and improvements to it. But they have not seen any Administration bill to carry out the proposals made in the President's message to Congress. Until it can examine definite legislative proposals the Council does not feel that it can express any opinion as to whether such banks if established should be in or outside of the Federal Reserve System.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:35 P.M. ON MAY 15, 1950. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. POTTS, MR. WOODS AND MR. LOCHHEAD. MR. WILLIAM F. KURTZ SERVED AS AN ALTERNATE FOR MR. POTTS.

Five members of the Board Staff, under the leadership of Dr. Woodlief Thomas and Dr. Ralph Young, gave a visual-verbal presentation of the economic situation.

A copy of the remarks of those who participated in the presentation will be sent you as soon as they are received from the Board Staff.

The meeting adjourned at 4:10 P.M.

ON MAY 16, 1950, AT 10:35 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 AND MR. WOODS. MR. WILLIAM F. KURTZ SERVED AS AN ALTERNATE FOR MR. POTTS. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN McCABE: GOVERNORS ECCLES, SZYMCAK, DRAPER AND VARDAMAN. MR. CARPENTER, SECRETARY OF THE BOARD OF GOVERNORS, WAS ALSO PRESENT.

THE BOARD WOULD LIKE TO HAVE THE CURRENT VIEWS OF THE MEMBERS OF THE COUNCIL REGARDING ECONOMIC AND BUSINESS CONDITIONS DURING THE NEXT SIX MONTHS.

E. E. Brown reads Item 1 on the agenda and the Council's conclusions. Conditions in the eleven Districts reporting are strikingly similar. Retail sales are off slightly. The textile industry is stronger. The sections of Texas growing wheat have suffered from a drought. The corn belt has had heavy rains and a late Spring, with the result that crops are retarded. In general, however, economic and business prospects look good for the next six months.

McCabe. Will the reduction in the output of wheat bring production down to consumption?

E. E. Brown says the railroads which haul grain report that a large surplus will still be carried over, but the increase, if any, in the surplus from this crop will be relatively small.

McCabe. Did the Council discuss any of the dangers in the credit situation relative to installment credit, stock market credit and mortgage debt?

E. E. Brown. The Council discussed these subjects in general. Most of the mortgage credit is due to the activities of the government. The increase in installment credit is due largely to the automobile situation. There has been relatively little expansion in credit for the stock market.

McCabe. Some of the automobile people feel that installment credit is expanding too rapidly.

Lothead. Collections on farm machinery are a little slower.

Fleming. A great deal depends upon the developments in the General Motors strike situation and the possible length of any strike. A long strike for General Motors would tend to hold down the expansion of installment credit. He has been told by leaders in the automobile industry that if there is no strike it will be possible by Fall to get almost any model car promptly.

Vardaman. The automobile dealers who are alarmed are the ones who are interested in trade practices.

E. E. Brown. There is an increase in time paper for farm machinery. Farmers are buying more on time.

McCabe. With the increased tempo in our economy, is a point approaching where the Board should ask for new Regulation W authority?

E. E. Brown. The Council did not discuss this matter, but Brown believes the Council would oppose the extension of such authority. Brown does not believe that a situation even such as existed in 1948 would justify giving the Board controls under Regulation W.

Bucklin. In times like the present, competitive evils come into installment terms. The ABA was helpful in restricting credit through its voluntary program several years ago. Voluntary control of installment credit might be effective. Before considering any renewal of government control of installment credit, some effort should be made to permit and encourage voluntary control.

Kurtz states that he can conceive of conditions where control might be necessary. The dollar amount of installment credit is not so important as the quality of the credit. The quality now is relatively good. Salaried people have developed the habit of buying through installment credit. Kurtz does not like regulation.

Fleming. Any control of credit must not affect merely the items under Regulation W. Credit in every direction would have to be controlled. When you grant housing credit, you make a market for refrigerators, stoves, washing machines and even automobiles.

Eccles. There is no logic in attempting to control one aspect of the credit situation at the same time that housing loans are granted on a vast scale. The loan rate on Title II was reduced from 4 1/2 per cent to 4 1/4 per cent, thereby encouraging further credit expansion. There is a proposal to broaden the lending powers of the RFC. There is an additional proposal to establish capital banks. On top of all this, the government is running a huge deficit. There is no sense in attempting to control one element of the credit structure, installment credit, and then permitting the creation of credit in other ways on a vast scale.

McCabe. Union labor is now bringing individual workers to Washington to appear before the Board and before various departments of the government, to show the need of aid in areas where there is some unemployment.

