

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 19, 1950

The fourth statutory meeting of the Federal Advisory Council for 1950 was convened in Room 1032 of the Mayflower Hotel, Washington, D. C., on November 19, 1950, at 2:00 P.M., the President, Mr. Brown, in the Chair.

Present:

Walter S. Bucklin	District No. 1
N. Baxter Jackson	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
Joseph F. Ringland	District No. 9
David T. Beals	District No. 10
DeWitt T. Ray (Alternate for J. E. Woods)	District No. 11
James K. Lohead	District No. 12
Herbert V. Prochnow	Secretary

Absent:

J. E. Woods	District No. 11
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On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on October 1, 2 and 3, 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 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 35 and 36.

The meeting adjourned at 5:48 P.M.

HERBERT V. PROCHNOW  
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 20, 1950

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

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

Absent: Mr. 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 35 and 36, listing the agenda with conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12:26 P.M. on November 20, 1950.

The meeting adjourned at 12:14 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 NOVEMBER 21, 1950

1. Selective credit controls:

- (a) What information do the members of the Council have with respect to the effects of Regulations W and X?
- (b) What are the views of the Council as to what, if any, action should be taken by the Board to change the existing Regulations W and X or to broaden their scope?

(a) Regulations W and X have not been in operation sufficiently long to determine their full effect on the economy.

New car sales have been reduced 10 to 15 per cent in some areas, although other sections report a decline as high as 50 per cent. The Pacific Coast and the South have apparently felt the impact of Regulation W more severely than the rest of the country.

Because of the large volume of outstanding commitments, no reduction in real estate credit has yet occurred. Contractors report that when their present commitments are completed construction will decline substantially in volume. The decline in the price of lumber may be partly due to Regulation X. A simplification of the reporting forms for Regulation X, with a resulting reduction in the paper work required, would be highly desirable.

(b) The Council is unanimously of the opinion that no change in Regulations W or X is desirable at this time.

Members of the Council have previously discussed with the Board some of the difficult problems involved in working out a regulation covering industrial and commercial construction loans. The Council would appreciate the present views of the Board relative to the regulation of loans of these types.

- 2. The Board has been asked by the President to submit its suggestions as to subjects to be included in the State of the Union message and the Economic Report and the legislation which the Board desires to have considered at the session of the Congress which convenes in January. The Board is now formulating its views on these two matters and would like to have any advice or recommendations that the Council might wish to offer with respect to them.

The Council does not know what subjects the Board contemplates recommending for inclusion in the State of the Union message and the Economic Report, or what legislation the Board contemplates proposing at the session of the Congress which convenes in January. The Council would be interested in what the Board has in mind on these two matters, and would be glad to discuss them with the Board.

Until the economic situation has become clearer and until the effect of Regulations W and X (which the Council unanimously believes will materially reduce bank credit in the installment and real estate fields) can be more fully evaluated, the Council believes that it would not be desirable to introduce any legislation to change existing laws governing bank reserves.

3. One of the questions that has had a very important bearing on the credit policies of the System is the impact of the prospective defense program on the economy. The Board would be glad to have the comments of the Council on the economic and business situation over the next six months, particularly in the light of the probable impact of prospective expenditures for defense and the current inflationary situation.

During the next six months, according to the Council's information, the cash budget of the Federal Government is expected to be in balance, or show a surplus. The credit impact of the defense program during this period will be chiefly due to requirements of manufacturers for money for plant changes and expansion to take care of government orders received or anticipated. The main impact for financing defense production is not likely to take place until after the middle of 1951.

It is the opinion of the members of the Council that bank loans due to seasonal demands will probably increase from now until January, but they expect a decline in loans in their respective districts in January and February. Regulation W should cut new installment credit sharply by January or February. Regulation X should begin to reduce new construction credit by the middle of next year. It may be that the calendar year 1951 will show no increase in bank loans or only a moderate increase.

The Council would be interested in knowing what steps have been taken to encourage voluntary agreements for the restriction of credit, and what the present attitude of the Department of Justice is regarding the legality or propriety of such agreements.

4. A discussion of the Treasury refundings for December and January.

The Board is familiar with the views of the Council, as expressed in previous discussions, regarding the necessity of shifting a portion of the debt to intermediate and longer maturities. The Council believes that the present is a desirable time to bring out an intermediate maturity in connection with the refundings of December and January. If the members of the Board wish to express their views, the Council will be pleased to have them.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 20, 1950

At 2:20 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, Frederic A. Potts, Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway, Joseph F. Ringland, David T. Beals; DeWitt T. Ray (Alternate for J. E. Woods); James K. Lochead and Herbert V. Prochnow, Secretary.

Absent: Messrs. N. Baxter Jackson and J. E. Woods.

Dr. Woodlief Thomas, with his associate, Mr. Arthur Hersey, from the Economic Staff of the Board of Governors, discussed the operations and functions of central banks. Dr. Thomas stated that his remarks were taken largely from a report which the Staff prepared for the Joint Committee on the Economic Report. A copy of the Report will be sent to each member of the Council providing Chairman McCabe approves its release.

