MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 13, 1951

The second statutory meeting of the Federal Advisory Council for 1951 was convened in Room 1032 of the Mayflower Hotel, Washington, D. C., on May 13, 1951, at 2:20 P.M., the President Mr. Brown, in the Chair.

Present:

Walter S. Bucklin	District No. 1
N. Baxter Jackson	District No. 2
David E. Williams (Alternate for 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
Reno Odlin (Alternate for James K. Lochead)	District No. 12
Herbert V. Prochnow	Secretary

Absent:

Frederic A. Potts	District No. 3
De Witt Ray	District No. 11
James K. Lochead	District No. 12

On motion duly made and seconded, the mimeographed notes of the meeting held on February 18, 19, 20, 1951, copies of which had been sent previously to the members of the Council, were approved.

A complete list of the items on the agenda for the meeting, and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 16, 17 and 18.

The meeting adjourned at 5:45 P.M.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 14, 1951

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, David E. Williams (Alternate for Frederic A. Potts), Robert V. Fleming, Paul M. Davis, W. L. Hemingway, Joseph F. Ringland, David T. Beals, Reno Odlin (Alternate for James K. Lochead), and Herbert V. Prochnow, Sectretary.

Absent: Messrs. Frederic A. Potts, Sidney B. Congdon, De Witt Ray and James K. Lochead.

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 16, 17 and 18, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12:20 P.M. on May 14, 1951.

The meeting adjourned at 12:06 P.M.

HERBERT V. PROCHNOW
Secretary

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON MAY 15, 1951

1. The Board would like to have the views of the Council on the prospective business and economic situation during the next six months and on the policies that should be followed by the System in the field of general credit controls.

The Council believes, based on current economic trends, that business will continue active in the next six months. The total volume of loans in the next sixty or ninety days will probably move sidewise, and may even decline slightly, because of the liquidation of inventories. However, the banking system will shortly be confronted with large demands for credit to finance new crops, defense plant expansion and the manufacture of defense products. The Council believes that by the Fall of 1951 the total loans required to maintain the defense effort and essential civilian production will exceed the volume of loans in the Fall of 1950. In this period of national emergency involving heavy defense expenditures, it is desirable for essential production and gross national product to rise. A larger volume of bank loans necessarily results. In addition, for the present at least, higher prices and wages have been frozen into the economy, and they require a larger volume of loans.

In view of the economic outlook for the balance of the calendar year, the huge refunding program confronting the Treasury and the large amount of new money which the Treasury will require in that period, stability in the financial and credit field is highly desirable, and drastic or rapid changes in general credit controls should be avoided. Unless conditions radically change, the Council believes therefore that no upward change in reserve requirements is desirable in the next six months. Indeed it is quite probable that a decrease in reserve requirements may be necessary by the end of 1951. In view of Treasury requirements and the present unsettlement and nervousness in the Government bond market, the Council also now believes that the rediscount rate should not be raised during the period immediately ahead. Open market operations should be conducted on a basis that will supply the minimum reserves needed for essential business credit and for Treasury financing, and to maintain a reasonably stable market for Government obligations at or around present levels.

2. What, if any, action should be taken by the Board with respect to changes in the terms of Regulation W, Consumer Credit, and Regulation X, Real Estate Credit?

Regulation W has and is cutting into instalment credit and is accomplishing its intention. Regulation X is just beginning to show its effects due to the many starts and approvals made before its adoption, in which cases it does not apply. The Council after full discussion does not favor any change at present in the terms of Regulation W and Regulation X.

3. The program for voluntary credit restraint is now getting into operation and the Board would be pleased to have any comments that the members of the Council might wish to make as to the progress of the program in their respective districts and what results are being obtained.

