MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

February 18-20, 1951

May 13-15, 1951

September 16-18, 1951

November 18-20, 1951

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1951

OFFICERS:

President, Edward E. Brown
Vice President, Robert V. Fleming
Director, N. Baxter Jackson
Director, Frederic A. Potts
Director, Sidney B. Congdon
Secretary, Herbert V. Prochnow

EXECUTIVE COMMITTEE:

Edward E. Brown
Robert V. Fleming
N. Baxter Jackson
Frederic A. Potts
Sidney B. Congdon

MEMBERS:

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
Paul M. Davis	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
De Witt Ray	District No. 11
James K. Lochead	District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

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

ARTICLE II. PRESIDENT AND VICE PRESIDENT

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

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council, and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

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

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

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

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

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

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

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

ARTICLE VI. MEETINGS

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

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

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

ARTICLE VII. ALTERNATES

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

ARTICLE VIII. AMENDMENTS

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

February 18, 1951

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1951

The first and organizational meeting of the Federal Advisory Council for the year 1951 was convened in Room 928 of the Mayflower Hotel, Washington, D. C., on February 18, 1951, at 2:00 P.M.

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
Paul M. Davis	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
De Witt Ray	District No. 11
James K. Lochead	District No. 12
Herbert V. Prochnow	Secretary

Mr. Edward E. Brown was elected Chairman *pro tem* and Mr. Herbert V. Prochnow, Secretary *pro tem.*

The Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1951.

The following officers were nominated and unanimously elected:

Edward E. Brown, President
Robert V. Fleming, Vice President
N. Baxter Jackson, Director
Frederic A. Potts, Director
Sidney B. Congdon, Director
Herbert V. Prochnow, Secretary

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

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

The Secretary presented his financial report for the year 1950, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the printed minutes for the meetings of the Council held on February 19, 20, 21, 1950; May 14, 15, 16, 1950; October 1, 2, 3, 1950; and November 19, 20, 21, 1950, and the minutes of the meetings of the Executive Committee held on August 1, 1950, and September 13, 1950, copies of which had been sent previously to the members of the Council, were approved.

On motion duly made and seconded, a resolution was adopted authorizing the Secretary to ask each Federal Reserve Bank to contribute $350.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1951, and to draw upon it for that purpose.

A complete list of the items on the agenda for the meeting and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 8, 9 and 10.

The meeting adjourned at 5:55 P.M.

HERBERT V. PROCHNOW
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1950

Balance on hand December 31, 1949	\$ 6,871.68	Salaries	\$ 2,500.00
		Conference Expenses	1,113.17
		Printing & Stationery	386.20
Assessments— 12 Federal Reserve Banks	4,200.00	Postage, telephone and telegraph	90.76
		Balance on hand December 31, 1950	6,981.55
	\$11,071.68		\$11,071.68

Chicago, Illinois
February 1, 1951

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ended December 31, 1950, and certify that the above statement agrees therewith.

Respectfully,

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

February 19, 1951

At 10:00 A.M. the Federal Advisory Council reconvened in Room 928 of the Mayflower Hotel, Washington, D. C., with the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson, Frederic A. Potts, Sidney B. Congdon, Robert V. Fleming, Paul M. Davis, W. L. Hemingway, Joseph F. Ringland, David T. Beals, De Witt Ray, James K. Lochead, and Herbert V. Prochnow, Secretary.

The Council reviewed its conclusions of the previous day regarding the items on the agenda, and sent to the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 8, 9 and 10, listing the agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Assistant Secretary of the Board of Governors at 12:40 P.M. on February 19, 1951.

The meeting adjourned at 12:20 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 FEBRUARY 20, 1951

1. A discussion of the effect of Bills S. 514 and S. 515 if enacted into law.

The loan operations of the Reconstruction Finance Corporation are essentially similar to those of a bank with branches. It should have an organizational structure with lines of responsibility clearly drawn and definitely fixed. The Council believes therefore that the management of the RFC should be vested in one administrative head, who may have several deputies as assistants. The Council still believes, as stated in its Memorandum to the Board on May 16, 1950, in response to an inquiry from the Board, that the powers and activities of the RFC should be curtailed rather than expanded, and 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. What are the views of the Council as to the practicable fiscal and monetary actions that should be taken in the period that lies immediately ahead to combat inflation and to meet requirements for defense?

The Council believes the present inflation is due primarily to reasons other than monetary policies, which constitute only a part of the entire problem. The fundamental problem is to maintain confidence in the future purchasing power of the dollar. Such confidence is now impaired, due to a widespread belief that wages and consequently prices will rise, and that firm policies to control wages and prices will not be adopted or enforced.

The Council believes that in the period which lies immediately ahead the following actions should be taken in the fiscal field:

A. The enactment of pay-as-you-go tax legislation;

B. The elimination of unnecessary non-defense expenditures;

C. The careful screening of defense expenditures to avoid waste;

D. Government loans and guaranties of loans in all fields, including real estate, should be terminated, except where such loans are necessary for the defense effort.

In the purely monetary field the Council believes that small changes in interest rates will not have any important effect on the volume of loans made.

The Council believes that the Treasury and the Federal Reserve System should maintain a flexible attitude toward the terms and conditions of future Federal financing. It is obvious, however, that with the large government debt outstanding a close cooperation between the Federal Reserve System and the Treasury must be maintained so there may be no fear by the people of a possible severe decline in the price of government bonds or an impairment of the credit of the Federal government. Fortunately it now appears that several months will elapse before the Treasury will be confronted with heavy refundings (other than bills) or the need for new money. This interim gives the Federal Reserve System and the Treasury an opportunity to work out together a program of cooperation for the maintenance of government credit which is essential to the maintenance of public confidence.