Fleming. The country has about three and a half million unemployed. Not long ago a figure for unemployed of that size would not have been considered abnormal. With twelve million more people employed than there were a few years ago, three and a half million unemployed does not seem relatively an extraordinary number, although Fleming regrets that there is unemployment in some communities.

McCabe asks Carpenter to read, off-the-record, a letter which Chairman McCabe wrote, relative to the reduction in the Title II interest rate.

DOES THE COUNCIL HAVE ANY SUGGESTIONS TO MAKE TO THE BOARD WITH RESPECT TO THE TREASURY REFUNDING PROGRAM AND THE MANNER IN WHICH THE DEFICIT SHOULD BE FINANCED DURING THE REMAINDER OF THE CURRENT CALENDAR YEAR?

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E. E. Brown reads Item 2 on the agenda and the Council's conclusions. The Council believes in greater flexibility in the short-term rate. Some members of the Council are on the ABA committee on government borrowing. The Council believes that there is money available for a long-term issue. There is perhaps a market for \$2½ billions of long-term, ineligible bonds at a 2½ per cent rate. There also would seem to be a market for an eight to ten year, 1 3/4 per cent, eligible issue.

Fleming. The ABA committee believes there is money available for longer-term issues. The report which the Board Staff made yesterday, in discussing the economic situation, confirms the Council's conclusions in this respect. The maturity of government obligations should be lengthened.

Vardaman asks whether the Council is wedded to a twenty-five year bond, or would fifteen years be acceptable?

Fleming. The Council believes twenty-five years would be better, because it stretches out the maturity.

McCabe reads the following statement of the Board's position on this agenda item:

The Treasury will need to raise in the market over \$1 billion to meet its cash needs during July, August, and September, in addition to net sales of savings bonds and notes, and will probably need at least 2 billion more in the last quarter of this year. Treasury financing should be carried out in as noninflationary a manner as

possible in view of growing strength in the business situation. This objective can best be accomplished by offering securities designed to tap directly funds as they accumulate in the hands of nonbank holders. The availability of nonbank funds is indicated by changes in the distribution of the debt during the first four months of this year:

	<u>Billions of Dollars</u>
Total public debt (excluding holdings of Government agencies and trust funds)	<u>+ 0.6</u>
Commercial and Federal Reserve Banks	- 2.6
Nonbank investors	<u>+ 3.2</u>
Mutual savings banks	+ 0.2
Insurance companies	+ 0.1
Other corporations and associations	+ 1.8
States and local govern- ments	+ 0.2
Individuals	+ 0.9

The treasury should, as soon as possible, set up machinery for tapping on a current basis accumulating funds of institutional investors and other large savers. For this, the Treasury should offer nonmarketable redeemable bonds not eligible for purchase by banks except to a limited extent. The offering should remain open for an extended period of time. A nonmarketable issue with a 15-year maturity and a 2-1/2 per cent coupon might attract enough funds in June, July, and August so as to avoid any other public offering. This method of financing should at least be given a trial.

In view of the business and credit situation, the Federal Reserve should have leeway for flexibility in its open market policies. Refunding of maturing issues, therefore, should be on terms which will not require special Federal Reserve support but will permit interest rates to reflect market forces. The Board agrees with the Council that the amount of short-term securities outstanding should be reduced. For this reason a portion of refunding issues should be in the form of intermediate and long-term notes. However, in view of the current economic prospects it would not be advisable to offer additional bank-eligible bonds in the near future.

Should consideration be given to a restricted marketable bond which would be ineligible for banks, we should discuss the desirability of making it ineligible for Federal Reserve Banks also.

Fleming. The ABA committee's report is essentially similar, except on the feature making bonds ineligible for purchase by the Federal Reserve banks. He believes the Treasury figures its requirements somewhat less than those given by McCabe.

Congdon asks whether McCabe is speaking of a tap issue of fifteen years, redeemable but not marketable.

McCabe. Yes.

E. E. Brown thinks the idea of making bonds ineligible at the Federal Reserve banks may have real merit.

Eccles. The Open Market Committee has practically no flexibility on short-term rates. Investors who may be interested in a long-term,  $2\frac{1}{2}$  per cent rate are interested because they get  $2\frac{1}{2}$  per cent on what is actually demand money, plus the fact that the bond goes above par after it becomes eligible for banks. At present,  $2\frac{1}{2}$  per cent bonds are demand obligations and serve as a secondary reserve. If you wish to do the maximum amount of financing outside of the banks, it should be a tap issue to get the savings as they accumulate. A fifteen year,  $2\frac{1}{2}$  per cent security would have attraction to real savers. Market issues are better, but to have them we need a far freer market. With the public debt as large as it is now, and with deficits, it may not be possible to have a really free market. The attraction to a market issue now is the attraction of the support.