The meeting adjourned at 3:25 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

November 21, 1950

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, R. M. Evans, and Oliver S. Powell; also, 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, Frederic A. Potts, Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway, Joseph F. Ringland, David T. Beals; DeWitt T. Ray (Alternate for J. E. Woods); James K. Lohead and Herbert V. Prochnow, Secretary.

Absent: Messrs. N. Baxter Jackson and J. E. Woods.

President Brown 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 35 and 36 of these minutes. There was a brief discussion of the effects of Regulations W and X.

President Brown then read the second agenda item and the conclusions of the Council as recorded in the *Confidential Memorandum* previously mentioned.

Chairman McCabe stated that a hard battle is going on in Washington over direct controls versus indirect controls. There was a review of the present situation regarding voluntary agreements to restrict large loans.

President Brown read the third agenda item and the conclusions of the Council as found in the *Memorandum* which is a part of these minutes, following which there was a short discussion.

President Brown then read the fourth item of the agenda dealing with the Treasury refundings for December and January and the conclusions of the Council as given in the *Confidential Memorandum* previously cited. An extended discussion followed, a portion of which was off-the-record.

It was agreed that the next meeting of the Council would be held February 18-20, 1951.

The meeting was adjourned at 1:23 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 November 19, 1950, at 2 P.M. in Room 1032 of the Mayflower Hotel, Washington, D.C. All members of the Federal Advisory Council were present except Mr. Woods. Mr. De Witt T. Ray served as an alternate for Mr. Woods.

The Council approved the Secretary's notes for the meeting of the Council on October 1, 2, and 3, 1950.

#### A DISCUSSION OF THE TREASURY REFUNDINGS FOR DECEMBER AND JANUARY.

E. E. Brown reads all items of the Agenda. (There is off-the-record comment regarding special reserves and the Treasury refundings for December and January). E. E. Brown believes it would be desirable, first, to discuss item 4 of the Agenda, dealing with the refundings of the Treasury for December and January. Following the off-the-record discussion on the Treasury refundings, Brown states that the Council may report to the Board that the Council feels that it is desirable at this time to consider bringing out an intermediate maturity in connection with the December and January refundings. The Council may also state that it would appreciate the views of the Board, if they desire to express them.

Congdon agrees with Brown that this is a good time to go to an intermediate maturity in connection with the December and January refundings.

Bucklin asks whether the Board might increase reserves in the meantime.

E. E. Brown says that the Council might, in its discussion with the Board, state that if an intermediate maturity is brought out it would be desirable to have close cooperation between the various banking agencies. The Board is familiar with the Council's view, expressed on previous occasions, on the subject of lengthening maturities. The Board is also undoubtedly familiar with the A.B.A. Committee's recommendations.

Jackson understands that the redemptions of "E" bonds have not been as large in recent days as they were in the past ninety days.

E. E. Brown. There has been an increase in savings deposits in Chicago banks in November, compared to the same time a year ago. The Treasury will have a cash surplus, but not a budgetary surplus, for the fiscal year ending in June.

Ringland. Isn't it natural to expect an increase in savings as the defense program progresses?

E. E. Brown. One or two large companies have increased the number of their employees who are buying savings bonds on the payroll deduction plan.

Ray reports that savings bonds in his area are not moving so heavily through payroll deductions.

E. E. Brown. There is undoubtedly some feeling that it would be easier to promote savings bond programs if there was a new tax program and greater economy in the non-defense expenditures of the government.

Ray believes that if "E" bonds were tax exempt up to a certain amount it might be a real incentive in their sale.

SELECTIVE CREDIT CONTROLS:

- (a) WHAT INFORMATION DO THE MEMBERS OF THE COUNCIL HAVE WITH RESPECT TO THE EFFECTS OF REGULATIONS W AND X?
  - (b) WHAT ARE THE VIEWS OF THE COUNCIL AS TO WHAT, IF ANY, ACTION SHOULD BE TAKEN BY THE BOARD TO CHANGE THE EXISTING REGULATIONS W AND X OR TO BROADEN THEIR SCOPE?
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E. E. Brown asks Lohead to comment on part (a) of item 1.

Lohead. The Pacific Coast would like Regulation W changed so that fifteen months would be permitted for paying the cost of a car, with the freight to be treated separately. The freight on a car to the Pacific Coast may amount to \$300, which is considerably higher than it is for other sections of the country. The result is that the car buyer faces substantially higher payments than he might have in other areas of the country. Floor loans are up. New car sales have dropped off as much as fifty per cent on the Pacific Coast. Regulation X is not causing so much concern. The decline in lumber prices is only partly due to Regulation X.

E. E. Brown. Regulation X has not so far slowed construction in the Middle West.

Ringland believes that there will be a run off in installment loans because of Regulation W. Some dealers are withholding cars from the market expecting price increases. There has been no real effect yet from Regulation X. Ringland does not expect construction loans to decline much in the near future. The speculative builder may be hit. The Board should not change Regulations W or X.

Hemingway. There has not been too much change in his District in the situation in new cars as a result of Regulation W, and there has been less change because of Regulation X. If inflation is to be controlled, somebody must be hurt. Hemingway believes Regulations W and X should not be changed.

Beals. Regulation W resulted in a decrease of fifty per cent in automobile sales. Some new cars are said to be selling at a discount. Beals believes that Regulation W should not be changed. The complaint on Regulation X involves the amount of paper work necessary, as the Regulation seems to be unnecessarily complicated and cumbersome. Beals would not change Regulation X, except to make it easier to work under.