The program for voluntary credit restraint has met with the general approval not only of banks but of insurance companies and investment bankers. This general approval is even greater than was anticipated. Although the regional committees have only recently been organized and are just now getting in operation, the program has already resulted in much critical screening by banks of applications for loans as to their purpose. Many loans, particularly those for large amounts, have been turned down because they would not contribute to the defense effort or the carrying on of the essential civilian economy. Many borrowers have not applied for loans because of the knowledge that they would be declined because they could not meet the test of the program.

The Council believes that as the program is better understood and is further implemented and gets under way it will be increasingly effective in restraining unnecessary and undesirable credit expansion. The Council recommends the preparation and distribution at frequent intervals of additional literature and publicity materials on the subject to keep the program constantly before lenders and borrowers and in the press.

The Council wishes to express its appreciation to the Board of Governors and the officials of the Federal Reserve Banks for their leadership and cooperation in getting the program under way. In particular, the former Chairman of the Board, Mr. McCabe, the present Chairman, Mr. Martin, and Governor Powell, who has direct charge of the program, are to be commended for their active and unremitting efforts to promote the program both with Congress, other departments of the Government, and with the banks and other lending institutions.

The voluntary credit restraint program does not cover loans guaranteed by the Government or its agencies. The present program would be more effective if it involved not only private credit, but also loans so guaranteed. In this connection, the Council wishes to call attention to the following statement in its memorandum to the Board of Governors on February 20, 1951:

> "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."

Even if the demand for loans is restricted to those necessary for the defense effort and carrying on the essential civilian economy, the requests for credit for construction are and will be so heavy that the Council welcomes the action which the NPA has taken to require its approval of certain kinds of construction projects. The need of obtaining approval before materials can be obtained for construction should greatly help not only the conservation of scarce materials and labor but also should restrain credit expansion.

4. It has been proposed that additional authority granted to the Board of Governors over bank reserves take the form of a supplementary reserve on any increase in a bank's loans from a base amount. Copies of memoranda relating to this and other suggested reserve requirement plans are attached and the Board would appreciate the views of the Council particularly with respect to the proposed loan expansion reserve plan.

In its memorandum to the Board on October 3, 1950, the Council said that if economic conditions should clearly necessitate any change in the maximum statutory reserve requirements, the Council was unanimously of the opinion that the pattern used in 1948 should be followed, extending temporary authority for increased maximum cash reserves. The Council also then stated that it believed any authority granted should be for a period of not more than two and one-half years so Congress could review the matter. For reasons which have been discussed in the answer to Item One of the agenda, present economic conditions make it untimely for the Board now to urge legislation to increase maximum statutory bank reserve requirements. The Council does not approve any proposal in any form to increase maximum statutory bank reserve requirements at this time. Under present international conditions it is obvious that the Congress will be in session almost continuously and could if necessary under radically changed conditions act promptly. The acceptance of any such proposal at present would be detrimental to the voluntary credit restraint program, and to Treasury financing in the months immediately ahead. Considering the large volume of credit which may be required this Fall for essential defense and civilian needs, and the magnitude of Treasury refunding and new financing, stability and confidence in the economy and in the Government bond market are highly to be desired.

The proposed loan expansion reserve plan is undesirable in general for the reasons given, and specifically because it (1) would not meet fluctuating seasonal credit requirements, (2) would work injustices between various banks, (3) would tend to freeze each bank in the same pattern of investment it happened to have had at the base period, and (4) would fail to provide credit for areas which are growing rapidly in production.

5. The desirability of the Federal Reserve Board undertaking a study of the prospective demands for and supply of credit over the next six to twelve months, the study to include:

    A. Requirements for new productive plant, inventories and working capital, that cannot be financed from retained earnings and savings (Prospective outlays for new plant in 1951 are now estimated at $23,910 million);

    B. Amount of bank financing of Federal expenditures that will be required;

    C. Estimated extent of net redemptions of savings bonds, and the methods of payment;

    D. Amount by which private credit can be contracted in non-essential lines.

    If such a study indicates that the demand for credit is likely to exceed the prospective supply of available funds, a decision should be reached as to whether demand is to be decreased by further restrictions, or whether the supply is to be allowed to increase.