McCabe. When you speak of the possibility of a  $2\frac{1}{2}$  per cent, long-term issue, you are thinking of a free market.

Jackson. We were thinking of a freer market.

McCabe. The so-called long-term debt now has a maturity of seventeen years. To recommend a twenty-five year bond is to assume a free market. If the Treasury were to offer a fifteen-year tap issue, they would have nothing to lose, even if only a small amount should be sold.

Kurtz thinks a tap issue would sell well.

Fleming also thinks a tap issue would sell well.

Eccles. If you put out a twenty-five year,  $2\frac{1}{2}$  per cent bond, you would have to have an understanding with the Treasury not to support it. If you permitted such a long-term issue to go below par, Eccles would support the idea.

McCabe feels the Treasury must go outside the banking system to get funds.

Fleming. Would such a bond be payable in case of death?

McCabe assumes so.

Ringland. When would you issue this bond?

McCabe. If I were Secretary of the Treasury, I would do it at once.

THE BOARD WOULD LIKE TO DISCUSS WITH THE COUNCIL THE CURRENT SITUATION WITH RESPECT TO BANK HOLDING COMPANY LEGISLATION.

E. E. Brown reads Item 3 on the agenda with the conclusions of the Council, and makes certain off-the-record comments.

McCabe states that he rode the rail before the Senate Committee on this matter of bank holding company legislation. McCabe outlined at length, off-the-record, the many steps he took in connection with the introduction of bank holding company legislation. The situation as it now stands is that there may be hearings for four days, two days for those who favor the Robertson bill with the Douglas amendments, and two days for those who are opposed.

Bucklin asks whether it was said the bank holding companies approved the bill.

Szymczak commented off-the-record on this question.

McCabe believes the average bank holding company should welcome legislation so it would know what it could do.

E. E. Brown understands the proposed legislation is dead at this session of the Congress.

Szymczak suggests that the Council should have someone at any hearings to testify as to what should be included in a good bank holding company bill.

Eccles, Vardaman and Szymczak commented off-the-record on the proposed legislation.

AT THE LAST MEETING OF THE COUNCIL A SPECIAL COMMITTEE WAS APPOINTED UNDER THE CHAIRMANSHIP OF MR. FLEMING TO GIVE FURTHER CONSIDERATION TO THE PROPOSAL THAT RESERVE REQUIREMENTS OF A MEMBER BANK BE BASED ON THE CHARACTER OF THE BANK'S DEPOSITS RATHER THAN ON THE LOCATION OF THE BANK. IF THE REPORT OF THE COMMITTEE WILL BE AVAILABLE BY THE TIME OF THE FORTHCOMING MEETING, THE BOARD WOULD BE GLAD TO DISCUSS IT AT THAT TIME.

E. E. Brown reads Item 4 on the agenda and the conclusions of the Council. He asks Fleming to comment regarding the item.

Fleming states that he talked with Woodlief Thomas and it was felt that the first step was to solve the problem of the livestock banks. Fleming suggests that Beals report on what has taken place.

Beals says that a meeting of representatives of the livestock banks and the Board Staff was held on May 1. Dr. Tow of the Federal Reserve Bank of Kansas City was in charge. Representatives of ten banks were present. These bank representatives stated that their principal business was livestock business, and they outlined at length their method of operating and their place in financing agricultural activities. Dr. Tow said at the close of the meeting that he understood much better the interbank business which the livestock banks were handling than he had understood these transactions at the beginning of the meeting. Dr. Tow further stated that he felt the livestock banks had not proved that the greater part of their interbank business was different from the interbank business of other banks. There was no agreement in principle at the close of the meeting. The livestock banks were told that a report would be made, and Beals understands from Woodlief Thomas that this report is now being prepared. A change to the Bopp Plan in the method of figuring reserves would prevent the livestock banks from extending the type of credit they now extend to agriculture.

McCabe. After the Board and Council see the Staff report, perhaps a way can be found of meeting the problem of the livestock banks.

Hemingway. About two months ago a meeting was held at the Federal Reserve Bank of St. Louis at which Dr. Bopp discussed his reserve proposal. Dr. Bopp did a good job in presenting the plan. There was no vote on the plan, but Hemingway did not hear any banker present express approval of the plan.

E. E. Brown believes it is the feeling of the special Committee of the Council that livestock banks, which have 3,000 bank correspondents, have a special problem, and a solution of this problem will have to be found or the livestock banks may be inclined to get banks to oppose the reserve proposal. Ralph Young talked to the board of directors of the Federal Reserve Bank of Chicago. E. E. Brown thinks most of the members of the board of directors of the Chicago bank were impressed with the reserve proposal. However, Vivian Johnson, who is on the board of the Chicago bank and who represents smaller banks, and at one time was State Superintendent of Banks in Iowa, believes there would be widespread opposition from the country banks.