The Council believes—

A. Voluntary agreements by financing institutions should be given the fullest support by the Federal Reserve System, other government departments and various banking and other financial associations concerned with this program.

B. Loans required for defense projects or for necessary civilian production and distribution should not be restricted. In the present situation, particularly, a steady increase in the productive capacity of the economy and in the gross national product is of vital importance. Credit for this purpose should be available.

C. Steps should be taken to place as much as is possible of the government debt outside the banking system. In this connection the Council desires to point out that extreme caution should be used by the Federal Reserve System in the exercise of its powers pertaining to significant changes in government bond prices through open market operations, or changes in the rediscount rate, or in reserve requirements, to the end that confidence of non-bank investors in the purchase or holding of government securities be not disturbed.

3. What are the prospects with respect to changes in the total volume of bank loans during the first half of 1951?

All members of the Council except two believe that the total volume of bank loans will increase in their districts during the first half of 1951. It is believed the anticipated increase in bank loans will be due to the extension of credit for defense and other essential production.

4. What have been the effects of Regulations W and X and under what conditions would the Council favor tightening the terms of the Regulations?

Regulation W is beginning to have some effect on installment loans. Increased purchases due to the fear of higher prices or the inability to obtain goods have lessened the effect so far of Regulation W in reducing the volume of consumer credit. From now on Regulation W should be more effective in checking consumer credit. Some members of the Council believe that the terms on used cars should be tightened. Otherwise, Regulation W should not now be changed.

Due to previously existing commitments for construction, the effects of Regulation X are not yet apparent. The Council believes that in a matter of several months, Regulation X will greatly reduce real estate credit for new construction. In the meantime, commitments for speculative building have been greatly lessened. Until more experience is had, the Council has no changes to recommend in Regulation X.

5. What steps would the Council recommend to make the V-loan program operate more effectively? Complaints have been coming to the Board that the small defense contractor who has the managerial and technical ability to produce defense goods but does not have established banking connections is having difficulty in getting necessary financing. How can this situation be met effectively without the creation of an additional Government agency or lending powers in an existing agency?

With the passage of satisfactory legislation dealing with renegotiations and with the assignment of claims against the government, the financing problems of small defense contractors who really possess the managerial and technical ability could be adequately met by the banks. In the meantime, the banks can not in many instances properly extend such credit. With the passage of the necessary legislation, no additional government agency or any additional lending powers in an existing agency should be necessary.

6. The Board would be pleased to have any comments that the Council might wish to make with respect to the program for voluntary agreements by financing institutions.

The Council believes that the program for voluntary agreements by financing institutions will make an important contribution at the present time to the sound functioning of our economy. The Council therefore hopes that the Board will give the fullest measure of support to this program, and promulgate it promptly.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 19,1951

At 2:55 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., with the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson, Frederic A. Potts, Sidney B. Congdon, Paul M. Davis, W. L. Hemingway, Joseph F. Ringland, David T. Beals, De Witt Ray, James K. Lochead, and Herbert V. Prochnow, Secretary.

Absent: Mr. Robert V. Fleming.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors, spoke off-the-record on the subject "Current Problems of Credit Policy".

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.

February 20, 1951

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, James K. Vardaman, Jr., Edward L. Norton, and Oliver S. Powell; also Mr. S. R. Carpenter, Secretary of the Board of Governors; and Mr. Merritt Sherman, Assistant Secretary.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson, Frederic A. Potts, Sidney B. Congdon, Paul M. Davis, W. L. Hemingway, Joseph F. Ringland, David T. Beals, De Witt Ray, James K. Lochead, and Herbert V. Prochnow, Secretary.

Absent: Mr. Robert V. Fleming.

President Brown read the first item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* as printed on pages 8, 9 and 10 of these minutes. He added that since the Council prepared the statement, President Truman had recommended certain actions which were substantially similar to those contained in the Council's *Memorandum.* There was no comment from the members of the Board.

The President of the Council then read the second item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum* previously mentioned. President Brown also stated that this is a middle-of-the-road statement because the Council feels that it is highly important to have an accommodation between the Treasury and the Federal Reserve System. There was a long discussion on this item, participated in by members of the Council and the Board.

The President of the Council read the third item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum* attached.

Chairman McCabe remarked that many loans were being used to carry abnormal inventories and would be considered questionable from the standpoint of classifying them as essential production loans.

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

The fifth item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum* were then read by the President of the Council.

Chairman McCabe stated that he would urge action on the legislation.

President Brown then read item six on the agenda and the conclusions of the Council as given in the *Confidential Memorandum*. President Brown also asked when the voluntary agreements would be definitely announced.

Governor Powell stated that the Board momentarily expected to receive approval from the Attorney General and the Federal Trade Commission.

The meeting adjourned at 1:25 P.M.

HERBERT V. PROCHNOW
Secretary.

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

H. V. P.

The Secretary's notes on the meeting of the Federal Advisory Council on February 18, 1951, at 2:00 P. M., in Room 928 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

Edward E. Brown was elected Chairman pro tem and Herbert V. Prochnow was elected Secretary pro tem.

The Secretary pro tem stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1951.

On motion, duly made and seconded, the by-laws were approved.

The following officers were nominated and unanimously elected:

Edward E. Brown, President
Robert V. Fleming, Vice President
N. Baxter Jackson, Director
Frederic A. Potts, Director
Sidney B. Congdon, Director
Herbert V. Prochnow, Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at $2,500, as in previous years.

The Secretary presented his financial report for the year 1950 which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. It will be printed and attached to the formal printed minutes.

The Secretary's notes of the meetings of the Council on November 19, 20 and 21, 1950, were approved.

A resolution was adopted authorizing the Secretary to draw upon each Federal Reserve bank for $350 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1951.

A DISCUSSION OF THE EFFECT OF BILLS S. 514 AND S. 515 IF ENACTED INTO LAW.