J. T. Brown. Car sales may be down as much as fifty or sixty per cent, but it is always the dog that is hit that squeals. He believes the dealers have been loaded with cars, and that these have backed up into the banks for loans. The change from twenty-one to fifteen months may have been too drastic. However, J. T. Brown would not now change Regulations W or X.

Jackson understands that in some cases new cars can be bought at a discount. It is too early to know the real effect of Regulation W. The bad situation in his area is in used cars. Some used car dealers may have to go out of business. Automobile manufacturers have been producing at the rate of eight million cars a year and that could not go on forever. Five million cars next year would be good. It is too early to pass judgment on Regulation W. It is also much too early to draw any definite conclusions regarding Regulation X. The number of new homes in New York has dropped sharply. Speculative borrowers will be curtailed. Regulation X will pinch some who should be pinched. The purpose of regulations is to curb credit. Jackson would not change Regulations W or X at present.

Potts states that his views would be substantially along the same lines as those given by Jackson. Some of the large finance companies do not like Regulation W. Some large companies are not making commitments as the result of Regulation X. He thinks it will be at least six months before Regulation X takes a real bite. Potts believes Regulations W and X should not be changed at present.

Ray reports that Regulation X has had little effect in his area up to the present time. Those producing homes on a mass basis may already have been hit some. So far there is no real serious effect. In connection with Regulation W, some new cars are being offered at less than list prices. He comments regarding one dealer in particular who has offered cars at less than list prices, which has helped kill the new car market in his district. The "post-war used car" market is seriously affected. Regulation W is also pinching some appliance and furniture businesses, which sell primarily low-priced products. Ray would not change Regulations W and X at present.

Congdon. The used car market is bad. New cars are piling up to some extent. However, the Board should stand by Regulation W. No material effect is apparent as a result of Regulation X. It may reduce building substantially in his district next year. Some of this reduction would be highly desirable. The Board should stand by Regulation X.

Ray. The automobile manufacturers may help by cutting down production. Some dealers may feel compelled to take cars to hold their franchises.

Bucklin. Regulation X has had very little effect on the volume of real estate construction. The administration of the Regulation in relation to the oral and written commitments is so loose that the volume may not be cut. Bucklin does not believe Regulations W and X should be changed at present. There has been a storm of protest on Regulation W. His bank does a substantial amount of business in this general field in New England. Floor plan loans are up. Perhaps the change from twenty-one months to fifteen months was too drastic, but Bucklin would not change Regulation W now.

J. T. Brown. One item that has been overlooked in Regulation W is the question of single payment loans. A borrower may borrow the full amount on a single payment loan and go out and buy a car. This situation cannot be easily corrected.

E. E. Brown. The opinions of the members of the Council, which have been expressed, indicate they do not believe that the Board should change Regulations W or X now. Brown does not believe the effect on new car sales in his area has been too serious. Unless auto production is cut, say to 5 million cars annually, the allocation of steel may follow. Regulation W is more desirable than the allocation of products like steel. Automobile sales have been reduced in some sections 50 or 60 per cent, and in others 10 or 15 per cent. The Pacific Coast and the South apparently have been hit the hardest. Because of the large volume of outstanding commitments, no reduction in real estate credit has yet occurred. Contractors state that when their present commitments are completed, construction may decline substantially in volume. A simplification in reporting forms for Regulation X would be desirable. Brown understands that the Board is working on a regulation dealing with commercial and industrial construction loans. Brown suggests that it would be desirable to ask the members of the Board what their views are on the Regulation of commercial and industrial construction loans, as there are many difficulties in connection with the regulation of such loans.

THE BOARD HAS BEEN ASKED BY THE PRESIDENT TO SUBMIT ITS SUGGESTIONS AS TO SUBJECTS TO BE INCLUDED IN THE STATE OF THE UNION MESSAGE AND THE ECONOMIC REPORT AND THE LEGISLATION WHICH THE BOARD DESIRES TO HAVE CONSIDERED AT THE SESSION OF THE CONGRESS WHICH CONVENES IN JANUARY. THE BOARD IS NOW FORMULATING ITS VIEWS ON THESE TWO MATTERS AND WOULD LIKE TO HAVE ANY ADVICE OR RECOMMENDATIONS THAT THE COUNCIL MIGHT WISH TO OFFER WITH RESPECT TO THEM.

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E. E. Brown reads Item 2 and states that until the effect of Regulations W and X can be more fully determined, it does not seem desirable to consider any legislation increasing reserves or setting up special reserves. At the forthcoming session of the Congress, no additional legislation covering bank reserves should be recommended by the Board to the President.

Jackson. Should the Council call attention to the fact that the Board still has power to increase reserves further under the present statutes.

Hemingway. An increase in the reserves now might create further trouble between the Federal Reserve System and the Treasury, and he believes it would not be desirable to mention that the Board still has unused power.

E. E. Brown believes it would be desirable to emphasize strongly that no change be made in the existing laws covering bank reserves at the forthcoming session of Congress. In connection with the general question of subjects the Board may recommend for the State of the Union Message and the Economic Report, and legislation which the Board may desire to have considered at the January Session of the Congress, Brown believes it would be desirable for the Council to state that it would be interested in knowing what legislation the Board may have in mind.

