

MINUTES OF THE JOINT CONFERENCE OF THE EXECUTIVE COMMITTEE
OF THE FEDERAL ADVISORY COUNCIL, MEMBERS OF THE BOARD
OF GOVERNORS, AND REPRESENTATIVES OF THE BOARD
STAFF OF THE FEDERAL RESERVE SYSTEM

August 1, 1950

At 10:50 A.M. a joint conference of the Executive Committee of the Federal Advisory Council, the Board of Governors of the Federal Reserve System, and representatives of the Board Staff was held in the Federal Reserve Building, Washington, D. C.

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

Chairman Thomas B. McCabe; Governor Eccles; Messrs. Winfield W. Riefler, Assistant to the Chairman; Woodlief Thomas, Economic Advisor to the Board; and Elliott Thurston, Assistant to the Board.

Present: Members of the Executive Committee of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. N. Baxter Jackson, Frederic A. Potts, Sidney B. Congdon, and Herbert V. Prochnow, Secretary. Absent: Mr. Robert V. Fleming.

The Executive Committee was informed that the technical staff of the Joint Committee on the Economic Report (Senator O'Mahoney's committee) is considering various proposals relating to taxation, government financing, bank credit, consumer loans, mortgage financing and bank reserve requirements, including the special reserve plan. The Board Staff had prepared a preliminary draft of a memorandum on "Fiscal and Credit Policies in Present Emergency", dealing with the above subjects. The final draft of this Staff memorandum is to be sent to the Joint Committee on the Economic Report.

The preliminary draft of the Staff memorandum was discussed at length and an opportunity was given the Executive Committee to make suggestions and to recommend changes. For example, the Executive Committee strongly recommended that in the discussion on excess profits taxes, the Staff memorandum should stress not only the tendency to wasteful expenditures and extravagances which these taxes encourage, but also that these taxes are inflationary unless they are accompanied by wage and salary controls.

In connection with the discussion of a special reserve plan, the Executive Committee recommended that the Staff memorandum omit any specific reference to the Board's approval of this plan in the past, so that there could be no implication that the Board now supported the special reserve proposal. The Staff memorandum listed various disadvantages of the special reserve plan. Chairman McCabe also stated that on the question of reserves his view is that it would be better for Congress to mark time on the matter until the situation develops further and the Treasury financing program is more definite.

Some discussion also took place about the possibility of working out a program of voluntary cooperation by banks, insurance companies, investment bankers and others, for restricting the extension of credit to the needs of those engaged in essential production. Such cooperation might be arranged through the American Bankers Association and other associations.

In addition, there was some discussion of the possibility of the establishment of so-called capital issues committees to provide a means of voluntary cooperation for re-

stricting credit of this type in a way that would benefit the general economy. In order that voluntary cooperation by banks making term loans, insurance companies and others might not be considered in violation of the Anti-Trust laws, it was very informally suggested by a representative of the Attorney General's office that Federal authorities might possibly approve such voluntary cooperation if the Federal Reserve banks had representatives present at meetings of bankers and others discussing whether particular issues met this test.

Chairman McCabe stated that it would be helpful in the present situation if the Executive Committee would be prepared to meet monthly with him, except in the months when the Council meets. The Executive Committee expressed its willingness to meet on this schedule.

The meeting adjourned at 4:15 P.M.

HERBERT V. PROCHNOW
Secretary.

FEDERAL ADVISORY COUNCIL

Confidential Summary of a Meeting of the Executive Committee of the Council, members of the Board of Governors and representatives of the Board Staff at 10:50 A.M. in the Federal Reserve Building, Washington, D. C. on August 1, 1950.

On July 31, Chairman McCabe telephoned President Brown stating that it would be helpful if the Executive Committee of the Council could meet with him in Washington the following morning, August 1, to discuss banking and fiscal problems that had arisen out of the Korean situation.