Brown asks Fleming to comment on this item.

Fleming. Senator Fulbright telephoned Fleming and said that in the event some group of bankers happened to be meeting in the near future, he would appreciate their views on S. 514 and S. 515.

Brown. The President has called Senator Fulbright's remarks regarding the RFC "asinine."

Congdon raises the question of whether one individual could properly discharge the responsibility of managing the RFC.

Fleming. Senator Fulbright says that in every major bank one man dominates policy. This man can have assistants.

Davis comments that many RFC loans in his territory were disapproved locally, but were later approved in Washington.

Lochead reports the same experience in his district.

Brown states they have had the same experience in his district. The Council may say that if the RFC is to be continued the Council favors one executive head.

Lochead asks whether consideration of this matter is one which properly falls within the responsibilities of the Council.

Bucklin asks also whether this item on the agenda is one which strictly speaking falls within the responsibilities of the Council for consideration.

Hemingway states that in view of the fact that a member of the Senate Committee on Banking and Currency has asked for the Council's opinion, he believes it is desirable for the members to express their opinion.

Fleming. The RFC is in reality a bank with branches, and it should have the structure of a bank with responsibility centralized.

Brown believes the members of the Council may express themselves as favoring one administrative head with deputies to assist him. In addition, the Council may refer to the comments it made regarding the RFC as reported in the Memorandum of the Council to the Board on May 16, 1950. In this Memorandum, the Council was answering an inquiry of the Board. Brown doubts the advisability at this time of a formal resolution on the matter.

Fleming states he may write a letter to Senator Fulbright.

Brown asks whether Fleming might not telephone Fulbright.

Fleming thinks it would be desirable to write Fulbright, but he may also telephone him.

Brown. Fleming may say to Senator Fulbright that the Senator's letter was discussed with the members of the Council and there was agreement by the individual members with the view that if the RFC is to be continued, the management should consist of one administrative head with deputies. Brown is inclined to believe that a telephone call would be preferable.

Fleming believes he would have to write a letter as well as telephone.

WHAT ARE THE VIEWS OF THE COUNCIL AS TO THE PRACTICABLE FISCAL AND MONETARY ACTIONS THAT SHOULD BE TAKEN IN THE PERIOD THAT LIES IMMEDIATELY AHEAD TO COMBAT INFLATION AND TO MEET REQUIREMENTS FOR DEFENSE?

There was an off-the-record discussion at some length regarding matters related to this item on the agenda.

Brown does not believe a small raise in interest rates would stop the increase in bank loans. Prime rates in the large banks have risen from 1½% to 2½% and yet bank loans have steadily increased. To raise rates sufficiently to stop the inflationary trend might mean an increase in interest rates so great that bond prices would decline considerably.

Fleming points out that about $39 billions of refunding alone will come up in the balance of 1951, exclusive of bills. The estimate at present is for large cash balances for the Treasury during the balance of the current fiscal year.

Bucklin. We may be too much influenced by traditional monetary theory about increasing interest rates fractionally. The Treasury may have trouble financing in the future at present interest rates. Bucklin believes taxes are one of the principal means of stopping the inflationary trend. It was natural for business men to buy goods when the Korean incident took place. Business men must be convinced that this trend is not going to continue indefinitely.

Jackson. The debt must be kept out of the banking system. That means a rise in rates to induce investors outside of banking to take the issues.

Fleming. There is no Pearl Harbor to shock people now into buying savings bonds.

Bucklin believes it may be too early to announce any higher pattern of interest rates. Otherwise the holders of present issues would sell and wait for new, higher yield issues.

Fleming. At this point Fleming reads a statement by Dr. John D. Clark, Vice Chaiman of the Council of Economic Advisors. Copies of this statement have been given to the members of the Council.

Brown. Increases of small amounts in interest rates would have no effect on bank loans. Large increases might have serious effects on the bond market. In the future, a long-term higher rate bond may be possible.

Congdon. The Council may say that it approves the action taken by the Federal Reserve System in raising rediscount rates and lowering moderately the prices of government securities. The Council may also say that it does not believe in fixed pegs, but favors fluctuations limited to relatively small amounts. Both the Board and Treasury should maintain flexibility, but the Board must have a serious regard for the Treasury financing needs. The Board cannot disregard the history of the support of the market by the Federal Reserve System. The Board cannot expect to change the interest rate pattern very materially. The Council may also make a strong affirmative statement regarding the need of the loaning ability of banks as well as the fact that the loans which have been made have been necessary for the functioning of the economy. The increase in bank loans is not out of line with the increase in production. The Board should also strongly support the program of voluntary agreements.

Jackson. The Council may also mention in its memorandum to the Board that the debt should be in the hands of non-bank investors.

Brown. Eccles may come back and ask about the special reserve plan.

Fleming. New issues should be kept out of the banking system.

Brown. Except for defense purposes, government loans and guarantees of loans in all fields, including real estate, should be terminated.

Jackson agrees with this view.

Potts. The Council may approve a program as follows: (1) enact pay-as-you-go tax legislation; (2) curtail unnecessary non-defense expenditures; (3) carefully screen defense expenditures; (4) constructive wage and price controls; (5) support strongly the program of voluntary agreements; (6) maintain an orderly bond market within narrow limits and make government bonds attractive to non-bank investors; and (7) eliminate government loans or guarantees of loans except for defense purposes.

Brown. The question of increased reserve requirements would be unanswered.

Congdon. The answer to the question of increased reserve requirements is that the loans the banks are making are necessary and the banks must be able to make such loans. The Board must have more consideration for the Treasury's problems of debt management. The Open Market Committee will have to operate within relatively narrow limits with due consideration to the Treasury problem of debt management.