Ray. The country is interested in reducing non-defense expenditures and balancing the budget.

E. E. Brown states that this subject can be discussed in connection with item 3 on the agenda.

ONE OF THE QUESTIONS THAT HAS HAD A VERY IMPORTANT BEARING ON THE CREDIT POLICIES OF THE SYSTEM IS THE IMPACT OF THE PROSPECTIVE DEFENSE PROGRAM ON THE ECONOMY. THE BOARD WOULD BE GLAD TO HAVE THE COMMENTS OF THE COUNCIL ON THE ECONOMIC AND BUSINESS SITUATION OVER THE NEXT SIX MONTHS, PARTICULARLY IN THE LIGHT OF THE PROBABLE IMPACT OF PROSPECTIVE EXPENDITURES FOR DEFENSE AND THE CURRENT INFLATIONARY SITUATION.

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E. E. Brown. The impact of many government defense expenditures will not come until after more than six months have elapsed. Many banks are getting requests for bank credit related to defense. Some individuals think that we may be in for somewhat of a slump in January or February because the inventory pipe lines are fairly well filled.

Lohead believes it is possible we may have an oversupply of some products this coming year.

E. E. Brown asks the Secretary to read a copy of a letter, dated November 17, 1950, which McCabe has written to the chief executive officers of the member banks. The letter will be received by most banks on November 20. Beals had received a copy of the letter from the president of the Federal Reserve Bank of his district before he left for the Council meeting. The letter asked the banks to scrutinize their credits carefully and to curb the inflationary trend by restricting bank credit.

Ray comments that the cotton crop was much smaller than a year ago, but that the prices were up 50 per cent, with the result that more bank credit was required to finance the crop. He believes that by mid-January the cotton loans will be down.

E. E. Brown reports bank loans in his bank are up sharply.

Jackson asks whether Brown finds any evidence of speculative loans among his bank's loans.

E. E. Brown. No.

Jackson states that he does not find any evidence of speculative loans in the credits of his bank either.

Ray states that there are practically no speculative loans in his area.

Congdon. Perhaps the Council could say that the cash budget is in balance; current tax rates may balance the cash budget with a \$30 billion defense budget. It may be possible to get through the calendar year 1951 with a moderate inflation and a reasonably supply of consumer goods. Some dislocations in the economy are to be expected. Regulations W and X should do much to free materials. Some loans to business may be necessary to further the defense program.

E. E. Brown. For the period of the next six months the cash budget of the federal government will be balanced according to the best information we have available. Defense spending may require some businesses to borrow from banks. He thinks the loans of his bank may decline early in 1951. The increase in bank loans has been due to such factors as the rise in the price of cotton and other commodities, heavy borrowing by finance companies, and the accumulation of inventories by department stores and mail order houses. Between now and January, Brown thinks the loans of his bank may increase but after January 1st they may run off rather sharply.

Lohead agrees that there may be a run-off of loans beginning in January.

Ringland agrees.

Congdon agrees that there may be a decline of loans beginning in January. He also suggests that the attention of the Board be called to the fact that it is impossible to have an expansion in our economy to include defense production without having a comparable expansion in credit.

Bucklin agrees.

Ray agrees. There are a large number of oil loans in Texas to provide needed oil production.

Potts believes there may be a decline in loans after January 1.

Jackson agrees, and he believes that after the early part of 1951, the trend in bank loans will depend upon defense expenditures.

E. E. Brown. Many companies that needed funds in World War II are financially stronger than they were at that time.

J. T. Brown believes that the trend of bank credit beginning in January may be down, but by May and June some money may flow back to agriculture.

Beals states that after good crops for a number of years, his part of the country may be due for a bad crop year. The wet summer which they had resulted in good pasture and row crops. The farmers bought lambs and calves which went up in price, and there should be some liquidation in these loans. Nature has helped run up loans.

Hemingway. The conditions in his District are about the same as in the other districts. He expects a decline in loans after the first of the year. After the decline in credits, loans may go back up again, as everyone seems to be jubilant and expects to make money. If it is desired to limit bank credit, it might be possible to limit the amount of loans to bank capital.

Congdon. However, if one bank can't make loans because of the limit in relation to its capital, another bank will have the capital to do it.

Bucklin is inclined to believe that loans will increase again after a decline in January.

Congdon thinks the A. B. A. could do a great deal in helping to curb inflationary credit.

E. E. Brown believes the A. B. A. Credit Policy Committee ran into trouble in working out a program for the voluntary cooperation of banks and insurance companies to restrict credit. He understands that the Department of Justice set up some obstacles and that McCabe is to talk with McGrath. He believes it would be desirable to ask the Board what the situation is regarding voluntary agreements to restrict credit.

The meeting adjourned at 5:48 P. M.

THE COUNCIL CONVENED AT 10:00 A. M., ON NOVEMBER 20, 1950 IN ROOM 1032 OF THE MAYFLOWER HOTEL, WASHINGTON, D. C. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT EXCEPT MR. WOODS. MR. DE WITT T. RAY SERVED AS ALTERNATE FOR MR. WOODS.