Fleming says he had hoped the problem of the livestock banks could be solved before the discussion became public.

Beals says one member of the Staff said he was not so sure central reserve city banks did not need help in connection with their reserve requirements.

E. E. Brown. The special Committee of the Council and the Board will have to study the Staff report on the meeting with the livestock banks.

THE COUNCIL WOULD APPRECIATE KNOWING THE POSITION OF THE BOARD ON THE PROPOSED LEGISLATION (BILL S 3527) GIVING THE FEDERAL RESERVE BANKS PERMANENT AUTHORITY TO PURCHASE DIRECT OBLIGATIONS OF THE GOVERNMENT FROM THE TREASURY DEPARTMENT UP TO A MAXIMUM OF \$5 BILLION AT ANY ONE TIME. ON PREVIOUS OCCASIONS THE COUNCIL HAS RECOMMENDED THAT SUCH AUTHORITY BE LIMITED TO A PERIOD OF THREE YEARS SO THE MATTER COULD BE REVIEWED PERIODICALLY BY THE CONGRESS TO DETERMINE WHETHER THERE HAD BEEN ANY ABUSE OF THE POWER AND WHETHER THE POWER SHOULD BE FURTHER CONTINUED OR BE PERMITTED TO LAPSE.

E. E. Brown reads Item 5 on the agenda and the conclusions of the Council. Brown states that the Council is familiar with the fact that the Senate Banking and Currency Committee has voted for an extension of two years.

McCabe reads a portion of his letter to the Senate Banking and Currency Committee favoring the proposal for permanent authority, but if the legislative procedure would make a three-year authority desirable, McCabe's letter stated that a three-year extension would be satisfactory to the Board.

Vardaman thinks the Board should not have asked for permanent authority, but should have favored three years. Vardaman believes the Board should have the authority, but it should be temporary. The authority should be reviewed periodically by the Congress.

Eccles is a strong advocate for making this power permanent. He states that the Federal Reserve banks buy billions of dollars of bills directly. The Board does not consider the bills as part of this authority. Eccles would favor having the authority permanent with a debt as large as \$256 billion. He states that we are kidding ourselves in talking about whether this authority should be temporary or permanent. The Federal Reserve System can just buy bills.

E. E. Brown believes the question is academic now, in view of the Senate Committee action.

THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE COUNCIL CONCERNING THE PROPOSAL WITH RESPECT TO FINANCIAL AID TO SMALL BUSINESS, INCLUDING (1) PROPOSED TRANSFER OF RFC TO THE DEPARTMENT OF COMMERCE (2) INSURANCE OF LOANS TO SMALL BUSINESS CONCERNS BY THE SECRETARY OF COMMERCE (3) SETTING UP IN THE FEDERAL RESERVE SYSTEM OF PROPOSED CAPITAL BANKS.

The meeting adjourned at 1:10 P.M. for luncheon which was attended by the members of the Council, Chairman McCabe, Winfield W. Riefler, Assistant to Chairman McCabe, and the Secretary of the Council. At the luncheon there was a lengthy off-the-record discussion of Item 6 and various other banking subjects.

The luncheon adjourned at 3:35 P.M.

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At 3:40 P.M. on May 16, 1950, the Council reconvened in the Board Room of the Federal Reserve Building. All members of the Council were present except Mr. Potts and Mr. Woods. Mr. William F. Kurtz served as an alternate for Mr. Potts. It was moved, seconded, and approved unanimously that the Secretary of the Council be instructed to write the Secretary of the Board of Governors the following letter:

May 18, 1950.

Mr. S. R. Carpenter, Secretary,  
Board of Governors of the Federal Reserve System,  
Washington, D. C.

Dear Mr. Carpenter:

The members of the Federal Advisory Council have further discussed the financing program of the Treasury. The Council favors offering at this time, or in the near future, a 2½ per cent, fifteen year tap issue, similar to the twelve year G bond, but with a table of redemption values adjusted to fifteen years.

The Council has not changed its opinion that a long-term, 2½ per cent, ineligible bond would also be desirable at a little later date.

Very sincerely yours,

Herbert V. Prochnow  
Secretary

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In connection with the suggestion made by a member of the Board at the joint meeting of the Board and the Council earlier in the day, that the Council be prepared to testify on the Robertson Bank Holding Company bill with the Douglas amendments, the members of the Council decided it did not now appear advisable to testify.

The meeting adjourned at 4:05 P.M.

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The next regular meeting of the Council will be on October 1, 2, and 3, 1950.