Brown. The fundamental question is the restoration of confidence in the purchasing power of the dollar. The strikes that have taken place have all helped to bring higher prices.

Hemingway. The most careful and sympathetic cooperation of the Board and Treasury is needed in this situation.

Bucklin. Dr. Sprague states that the Chicago University economists say that bank credit has brought higher prices, but actually the higher prices have resulted in a larger volume of bank credit.

Fleming. The inflation cannot be controlled merely by monetary and fiscal policies. They are only a part of the entire problem.

Potts. It is necessary to emphasize the importance of maintaining an orderly market.

Bucklin. The management of the debt and the control of interest rates should be worked out cooperatively by the Board and the Treasury.

Brown. The Council may state that it believes the present inflation is due chiefly to reasons other than monetary and fiscal policies. Confidence in the future purchasing power of the dollar must be restored. Such confidence is now impaired, due to a wide-spread belief that wages, and consequently prices, will rise and that firm policies to control wages and prices will not be adopted or enforced. The Council believes in the following actions for the period that lies immediately ahead:

(1) pay-as-you-go tax legislation; (2) the careful screening of defense expenditures to avoid waste and the curtailment of all unnecessary non-defense expenditures; and (3) government loans and guarantees of loans in all fields, including real estate, should be terminated, except where such loans are necessary to the defense effort.

In the purely monetary field, the Council may say it believes that small changes in interest rates will not have any effect on the volume of loans.

With the large government debt outstanding, there must be no fear by the people as to the future prices of government bonds. Consequently, there must be the closest cooperation between the Board and the Treasury. The voluntary agreements by financing institutions should be given the fullest support by the Federal Reserve System, other government agencies and the various financial associations concerned with the program. Loans necessary for the defense effort or for necessary civilian requirements should not be restricted. The present volume of loans is chiefly due to higher prices. Fortunately the government has a breathing spell before it will be confronted with heavy refundings (other than bills) or the need for new money. So the Treasury and the Federal Reserve System have an opportunity to get together. The maintenance of government credit is a vital part of maintaining public confidence. The Council has, on many occasions in the past, suggested that as much as possible of the government debt be placed outside the banking system. In this connection, the Council may point out that extreme caution should be used by the Federal Reserve System in the exercise of its powers pertaining to significant changes in government bond prices through open market operations, or changes in the rediscount rate, or in reserve requirements, so that the confidence of non-bank investors in government securities may not be upset.

WHAT ARE THE PROSPECTS WITH RESPECT TO CHANGES IN THE TOTAL VOLUME OF BANK LOANS DURING THE FIRST HALF OF 1951?

Brown asks each member of the Council to express his views regarding the probable trend of bank loans in his district in the first half of 1951. All members of the Council, except two, were of the opinion that the total volume of bank loans will probably increase in their districts during the first half of 1951. The increase will be due to loans for defense production.

WHAT HAVE BEEN THE EFFECTS OF REGULATIONS W AND X AND UNDER WHAT CONDITIONS WOULD THE COUNCIL FAVOR TIGHTENING THE TERMS OF THE REGULATIONS?

Brown asks the opinions of each member of the Council on the effects of Regulations W and X.

Davis believes the Board should tighten Regulation W relative to secondhand cars. No particular trend is evident yet relative to Regulation X.

Bucklin believes there should be more experience before any change is made in Regulation X. He believes it might be desirable to consider changing Regulation W to include open accounts.

Potts does not believe there should be any change in Regulations W or X. Regulation W is just beginning to bite, but Regulation X so far has had no noticeable effect.

Lochead does not believe any change in Regulations W or X should be made now. Perhaps some consideration should be given to tightening terms on used cars. Money has been taken out of savings to buy cars and other durable goods.

Fleming. Cash sales of cars are being made with funds taken from savings accounts. Fleming believes it might be desirable to consider tightening terms on used cars. He would also be inclined to include open accounts under Regulation W. There has not been sufficient experience with Regulation X to judge its probable effects.

Ray reports that his experience is similar to Fleming's. People are liquidating savings to buy cars. He believes no change in Regulations W or X is desirable at present.

Congdon reports that he sees no important effect in connection with Regulation W so far, because people are using their savings. He believes that Regulation W will be effective. He thinks it would be desirable to tighten terms on secondhand cars and perhaps on appliances and modernization. No material effect is evident yet as a result of Regulation X.

Ringland. Regulation W is beginning to take hold. No important effect is noticeable yet in connection with Regulation X. No changes are suggested now for either Regulations W or X.

Jackson holds the same views as those already reported. He believes terms on secondhand cars should be tightened and is inclined to believe open accounts should be included.

Beals agrees in general with the views already expressed. Terms on secondhand cars should be tightened. The effects of Regulation X are not yet apparent because of previous commitments.

Hemingway. Little change is apparent as a result of Regulation W. The effects of Regulation X have been largely psychological in that the Regulation has probably prevented some commitments for speculative building. He would recommend no changes at present for Regulations W or X.

Brown. Regulation W has had some effect on installment loans. Because of previous commitments for construction, no real effect is yet apparent from Regulation X, but psychologically Regulation X is stopping some commitments for construction. After a show of hands, Brown reports most members of the Council do not believe open accounts should be brought under Regulation W. Regulation W is beginning to have some effect on installment loans. Higher prices and the inability to get goods has lessened the effect of Regulation W. From now on Regulation W should be more effective. The Council feels that no changes should be made as to the terms on new cars, but that the terms on used cars should be tightened. Due to previous commitments for construction, the effects of Regulation X are not yet apparent. In a matter of months, this Regulation may bite hard. The Council does not believe it is desirable to change Regulation X until there has been more experience with the Regulation.