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 November 21, 1950. The Memorandum was delivered to the Secretary of the Board of Governors at 12:26 P. M. on November 20, 1950. It will be noted that each item of the agenda is listed together with the comments of the Council.

The meeting adjourned at 12:14 P. M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS  
FROM THE  
FEDERAL ADVISORY COUNCIL  
RELATIVE TO THE AGENDA FOR THE JOINT MEETING  
ON NOVEMBER 21, 1950

1. Selective credit controls:

- (a) What information do the members of the Council have with respect to the effects of Regulations W and X?
- (b) What are the views of the Council as to what, if any, action should be taken by the Board to change the existing Regulations W and X or to broaden their scope?

(a) Regulations W and X have not been in operation sufficiently long to determine their full effect on the economy.

New car sales have been reduced 10 to 15 per cent in some areas, although other sections report a decline as high as 50 per cent. The Pacific Coast and the South have apparently felt the impact of Regulation W more severely than the rest of the country.

Because of the large volume of outstanding commitments, no reduction in real estate credit has yet occurred. Contractors report that when their present commitments are completed construction will decline substantially in volume. The decline in the price of lumber may be partly due to Regulation X. A simplification of the reporting forms for Regulation X, with a resulting reduction in the paper work required, would be highly desirable.

(b) The Council is unanimously of the opinion that no change in Regulations W or X is desirable at this time.

Members of the Council have previously discussed with the Board some of the difficult problems involved in working out a regulation covering industrial and commercial construction loans. The Council would appreciate the present views of the Board relative to the regulation of loans of these types.

2. The Board has been asked by the President to submit its suggestions as to subjects to be included in the State of the Union message and the Economic Report and the legislation which the Board desires to have considered at the session of the Congress which convenes in January. The Board is now formulating its views on these two matters and would like to have any advice or recommendations that the Council might wish to offer with respect to them.

The Council does not know what subjects the Board contemplates recommending for inclusion in the State of the Union message and the Economic Report, or what legislation the Board contemplates proposing at the session of the Congress which convenes in January. The Council would be interested in what the Board has in mind on these two matters, and would be glad to discuss them with the Board.

Until the economic situation has become clearer and until the effect of Regulations W and X (which the Council unanimously believes will materially reduce bank credit in the installment and real estate fields) can be more fully evaluated, the Council believes that it would not be desirable to introduce any legislation to change existing laws governing bank reserves.

3. One of the questions that has had a very important bearing on the credit policies of the System is the impact of the prospective defense program on the economy. The Board would be glad to have the comments of the Council on the economic and business situation over the next six months, particularly in the light of the probable impact of prospective expenditures for defense and the current inflationary situation.

During the next six months, according to the Council's information, the cash budget of the Federal Government is expected to be in balance, or show a surplus. The credit impact of the defense program during this period will be chiefly due to requirements of manufacturers for money for plant changes and expansion to take care of government orders received or anticipated. The main impact for financing defense production is not likely to take place until after the middle of 1951.

It is the opinion of the members of the Council that bank loans due to seasonal demands will probably increase from now until January, but they expect a decline in loans in their respective districts in January and February. Regulation W should cut new installment credit sharply by January or February. Regulation X should begin to reduce new construction credit by the middle of next year. It may be that the calendar year 1951 will show no increase in bank loans or only a moderate increase.

The Council would be interested in knowing what steps have been taken to encourage voluntary agreements for the restriction of credit, and what the present attitude of the Department of Justice is regarding the legality or propriety of such agreements.

4. A discussion of the Treasury refundings for December and January.

The Board is familiar with the views of the Council, as expressed in previous discussions, regarding the necessity of shifting a portion of the debt to intermediate and longer maturities. The Council believes that the present is a desirable time to bring out an intermediate maturity in connection with the refundings of December and January. If the members of the Board wish to express their views, the Council will be pleased to have them.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:20 P.M. ON NOVEMBER 20, 1950. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. JACKSON AND MR. WOODS. MR. DE WITT T. RAY SERVED AS AN ALTERNATE FOR MR. WOODS.

Dr. Woodlief Thomas, with his associate Mr. Arthur Hersey from the Economic Staff of the Board of Governors, discussed the operations and functions of central banks. Dr. Thomas stated that his remarks were taken largely from a report which the Staff has prepared for submission to the Joint Committee on the Economic Report. A copy of the report, which the staff has prepared for the Joint Committee, will be sent to each member of the Council if Dr. Thomas obtains the approval of Chairman McCabe for its release.

The meeting adjourned at 3:25 P.M.

(b) WHAT ARE THE VIEWS OF THE COUNCIL AS TO WHAT, IF ANY, ACTION SHOULD BE TAKEN BY THE BOARD TO CHANGE THE EXISTING REGULATIONS W AND X OR TO REPEAL THEIR EFFECTS?

E. E. Brown reads part (b) of Item 3 of the agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached.

MCCABE asks what is meant by a simplification of reporting forms for Regulation E.

E. E. Brown stated that reference is made to the form which the officer must fill out, indicating that he is satisfied it is not a real estate transaction or that it is a real estate transaction. A large company may use part of a loan from a bank for the purpose of building houses for its employees. The officer receiving the note, perhaps by mail, does not necessarily know exactly how all the proceeds of the loan will be used.