President Brown, Messrs. Jackson, Potts and Congdon and the Secretary were present, Mr. Fleming being out of the city and unable to attend. Chairman McCabe, Governor Eccles and Messrs. Riefler, Thomas and Thurston participated in the informal discussions which lasted throughout the day.

The Executive Committee was informed that the technical staff of the Joint Committee on the Economic Report (Senator O'Mahoney's committee) is considering various proposals relating to taxation, government financing, bank credit, consumer loans, mortgage financing and bank reserve requirements, including the special reserve plan. The Board Staff had prepared a preliminary draft of a memorandum on "Fiscal and Credit Policies in Present Emergency", dealing with the above subjects. The final draft of this Staff memorandum is to be sent to the Joint Committee on the Economic Report.

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Some discussion also took place about the possibility of working out a program of voluntary cooperation by banks, insurance companies, investment bankers and others, for restricting the extension of credit to the needs of those engaged in essential production. Such cooperation might be arranged through the American Bankers Association and other associations.

In addition, there was some discussion of the possibility of the establishment of so-called capital issues committees to provide a means of voluntary cooperation for restricting credit of this type in a way that would benefit the general economy. In order that voluntary cooperation by

banks making term loans, insurance companies and others might not be considered in violation of the Anti-Trust laws, it was very informally suggested by a representative of the Attorney General's office that Federal authorities might possibly approve such voluntary cooperation if the Federal Reserve banks had representatives present at meetings of bankers and others discussing whether particular issues met this test.

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Herbert V. Prochnow,
Secretary.

August 2, 1950.

VOLUNTARY CONTROL OF CREDIT IN THE PRESENT EMERGENCY

In the present emergency there is a general recognition that industries whose production is essential have a prior right to the credit they require, that speculative activities should be curtailed and that every effort should be made to prevent the development of a serious inflationary trend which might threaten our national welfare. To accomplish these objectives it may be necessary to restrict credit in various areas of the economy. The limitation of credit to essential needs may be by voluntary or compulsory methods, or by a combination of both.

We are engaged in a struggle to maintain free institutions in the world. If our domestic policies are to be consistent with our world objectives, every effort should first be made through voluntary cooperation to provide the credit which our essential industries require, to curtail speculative and promotional activities, and to prevent the further growth of inflationary factors.

The Board of Governors of the Federal Reserve System would be helpful in furthering voluntary cooperation for the restriction of credit to essential needs by indicating to such groups as the American Bankers Association, Association of Reserve City Bankers, Investment Bankers Association, American Finance Conference and the state commissioners of banking, what types of credit should be deemed desirable in the present emergency. These groups could prepare "educational" programs which would familiarize their members with the types of credit which are at present to be restricted. The respective groups could keep the Board of Governors fully advised of these programs.

However, to assure that credit extended for long-term loans and bond and stock issues is restricted to productive channels, some special form of

voluntary cooperation among banks making term loans in the larger financial centers, insurance companies, and stock and bond houses, would seem highly desirable. This cooperation might take the form of so-called "capital issues committees," whose function it would be to restrict capital issues to those that would benefit the national economy.

It is quite certain that such committees for voluntary cooperation in the present emergency will not be formed unless some assurance is offered of freedom from prosecution under the Anti-Trust laws.

Meetings of capital issues committees might be held at the Federal Reserve Banks in the larger financial centers. Representatives of the Federal Reserve Banks could be present when the question was being discussed of whether particular capital issues would benefit the national economy. If the financing of essential production is to be expeditious and effective, such committees would have to have a high degree of autonomy in acting within the scope of relatively broad sanctions from some governmental agency such as the Board of Governors acting through the Federal Reserve Banks. In other words, the conclusions of such committees would be ineffective if they must await reference to Washington for Federal Reserve Board approval or to the Department of Justice or the Federal Trade Commission in respect of exemption from the Anti-Trust and Fair Trade laws.

August 3, 1950