WHAT STEPS WOULD THE COUNCIL RECOMMEND TO MAKE THE V-LOAN PROGRAM OPERATE MORE EFFECTIVELY? COMPLAINTS HAVE BEEN COMING TO THE BOARD THAT THE SMALL DEFENSE CONTRACTOR WHO HAS THE MANAGERIAL AND TECHNICAL ABILITY TO PRODUCE DEFENSE GOODS BUT DOES NOT HAVE ESTABLISHED BANKING CONNECTIONS IS HAVING DIFFICULTY IN GETTING

NECESSARY FINANCING. HOW CAN THIS SITUATION BE MET EFFECTIVELY WITHOUT THE CREATION OF AN ADDITIONAL GOVERNMENT AGENCY OR LENDING POWERS IN AN EXISTING AGENCY?

Brown reports that there has been some delay in the passage of the necessary legislation and that Harold Amberg has investigated this matter during the past week. Brown believes the Council might state that with the passage of legislation dealing with renegotiation and with the assignment of claims against the government, the financing problems of small defense contractors could be met. In the meantime, the banks cannot properly extend credits to small borrowers in many instances. With the passage of the necessary legislation, no additional government agency would be necessary and no additional lending powers in an existing agency would be necessary. (The members of the Council approved the foregoing general summary on this item of the agenda.)

THE BOARD WOULD BE PLEASED TO HAVE ANY COMMENTS THAT THE COUNCIL MIGHT WISH TO MAKE WITH RESPECT TO THE PROGRAM FOR VOLUNTARY AGREEMENTS BY FINANCING INSTITUTIONS

Fleming believes that if the bankers could talk to the Department of Justice the program for voluntary agreements could be readily straightened out. However, the Board seems to wish to maintain the contact directly with the Department of Justice.

Hemingway. There are at present only two matters to be straightened out before the program can be completed.

Brown. The Council may state that it hopes the Board will give the fullest support to the program.

The meeting adjourned at 5:55 P.M.

THE COUNCIL CONVENED AT 10 A.M. ON FEBRUARY 19, 1951, IN ROOM 928 OF THE MAYFLOWER HOTEL, WASHINGTON, D.C. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on February 20, 1951. The Memorandum was delivered to Merritt Sherman, Assistant Secretary of the Board of Governors at 12:40 P.M. on February 19, 1951. It will be noted that each item of the agenda is listed together with the comments of the Council.

The meeting adjourned at 12:20 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 20, 1951

1. A discussion of the effect of Bills S. 514 and S. 515 if enacted into law.

The loan operations of the Reconstruction Finance Corporation are essentially similar to those of a bank with branches. It should have an organizational structure with lines of responsibility clearly drawn and definitely fixed. The Council believes therefore that the management of the RFC should be vested in one administrative head, who may have several deputies as assistants. The Council still believes, as stated in its Memorandum to the Board on May 16, 1950, in response to an inquiry from the Board, that the powers and activities of the RFC should be curtailed rather than expanded, and 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. What are the views of the Council as to the practicable fiscal and monetary actions that should be taken in the period that lies immediately ahead to combat inflation and to meet requirements for defense?

The Council believes the present inflation is due primarily to reasons other than monetary policies, which constitute only a part of the entire problem. The fundamental problem is to maintain confidence in the future purchasing power of the dollar. Such confidence is now impaired, due to a widespread belief that wages and consequently prices will rise, and that firm policies to control wages and prices will not be adopted or enforced.

The Council believes that in the period which lies immediately ahead the following actions should be taken in the fiscal field:

A. The enactment of pay-as-you-go tax legislation;

B. The elimination of unnecessary non-defense expenditures;

C. The careful screening of defense expenditures to avoid waste;

D. Government loans and guaranties of loans in all fields, including real estate, should be terminated, except where such loans are necessary for the defense effort.

In the purely monetary field the Council believes that small changes in interest rates will not have any important effect on the volume of loans made.

The Council believes that the Treasury and the Federal Reserve System should maintain a flexible attitude toward the terms and conditions of future Federal financing. It is obvious, however, that with the large government debt outstanding a close cooperation between the Federal Reserve System and the Treasury must be maintained so there may be no fear by the people of a possible severe decline in the price of government bonds or an impairment of the credit of the Federal government. Fortunately it now appears that several months will elapse before the Treasury will be confronted with heavy refundings (other than bills) or the need for new money. This interim gives the Federal Reserve System and the Treasury an opportunity to work out together a program of cooperation for the maintenance of government credit which is essential to the maintenance of public confidence.

The Council believes --

A. Voluntary agreements by financing institutions should be given the fullest support by the Federal Reserve System, other government departments and various banking and other financial associations concerned with this program.

B. Loans required for defense projects or for necessary civilian production and distribution should not be restricted. In the present situation, particularly, a steady increase in the productive capacity of the economy and in the gross national product is of vital importance. Credit for this purpose should be available.

C. Steps should be taken to place as much as is possible of the government debt outside the banking system. In this connection the Council desires to point out that extreme caution should be used by the Federal Reserve System in the exercise of its powers pertaining to significant changes in government bond prices through open market operations, or changes in the rediscount rate, or in reserve requirements, to the end that confidence of non-bank investors in the purchase or holding of government securities be not disturbed.

3. What are the prospects with respect to changes in the total volume of bank loans during the first half of 1951?

All members of the Council except two believe that the total volume of bank loans will increase in their districts during the first half of 1951. It is believed the anticipated increase in bank loans will be due to the extension of credit for defense and other essential production.

4. What have been the effects of Regulations W and X and under what conditions would the Council favor tightening the terms of the Regulations?

Regulation W is beginning to have some effect on installment loans. Increased purchases due to the fear of higher prices or the inability to obtain goods have lessened the effect so far of Regulation W in reducing the volume of consumer credit. From now on Regulation W should be more effective in checking consumer credit. Some members of the Council believe that the terms on used cars should be tightened. Otherwise, Regulation W should not now be changed.