MCCABE asks Biefler to join the motion at this point.

Biefler states that regulation X has been simplified so far as that the problem has been one of getting adequate information on what is taking place under the regulation.

MCCABE discusses the situation E. E. Brown mentions in an earlier report and a former agreement.

Biefler. The regulation must have a statement that the loan is for a real estate loan, which Biefler believes is as simple as the form can be made.

ON NOVEMBER 21, 1950, 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, WASHINGTON, D.C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. JACKSON AND MR. WOODS. MR. DE WITT T. RAY SERVED AS AN ALTERNATE FOR MR. WOODS. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MC CABE; GOVERNORS ECCLES, SZYMCAK, EVANS, AND POWELL. MR. CARPENTER, SECRETARY OF THE BOARD OF GOVERNORS, WAS ALSO PRESENT.

SELECTIVE CREDIT CONTROLS:

- (a) WHAT INFORMATION DO THE MEMBERS OF THE COUNCIL HAVE WITH RESPECT TO THE EFFECTS OF REGULATIONS W AND X?
  - (b) WHAT ARE THE VIEWS OF THE COUNCIL AS TO WHAT, IF ANY, ACTION SHOULD BE TAKEN BY THE BOARD TO CHANGE THE EXISTING REGULATIONS W AND X OR TO BROADEN THEIR SCOPE?
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E. E. Brown reads part (a) of Item 1 of the Agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached.

McCabe asks what is meant by a simplification of reporting forms for Regulation X.

E. E. Brown states that reference is made to the form which the officer must fill out, indicating that he is satisfied it is not a real estate transaction or that it is a real estate transaction. A large company may use part of a loan from a bank for the purpose of building houses for its employees. The officer receiving the note, perhaps by mail, does not necessarily know exactly how all the proceeds of the loan will be used.

(McCabe asks Riefler to join the meeting at this point)

Riefler states that Regulation X has been simplified so far now that the problem has been one of getting adequate information on what is taking place under the Regulation.

McCabe believes the situation E. E. Brown mentions is an exception rather than a common experience.

Riefler. The registrant must have a statement that the loan is or is not a real estate loan, which Riefler believes is as simple as the form can be made.

E. E. Brown believes it should either say the officer has no reason to believe the loan is for real estate, or nothing should be required from the officer. Brown states he understands Mr. Fisher received various complaints on this matter of simplification of the reporting forms.

McCabe says Riefler and the staff will give careful consideration to the possibility of simplification of the reporting forms.

E. E. Brown then reads part (b) of Item 1 on the agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. The Council does not believe any change should be made in the substance of Regulations W and X. The members of the Council have had many customers complain about Regulation W, but Brown states that Regulation W would not be a good Regulation if it did not hurt someone.

McCabe suggests that the Council should get tickets for ring-side seats for the hearings in Congress next week. The automobile dealers have waged a very strong campaign among their Congressmen.

Lothead. The complaint on the Pacific Coast is that it costs about \$300 for freight to deliver a car to that part of the country. Consequently, the Pacific Coast is penalized more than any other part of the country by Regulation W.

McCabe reports that for the first few days of November Seattle has had the same car sales it had last year; Portland is down seven per cent; Salt Lake City is down nineteen per cent, which is the greatest decline of any of the cities reporting. Cleveland had an increase of thirty-nine per cent. Over all there does not seem to be any appreciable decline from comparable figures last year. Used car sales are slightly above last year. The price of older used cars is stiffening.

E. E. Brown. Every member of the Council thinks the Board should not weaken the terms or conditions of Regulation W. If Regulation W is effective, it may help prevent the allocation of steel. The complaints on Regulation X will come later. Lumber mills in the Northwest have been affected, but they would have suffered declines in prices without Regulation X.

Eccles. What might be called the grey market in lumber has broken, but lumber prices are still higher than a year ago. Regulation X had nothing to do with the break in lumber prices.

McCabe. Our concern is that Regulation X has not cut back production yet as we had hoped. Contractors may switch to multiple housing, and the Board may issue a supplement to cover that situation. For the next few months the decrease in housing will be less than the Board had hoped.

E. E. Brown believes that if the Board issues another Regulation it should cover only rental construction, and should not try to cover the extremely difficult problem of regulating commercial and industrial construction.

McCabe. A regulation covering commercial and industrial construction is still in the work with nothing completed. The problem is very difficult. Nothing definite has been formulated.

Riefler. Rental construction is what we are considering now. We must move into multiple rental construction. The Board has no desire to curtail essential industrial construction.

(Riefler left the meeting at this point)

THE BOARD HAS BEEN ASKED BY THE PRESIDENT TO SUBMIT ITS SUGGESTIONS AS TO SUBJECTS TO BE INCLUDED IN THE STATE OF THE UNION MESSAGE AND THE ECONOMIC REPORT AND THE LEGISLATION WHICH THE BOARD DESIRES TO HAVE CONSIDERED AT THE SESSION OF THE CONGRESS WHICH CONVENES IN JANUARY. THE BOARD IS NOW FORMULATING ITS VIEWS ON THESE TWO MATTERS AND WOULD LIKE TO HAVE ANY ADVICE OR RECOMMENDATIONS THAT THE COUNCIL MIGHT WISH TO OFFER WITH RESPECT TO THEM.