The Council believes it would be advisable to maintain a continuing study of the kind suggested above.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 14, 1951

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, N. Baxter Jackson, David E. Williams (Alternate for Frederic A. Potts), Robert V. Fleming, Paul M. Davis, W. L. Hemingway, Joseph F. Ringland, David T. Beals, Reno Odlin (Alternate for James K. Lochead), and Herbert V. Prochnow, Secretary.

Absent: Messrs. Frederic A. Potts, Sidney B. Congdon, De Witt Ray and James K. Lochead.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors, and Dr. Frank R. Garfield, Advisor on Economic Research, together with members of the Board Staff, presented a visual-audio report on business conditions.

The meeting adjourned at 4:05 P.M.

HERBERT V. PROCHNOW
Secretary.

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

May 15, 1951

At 10:30 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 Wm. McC. Martin, Jr.; Governors Marriner S. Eccles, M. S. Syzmczak, R. M. Evans, James K. Vardaman, Jr., Edward L. Norton and Oliver S. Powell; also, Mr. S. R. Carpenter, Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson, David E. Williams (Alternate for Frederic A. Potts), Sidney B. Congdon, Robert V. Fleming, Paul M. Davis, W. L. Hemingway, Joseph F. Ringland, David T. Beals, Reno Odlin (Alternate for James K. Lochead), and Herbert V. Prochnow, Secretary.

Absent: Messrs. Frederic A. Potts, De Witt Ray and James K. Lochead.

The President of the Council read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* as printed on pages 16, 17 and 18 of these minutes.

At Chairman Martin's suggestion, a round table discussion followed.

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

Governor Powell, at Chairman Martin's suggestion, commented on this program. He mentioned that the American Bankers Association suggested that banks send customers a statement of principles regarding the voluntary program.

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

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

President Brown read the fifth item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum* referred to above.

Chairman Martin read the following statement of Ralph Young of the Staff, regarding item five:

"The Board's research staff is already engaged in continuing studies of prospective demands and supply of credit along the lines suggested by the Federal Advisory Council. As one phase of this program, the staff is pioneering in developing a special framework for showing the money and credit flows record—sources and uses of funds —of each major sector of the economy. This special undertaking, which has been in process for the past four years, is now at an advanced stage and it is expected that the basic historical tables will be made available to the public within the next six months.

"The matter of projecting these figures six to nine or twelve months ahead, presents many difficult technical problems and must at this stage of our empirical knowledge remain a judgment procedure. Gaps in the availability of critical current data, of course, present many handicaps to effective projection work. The filling of such gaps is not alone a matter of the statistical work of the Board, but also of the statistical work of other Government agencies and private organizations. Progress in this work is likely to be hampered in the immediate future because appropriations for the statistical programs of a number of Government agencies are being seriously cut back.

"On the basis of existing data, the Board's staff is not hopeful that reasonable ways can be devised of estimating the amount by which private credit can be contracted in non-essential lines. The Council may wish to give consideration to suggestions as to how such estimate might be developed."

The meeting adjourned at 1:18 P.M.

HERBERT. V. PROCHNOW
Secretary.

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

H.V.P.

The Secretary's notes on the meeting of the Federal Advisory Council on May 13, 1951, at 2:20 P.M. in Room 1032 of the Mayflower Hotel, Washington, D.C. All members of the Federal Advisory Council were present except Mr. Potts, Mr. Ray, and Mr. Lochead. Mr. David E. Williams served as an alternate for Mr. Potts, and Mr. Reno Odlin served as an alternate for Mr. Lochead.

The Council approved the Secretary's notes for the meeting of February 18-20, 1951.

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THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT SIX MONTHS AND ON THE POLICIES THAT SHOULD BE FOLLOWED BY THE SYSTEM IN THE FIELD OF GENERAL CREDIT CONTROLS.