Due to previously existing commitments for construction, the effects of Regulation X are not yet apparent. The Council believes that in a matter of several months, Regulation X will greatly reduce real estate credit for new construction. In the meantime, commitments for speculative building have been greatly lessened. Until more experience is had, the Council has no changes to recommend in Regulation X.

5. What steps would the Council recommend to make the V-loan program operate more effectively? Complaints have been coming to the Board that the small defense contractor who has the managerial and technical ability to produce defense goods but does not have established banking connections is having difficulty in getting necessary financing. How can this situation be met effectively without the creation of an additional Government agency or lending powers in an existing agency?

With the passage of satisfactory legislation dealing with renegotiation and with the assignment of claims against the government, the financing problems of small defense contractors who really possess the managerial and technical ability could be adequately met by the banks. In the meantime, the banks can not in many instances properly extend such credit. With the passage of the necessary legislation, no additional government agency or any additional lending powers in an existing agency should be necessary.

6. The Board would be pleased to have any comments that the Council might wish to make with respect to the program for voluntary agreements by financing institutions.

The Council believes that the program for voluntary agreements by financing institutions will make an important contribution at the present time to the sound functioning of our economy. The Council therefore hopes that the Board will give the fullest measure of support to this program, and promulgate it promptly.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:55 P.M. ON FEBRUARY 19, 1951. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. FLEMING. MR. FLEMING HAD ASKED HIS ALTERNATE, MR. JAMES D. HARRISON, PRESIDENT OF THE FIRST NATIONAL BANK OF BALTIMORE, TO ATTEND THIS MEETING AND THE JOINT MEETING WITH THE BOARD OF GOVERNORS ON FEBRUARY 20, BUT MR. HARRISON WAS UNABLE TO BE PRESENT.

Dr. Woodlief Thomas, Economic Adviser to the Board of Governors, spoke off-the-record on the subject "Current Problems of Credit Policy."

The meeting adjourned at 4:10 P.M.

ON FEBRUARY 20, 1951, 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, WASHINGTON, D. C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. FLEMING. MR. FLEMING HAD ASKED HIS ALTERNATE, MR. JAMES D. HARRISON, PRESIDENT OF THE FIRST NATIONAL BANK OF BALTIMORE, TO ATTEND THE MEETING, BUT MR. HARRISON WAS UNABLE TO BE PRESENT. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN McCABE: GOVERNORS ECCLES, SZYMCZAK, VARDAMAN, NORTON AND POWELL. MR. CARPENTER, SECRETARY OF THE BOARD OF GOVERNORS AND MR. SHERMAN, ASSISTANT SECRETARY, WERE ALSO PRESENT.

A DISCUSSION OF THE EFFECT OF BILLS S. 514 AND S. 515 IF ENACTED INTO LAW.

Brown reads Item 1 of the Agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Since the Council prepared its statement, President Truman has recommended certain actions which are substantially similar to those contained in the Council's Memorandum. Unless the Board therefore wishes to discuss the matter further, the Council has no additional comments regarding it.

WHAT ARE THE VIEWS OF THE COUNCIL AS TO THE PRACTICABLE FISCAL AND MONETARY ACTIONS THAT SHOULD BE TAKEN IN THE PERIOD THAT LIES IMMEDIATELY AHEAD TO COMBAT INFLATION AND TO MEET REQUIREMENTS FOR DEFENSE?

Brown reads Item 2 of the Agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Brown states that this is a middle-of-the-road statement, because the Council feels that it is highly important to have an accommodation between the Treasury and the Federal Reserve System. The Council would not desire to do anything which would lessen the possibility of such an accommodation. The Council believes that small changes in interest rates will not prevent borrowers from seeking bank credit, and they will not prevent banks from selling bonds to make necessary business loans. The important point the Council would like to stress is the great need for working out satisfactorily the differences which now exist between the Board and the Treasury. The Council believes it would be most unfortunate if these differences were made the subject of public discussion in the Congress.

McCabe. How much flexibility does the Council believe is possible in bond prices? Should the Board follow a rigid policy?

Brown. The Council believes there can be some flexibility.

McCabe. What policy should the Federal Reserve System follow on long-term bonds? If the Treasury should insist that the Federal Reserve System, through the Open Market Committee, should hold a fixed price of 22/32 above par, should that price for long-term governments be followed rigidly?

Brown believes it is the judgment of the Council that the long-term $2\frac{1}{2}$'s could go to par. The difference between par and 22/32 does not seem so large that some accommodation is impossible between the Treasury and the Federal Reserve System. Brown states that he testified a year or so ago that the $2\frac{1}{2}$'s could fall below par. The situation now is somewhat different and a drop below par might result in a considerable dumping of bonds. Increasing amounts may be offered as the price is lowered.

Congdon. Every move now must be taken in the light of the market as of that day.

Szymczak. As of today we are taking securities in increasing amounts.

McCabe. Does the Council feel, in the light of conditions today, that the present price level could be held? Would you drop to a certain point?

Potts believes the price could be dropped below par. For example, 98 might be the point that could be held.

Lochead is in agreement with Potts.

Vardaman. Assuming that a peg is a peg, would you make an announcement, for example, that you were prepared to hold at 95?

Potts. No. Potts states that his experience in the market over a number of years has led him to believe that the influence of pegs on a market is bad.

Szymczak. You have to feel your way with the market.

Jackson. For the government to get new money from the banks would be a dangerous inflationary factor. A difference of 1/32 is an insignificant factor. The present differences between the government agencies is causing unrest in the market. A joint statement of the Board and the Treasury would do more good to the market than anything else. Jackson agrees with Potts in general on the undesirability of pegs, but he states that we have had pegs in the market for so long that they cannot be completely dropped at present.