Brown reads Item 2 on the Agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Brown asks whether the Board would care to express its views on the matters covered in this item.

McCabe. The Board was disappointed with the Council's answer. The Board thought the Council turned the question around and asked the Board. The Board is asked to submit its views to the President and to Congress, and it must present a program. A hard battle goes on in Washington. One battle is that of direct versus indirect controls. There is great pressure in Congress for direct controls. Even many business men want controls.

Fleming. Do they want allocations?

McCabe. No. Every person wants controls that do not affect him. The authority for Regulations W and X expires shortly. What would the Council suggest as to its extension? What should the Board do on bank reserves? The Board has sent out two appeals to bankers to curb credit. The American Bankers Association has also sent out appeals.

Fleming states that as far as Regulations W and X are concerned, the authority should be extended. The matter of voluntary agreements should be approved by the Department of Justice.

McCabe says that he pointed out to Mr. Ford of the Department of Justice that the Department's letter would frighten bankers and insurance company executives. He tried to make it clear to Mr. Ford that to have banks and insurance companies work together was not the same as to have steel companies working together. One could hardly picture the banks and insurance companies holding a meeting to monopolize credit. McGrath and Ford agreed that the banks and insurance companies should be permitted to go ahead. It was suggested that a meeting be called in New York, and that the banks and insurance

companies draft a statement of objectives. McGrath asked Ford to prepare a letter stating that the representatives of the banks and insurance companies could go ahead with the blessing of the Department of Justice. The recent letter of the Department of Justice, to which the bankers who had seen it objected, will not be sent out.

Bucklin thinks the meeting should be held in the New York Federal Reserve Bank.

McCabe thinks the Department of Justice should send Ford to the meeting.

E. E. Brown. The majority of the Council is opposed to Regulations W and X in peacetime, but this is not peacetime. Until the Russian situation clears up, Regulations W and X should be continued. Credit will be needed in the rearmament program, so the Council questions the wisdom of increasing reserves.

McCabe. How do you explain to the public an expansion of bank credit of over eight billion dollars in a year with a failure on the part of the Board of Governors to do anything about it.

Hemingway. Do you know yet in what areas the expansion in credit took place?

McCabe. The Board does not know in detail. Half was probably seasonal, and a large amount was probably for inventory. It is difficult for a bank to turn down credit to a good customer when a competing bank may extend the credit. McCabe believes the request he has made in his letter of November 17 to member banks to restrict credit voluntarily will have some effect.

Fleming. The two large bankers' associations can give great assistance in helping to bring about a voluntary restriction of bank credit. But the insurance companies are a new entry in the credit field. Therefore, voluntary agreements for large loans, in which both banks and insurance companies are interested, are necessary.

J. T. Brown mentions the situation of a large automobile dealer who borrowed three million dollars to take cars so he would not lose his franchise.

Eccles. If banks make such loans, they permit a situation where manufacturers will continue to send cars to dealers.

Fleming does not believe you can turn off the spigot over night. Six months ago the country was concerned with keeping business going next year. The situation has now turned. It takes time to turn the spigot on and off.

Eccles. When you increase the supply of money and cannot increase production appreciably, you promote inflation. Unless the automobile manufacturers get allocations, they will make as many cars as they can. You must curtail credit, not only at the consumer level (Regulation W), but also at the manufacturers' level.

Congdon. If Regulation W works, as it now seems it may, the automobile manufacturers will curtail production.

Eccles. In time.

Congdon. You will need credit for defense production.

Ray. How much of the eight billion dollar increase in bank credit is in installment credit?

Eccles. About forty per cent.

McCabe. About three billion of the increase in bank loans is in installment and consumer credit.

J. T. Brown. It takes some time to effect a reduction in bank credit.

Bucklin. Banks can be helpful in reducing the loans of finance companies.

Ringland states that in his bank the increase in bank loans has been largely seasonal. After the first of the year he expects a sharp reduction in bank loans.

McCabe. As long as an automobile dealer can get credit to take cars, why shouldn't he take them if he thinks prices are going higher. McCabe thinks we have had one wave of consumer buying and we shall have another. He believes bank credit will increase.

J. T. Brown. What do you propose to do if the increase in bank credit cannot be stopped?

McCabe. What happens will depend partly on what Congress does in connection with taxes. Labor and business must also realize that it is not possible to go on forcing wages and prices constantly higher. The Board must do everything possible to hold the line.

Hemingway. The people in our District believe they are in the middle of a boom and seem to be enjoying it.

McCabe believes this is the general feeling over the country.

E. E. Brown. The Council believes that the authority for Regulations Wand X should be extended. The Council does not know what the Board may have in mind in connection with reserves. If the Board were given the authority for higher reserves, or special reserves, the Board might feel the authority constituted a mandate to use the power.

McCabe. Suppose that bank credit should continue to increase. What should be done?

Hemingway. Perhaps the state banking commissioners and other banking agencies might be helpful.

Eccles. What can they do?

Bucklin. The examiners can go before the directors of a bank and say the bank is making too many loans.

Hemingway believes the examiners could be helpful.