IT HAS BEEN PROPOSED THAT ADDITIONAL AUTHORITY GRANTED TO THE BOARD OF GOVERNORS OVER BANK RESERVES TAKE THE FORM OF A SUPPLEMENTARY RESERVE ON ANY INCREASE IN A BANK'S LOANS FROM A BASE AMOUNT. COPIES OF MEMORANDA RELATING TO THIS AND OTHER SUGGESTED RESERVE REQUIREMENT PLANS ARE ATTACHED AND THE BOARD WOULD APPRECIATE THE VIEWS OF THE COUNCIL PARTICULARLY WITH RESPECT TO THE PROPOSED LOAN EXPANSION RESERVE PLAN.

Brown states that Items 1 and 4 of the agenda, as given above, might be discussed at the same time as they are related.

Fleming speaks off-the-record on the question of bank reserves.

Brown. Ralph Young feels if reserves are increased on the old basis that the Federal Reserve System would have to buy securities. The Eccles' special reserve idea is not being promoted even by Eccles.

Brown told Ralph Young that if the Staff wished to create a special monopoly for a bank that had a large amount of loans, the loan reserve expansion idea would help to do it.

Fleming again speak off-the-record, after which he comments that any new reserve proposal would kill the credit restraint program and trap the Treasury. Fleming points out the relationship between gross national product, deposits, and loans. Bank loans are lower in relationship to gross national product now than they were in the depression year of 1939.

Jackson reads from the National City Bank Bulletin of May 1951, as follows:

"According to a special study appearing in the 1952 Government budget document, the total loans, guarantees and credit commitments by wholly-owned government enterprises will amount to $44.4 billion at the end of the current fiscal year on June 30; and not even this huge total covers everything, since for various reasons it excludes numerous other agencies under government sponsorship, including the Commodity Credit Corporation. The total, moreover, is on the rise, the June 30, 1951, figure indicating an increase of $9½ billion, or 27 per cent, over the comparable figure last year. By June 30,1952, a further increase of $4½ billion is expected. This is in a period of mounting inflationary pressures when the authorities are imposing restrictions on numerous types of private lending." Jackson states that bank loans only increased 20 per cent in the same period. He discussed with Sproul the relationship between gross national product and bank loans, and Sproul agrees on the general principle that with a greater gross national product and with an expanding economy, more bank loans result.

Fleming speaks off-the-record on the attitude of some government officials on legislation giving the Board additional powers to increase bank reserves.

Brown states that the question of the relationship of gross national product and bank loans has in it some of the old problem, which was first the hen or the egg. It is also part of the argument of whether loans have caused higher prices or whether higher prices have increased the volume of loans.

Fleming calls attention to the refusal of a large investment firm to bid on the West Virginia bonus issue.

Davis states that Halsey Stuart & Co. also have reported that they would not bid on the issue.

Fleming. In 1950, housing starts numbered 1,400,000. It was hoped by Regulation X to reduce the number to not over 850,000. It now appears that the starts this year may total 1,000,000 to 1,200,000. There is a serious question as to where the money required may be obtained.

Brown. No bankers wish increased reserves now.

Jackson reports that the Federal Reserve System Staff has given the Federal Reserve Bank of New York the loan expansion reserve plan.

Brown. The Council in the past has said that if an increase in reserves becomes necessary, the increase should be in the form of cash reserves, according to the present method. Senator Maybank, according to the newspapers, wishes some plan for increasing reserves. Robertson is against an increase in reserves.

Jackson states that Robertson made the same comment to him.

Fleming believes any reserve legislation now would be detrimental to the Treasury. The banks are tight.

Hemingway. At French Lick, the general feeling among the bankers was that it was not desirable to have any increase in reserves now. However, if any plan is adopted to increase reserves, it should follow the pattern used in 1948, extending temporary authority for increased maximum cash reserves. The Council made a statement along these lines on October 3, 1950. The Council also then said it believed any authority granted should be for a period of not more than two and one-half years so Congress could review the matter.