McCabe states that he understands Jackson's general comments, but asks specifically what Jackson would recommend to the Board. Would Jackson follow the Treasury's position, and if Jackson's viewpoint is different from the Treasury's, what would his definite views be?

Jackson states that he has not sat in the conferences of the Treasury and the Board, and he does not know whether further discussions are possible. He would strongly encourage further conferences, and he would try to point out that a difference of 1/32 is of no real importance.

McCabe. If the Treasury holds out for 22/32, what would you do? Would you continue to peg at 22/32?

Jackson states that he could not say in advance of a conference that hasn't been held, what he would do following the conference.

Eccles states that in his sixteen years of experience he believes the Council has now reached a new low in offering constructive advice when the Board needs advice. He believes that the lack of leadership in the American Bankers Association has helped to bring about the present situation. (Vardaman leaves the meeting). Eccles believes that the lack of A.B.A. leadership helped to influence the Secretary of the Treasury to make the announcement regarding the complete pegging of the market, which meant the complete taking over of the Federal Reserve System and the abdication of the Board. In World War II you could not raise $2 billion to $5 billion a month on a falling market. Support of the market was necessary. When the Board asked for more powers after the war, the Council constantly opposed these requests. The Treasury now has surpluses and action would be desirable now. When the government again has deficits, it will be necessary to have a rigged market. In a period of deficits you must fix a pattern of rates. Since Korea the market could have been denied funds without bringing on a deflation. That could not have been done during World War II, and it would have been difficult in 1947, 1948 and 1949 without the danger of a depression. If the Council says slight changes in interest rates are not effective, and large changes in rates cannot be made, then you must be for a fixed pattern of rates. This is a dangerous situation we are facing. What should be done? The fiscal situation with surpluses is anti-inflationary, and gold is moving out at such a rate that it is anti-inflationary; yet the Federal Reserve System, since Korea, has made it possible to expand credit $3\frac{1}{2}$ billion. Banks have not been the only sellers of government securities, but insurance companies and others are selling in large amounts. The Bank of England, which is publicly owned, could finance the British public debt for nothing, but it raised rates and that is a socialistic government. Canada has raised rates. The head of the Swedish central bank resigned on this issue of supporting governments. The issue in the case of Sweden was even support below par. Bonds today are being sold to the Federal Reserve System at a premium. The present policy is being supported by the Council and the American Bankers Association. Why shouldn't the long-term financing be done at a 2 3/4 per cent rate? The present holders could convert. If that does not work, we can ask Congress for more powers. Eccles states he would be the last to believe a raise of one-half per cent or three-quarters per cent on the short rates would stop bank loans. If we do not solve this problem, the banks will get something worse from Charles E. Wilson and Eric Johnston--a freeze of bank credit. Anything which is now done to increase the supply of money when the supply of goods cannot be increased proportionately will lead to further inflation. In our economy we are transferring some goods from civilians to the military, and a part of our supply of credit should likewise be transferred from civilians to the military. We should not create additional credit. The short-term rate should only go up as much as the long-term rate goes up. Eccles says that the Council's statement is not the kind of statement that shows the courage which should be expected from the Council. He states further that he has never seen such bankruptcy as now exists in the A.B.A. and the Council.

Hemingway. You are now suffering for your past sins. The A.B.A. has supported a policy of higher rates and longer-term bonds. You have had five years to make the necessary changes.

Eccles. We were in war.

Hemingway. The war has been over for five years.

Jackson says that he resents Eccles' statement. The Council has been on record for higher rates and longer-term securities.

Eccles replies he anticipated his statement would be resented. Eccles would like to see the inflation stopped at its source, rather than through a harness of controls over the whole banking system.

Ringland says that he understands relatively few bills are in the hands of banks.

Eccles. If the banks do not hold bills, they can sell certificates and bonds. Eccles favors a three per cent, long-term rate, which would not affect the E, F and G bonds.

Ringland asks whether Eccles does not think the holders of savings bonds might not get panicky if they saw a declining government bond market. Many of the holders of savings bonds are not informed regarding the details of markets. They would only see a declining price.

Eccles. Announcements would have to be made of the policy to be followed so the philosophy would be thoroughly understood by the public.

Ray. If Eccles has used the same salesmanship on the Treasury, which he has just used on the Council for forty-five minutes, Ray is not surprised Eccles had an argument with the Treasury.

Bucklin. There is no lack of courage in the Council. The Council feels that the urgent issue is to get the Treasury and the Board together. We are looking at the matter from the standpoint of what is desirable in the period immediately ahead. From the long-term standpoint, more of us might agree with the view of Potts. The present problem is not primarily a monetary problem. If business felt prices were not going higher and higher, much of the inflationary trend could be stopped. Bucklin suggests that the Board go along for a few weeks with present government bond prices and see if this matter cannot be worked out when Snyder returns. The business men must be convinced and that has nothing to do with reserves.

Congdon. Inventories do come down and bank loans are paid. We are fairly well set for the period immediately ahead in a pattern of rates which permits only small fluctuations.

Szymczak. The Federal Reserve System is charged by law through its Open Market Committee to withdraw credit from the market when that is desirable, and to put credit into the market when that is helpful to the economy. That responsibility relates itself to the government bond market.

McCabe. Exactly what would the Council do if the Treasury does not yield?

Congdon believes the first objective should be to seek an accommodation with the Treasury. Congdon does not believe the Board can depart far from the present pattern.

Jackson states that in order to be helpful he has personally canvassed the New York market on the possibilities of putting out a long-term issue.

Davis. If it were understood that the Board was to continue buying, does the Board believe so many bonds would be offered for sale?