McCabe. The average banker does not think he has expanded bank credit too far. In October 1950 bank loans averaged 34 per cent of deposits of all commercial banks, which represents a steady increase in the percentages over recent years.

Beals states that the bankers in the livestock banks to which he talked do believe that their loans are too high. The weather resulted in excellent crops, and the result has been large livestock loans. His loans are up substantially. What should the livestock banks do in that case?

McCabe replies he knows it is a difficult problem.

Eccles. If the feeders could not get credit, they would not buy cattle.

Ray. The government buys meat at certain prices and helps to sustain the price structure. One way would be to get the government to reduce non-defense expenditures.

Eccles. Reducing non-defense expenditures would not amount to a great deal.

ONE OF THE QUESTIONS THAT HAS HAD A VERY IMPORTANT BEARING ON THE CREDIT POLICIES OF THE SYSTEM IS THE IMPACT OF THE PROSPECTIVE DEFENSE PROGRAM ON THE ECONOMY. THE BOARD WOULD BE GLAD TO HAVE THE COMMENTS OF THE COUNCIL ON THE ECONOMIC AND BUSINESS SITUATION OVER THE NEXT SIX MONTHS, PARTICULARLY IN THE LIGHT OF THE PROBABLE IMPACT OF PROSPECTIVE EXPENDITURES FOR DEFENSE AND THE CURRENT INFLATIONARY SITUATION.

E. E. Brown reads Item 3 on the Agenda and the conclusions of the Council as expressed in the Memorandum to the Board attached. The defense program of the government may require that businesses obtain bank credit for acquiring inventories. In the last war bank credit went down and the government debt rose.

Eccles. In 1948 and 1949 we had seasonal increases in bank credit with seasonal declines following. Why is there any reason to believe that the decline early in 1950 will be anything other than the usual seasonal decline?

E. E. Brown. The Commodity Credit extended credit in large amounts without bank credit being used. Now banks have had to make loans on commodities.

J. T. Brown. Last year the Department of Agriculture reduced cotton production to fifteen million acres. Now the Department of Agriculture asks for thirty million acres next year. This expansion will require labor and machinery. Just how can you explain all these sharp reverses in thinking which affect the economy so seriously?

McCabe. These plans are difficult to understand, but the Department of Agriculture is the weathervane of Congress.

Fleming. All of this means that you can't turn the spigot off and on quickly. If you raise reserves, you may complicate the problem of Treasury refundings.

Potts. In this discussion one important element has been overlooked, the recent election.

McCabe replies that the results of the election are being reflected in Washington.

#### A DISCUSSION OF THE TREASURY REFUNDINGS FOR DECEMBER AND JANUARY

E. E. Brown reads Item 4 on the Agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Brown realizes it may be difficult for the Board to discuss with the Council matters in this connection which the Board may now be taking up with the Treasury. Brown believes the Board is familiar with the recommendations of the American Bankers Association committee.

McCabe replies the Board is familiar with these recommendations. McCabe asks whether the Council would suggest freezing the short rate. If you put out an intermediate issue you put pressure on the short rate. McCabe asks the Council's feeling on the Board's action in connection with the short rate?

Fleming. The Board has accomplished its objectives. If the Board raised reserves the banks could not dump securities without a penalty. That objective has been accomplished.

E. E. Brown. Any further increase in the rates would not cut off the extension of credit by banks. If the short-term rate went above one and a half per cent, the holders of long-term two and a halves might tend to dump. Brown states that personally he probably differs with the Board and the Treasury, but he would be inclined to let the long-term bonds decline.

Potts believes some flexibility in the short-term rate is desirable. He would not favor having it known that the rate was frozen at one and a half per cent.

McCabe. If the Treasury offered \$8 billion of 1 7/8 per cent bonds for seven or eight years maturity, what would happen?

Fleming. The banks would roll over. Some corporations would want 1 1/2's from the System's portfolio.

McCabe. Would the program of the American Bankers Association committee result in an increase or decrease in the holdings of the System?

Fleming. The holdings of the System would probably stay the same.

Eccles. The Board has done little or nothing to restrict credit expansion. The Council has also suggested little or nothing. Increasing the rate from one and a quarter per cent to one and a half per cent has not curbed bank credit. The new idea of 1 7/8 per cent for a seven or eight year maturity merely freezes the one and a half per cent rate and costs the Treasury more. Eccles would let the short-term rate be flexible. When you change bank held short-term issues to intermediates, you provide less desirable paper for bank portfolios, and you increase the cost to the Treasury.

Fleming asks Eccles what he would suggest.

Eccles states that he would put out a security for investors. The method by which credit should be restricted is by reserves, including special reserves. Intermediate and longer-term issues do not help to meet the inflation problem. Eccles would issue a one and a half per cent one year certificate, but keep the rate flexible. He would only peg the two and a half per cent non-bank paper. If we cannot curb bank credit with a balanced federal budget, how are we going to curb it if we have a deficit in the federal budget. We are headed for a straight-jacket of controls if we do not act.

Congdon. Do you wish to put the banks in the straight-jacket?

Eccles. No. The banks would still have much freedom.

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

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The Board and the Council agreed that the next meeting would take place on February 18, 19 and 20, 1951.

The meeting adjourned at 1:23 P.M.