McCabe. If the demand for credit is strong, sellers will not be deterred. If the Federal Reserve System buys bonds and creates reserves, it creates the possibility of multiple credit expansion. Even many of the so-called best bank borrowers borrow for speculation. They feel commodity prices are going higher. The Board has a Congressional mandate to contract credit in a period of this kind. Under such circumstances, what should the Board do?

Bucklin. The Board should make at least one more try to negotiate with the Treasury.

McCabe states that the Board has been greatly patient in trying to work out the matter with the Treasury. The Board is humble and seeks advice. He states that if he were in Congress and a Board of Governors was to come to him and report it had done nothing in the present situation when it has a mandate to act, he would be inclined to take the hide off the Board. This matter is not as simple as the Council's answer.

Bucklin. If the Board and the Treasury could make a joint statement, most of your troubles would disappear.

McCabe states he believes that is true.

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

Szymczak says most members of Congress believe the house is on fire, and the Board should rise up and assert its independence.

Ray. If the price of long-term bonds should be dropped to 99, would the repercussion come from Congress or the Treasury?

McCabe states that he was not proposing that much of a drop. Any decline would have to be small. The Federal Reserve System must be a reluctant buyer of issues under present conditions. The Treasury is now buying bonds being offered.

Eccles. Eventually the Treasury will have to sell short issues to obtain funds to buy bonds. Eccles states that maybe he went too far in what he said about the Council. He says that all the members of the Council are his friends. Sometimes it seems that a devil's advocate is necessary, and he cast himself in that role. He realizes the statement of the Council must be a collective statement, and he apologizes to the Council individually.

Ray. The Council accepts the apology.

Brown repeats that the real reason the Council prepared its statement as it did was that it hoped it would do nothing which would prevent the Treasury and the Board from getting together. The most important objective at the moment is to bring the Treasury and the Board together with a common viewpoint.

WHAT ARE THE PROSPECTS WITH RESPECT TO CHANGES IN THE TOTAL VOLUME OF BANK LOANS DURING THE FIRST HALF OF 1951?

Brown reads Item 3 on the Agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached.

McCabe states that the one point to which the Board might take exception is the phrase, "other essential production" in the Council's memorandum. Many loans for carrying abnormal inventory would be considered questionable from the standpoint of classifying them as essential production loans.

Hemingway. It is difficult to determine what is an essential loan and what is a speculative loan.

WHAT HAVE BEEN THE EFFECTS OF REGULATIONS W AND X AND UNDER WHAT CONDITIONS WOULD THE COUNCIL FAVOR TIGHTENING THE TERMS OF THE REGULATIONS?

Brown reads Item 4 on the Agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached.

Eccles. Perhaps the terms should be tightened on both new and used cars.

Norton reports that on October 12, 1950, when action was taken in connection with Regulation X, there were 600,000 houses authorized. By January 1, 1951, 425,000 houses of this backlog remained. The new starts in December 1950 were ten per cent above a year ago. The backlog of 425,000 houses should run off at the rate of about 70,000 per month. In January 1951, there were 60,000 new applications, so that for the first six months of 1951, assuming a run off of 70,000 a month in the backlog of 425,000, there would be a total of 780,000 units. Assuming there are 60,000 starts each month for the last six months, or a total of 360,000, it would mean 1,140,000 starts for the entire year. This latter figure is substantially above the 800,000 to 850,000 starts to which it was hoped to hold new residence construction. The Board has not issued a regulation on new industrial construction yet. New residential applications are down, but the backlog of 425,000 is giving trouble. Consequently, there will probably be no important benefits from Regulation X in 1951. Eighty and one-half per cent of the residence construction now is government financed and fourteen per cent is privately financed. Norton was not certain how the other five per cent was financed.

WHAT STEPS WOULD THE COUNCIL RECOMMEND TO MAKE THE V-LOAN PROGRAM OPERATE MORE EFFECTIVELY? COMPLAINTS HAVE BEEN COMING TO THE BOARD THAT THE SMALL DEFENSE CONTRACTOR WHO HAS THE MANAGERIAL AND TECHNICAL ABILITY TO PRODUCE DEFENSE GOODS BUT DOES NOT HAVE ESTABLISHED BANKING CONNECTIONS IS HAVING DIFFICULTY IN GETTING NECESSARY FINANCING. HOW CAN THIS SITUATION BE MET EFFECTIVELY WITHOUT THE CREATION OF AN ADDITIONAL GOVERNMENT AGENCY OR LENDING POWERS IN AN EXISTING AGENCY?

Brown reads Item 5 on the Agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Brown states that the Senate Committee has bills piled up which it will take two months to consider. Bills dealing with renegotiation and the assignment of claims need action.

Szymczak states the Board has already sent a letter requesting action.

McCabe says they will put on pressure to get action on the legislation.

Brown says there are some cases where the people have certain equipment but wish to produce something entirely different. These businessmen might have trouble getting the equipment they need.

McCabe thinks they can get Wilson to push the legislation.

THE BOARD WOULD BE PLEASED TO HAVE ANY COMMENTS THAT THE COUNCIL MIGHT WISH TO MAKE WITH RESPECT TO THE PROGRAM FOR VOLUNTARY AGREEMENTS BY FINANCING INSTITUTIONS.

Brown reads Item 6 on the Agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Brown asks when the voluntary agreements will be definitely announced.

Powell states that the Board hopes momentarily to have the approval by the Attorney General and the Federal Trade Commission. The text has been set up and a covering letter is ready to go.

Brown. The discussion of voluntary agreements has already stopped some large loans.

Powell says there is an advantage in including small banks, because even they have inventory loans which might be considered inflationary.

Eccles states he has never seen anyone with McCabe's patience and willingness to cooperate.

McCabe expressed appreciation of Eccles' comments.

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The Board and the Council agreed that the next meeting would take place on May 13, 14 and 15, 1951.

The meeting adjourned at 1:25 P.M.