Brown believes the larger insurance companies are relatively tight.

Hemingway. The Board has suggested four methods of increasing reserves and has asked the Council's opinion. We may state we prefer the cash reserve proposal, if any new authority is granted.

Jackson suggests that the Council state it is against increasing reserves in any form.

Bucklin agrees.

Brown believes that the Council will not weaken its statement if it expresses a preference for the cash reserve plan, if increased reserves should become necessary. The staff is strongly for the loan expansion reserve plan. The Council can say that economic conditions now are even more unfavorable to an increase in reserves than they were last October.

Fleming thinks the Council should dramatize the situation more fully in its memorandum.

Congdon asks who will finance the defense program.

Brown thinks the Council may give reasons why it does not favor any increase in reserves; then it may state in its memorandum that if conditions change, making an increase in reserves desirable, the Council would favor cash reserves, along the lines stated in its memorandum to the Board on October 3, 1950.

Fleming. The Council may also emphasize that any bank reserve legislation now would be detrimental to the voluntary credit restraint program and to the Treasury.

Brown believes the loan expansion reserve plan is undesirable because it would not be practical with the seasonal movement of crops; it would work injustices between banks; and it would freeze all banks into the same pattern. Brown then asks for an expression from the members of the Council regarding business and economic conditions in their respective districts.

Fleming reports that the textile industry is spotty and sick. There is pressure for mortgage money. Banks will be well loaned up this fall, with new crop loans, the normal needs of business and defense programs. The tobacco crop looks good. Department store sales are off.

Hemingway states that loans should run off somewhat in the immediate future, but then agricultural loans will pick up and total loans this fall will be larger than last fall.

Ringland agrees with Hemingway. Loans will run off for awhile and then go higher. A larger loan total may be expected this fall as compared to last fall.

Jackson. The textile business is off with sales and price cuts to move various lines of merchandise. Department stores and chain stores have tended to overexpand inventory. Many types of household appliances are piled up. In July, tobacco, cotton and grain loans will come in and probably more than offset the liquidation of loans. Loans next fall may be higher than they were last fall or this spring.

Beals. The outlook for the winter wheat crop is bad. Country banks are hard up and will be harder up. The demand for loans will probably be higher this fall than it was a year ago because of the increase in the demand for defense loans.

Williams. The soft goods situation is the same as in the other districts. The peak of loans has been reached for the present, but loans will probably be higher in the fall. Department store sales are off.

Odlin expects loans to go higher. Population which went West during the last war did not return East. Basic industries, such as pulp and paper, are strong.

Jackson gives off-the-record figures on one large company with a heavy backlog of orders. It may even be necessary to reduce bank reserves to meet requirements for production.

Davis thinks loans will go down temporarily in the cities but not particularly in the country banks. He expects crop loans in the fall will further increase the loan total. There will be some inventory liquidation in the meantime. Davis reports that the economist of the Federal Reserve Bank of Atlanta believes the present surpluses of some household appliances will disappear in the fall because of the demand.

Bucklin. The situation in his district is about the same as that already described. New and used automobiles and electric appliances,as well as television, have heavy inventories. Bucklin believes loans in his district will move sidewise for a time with no large liquidation. He expects that in the fall loans will be even higher than they were a year ago. Finance companies have had some decline in loans.

Congdon. Labor is tight. There now are some over-inventoried situations. Large plant expansion is planned and there is a heavy demand ahead for money for defense production. Country banks are more loaned up than the city banks. Consumer loans are high but should decline.

Brown. The situation in Chicago is about the same as reported in other districts. Grain and cotton loans have decreased but will increase again by fall. Department stores are somewhat over-inventoried and are trying to reduce their inventories, but the reduction will probably proceed slowly. There have been large real estate loans against insurance company commitments. Brown expects more loans in the fall than we had in 1950. Brown believes the Council can report to the Board that the viewpoint of the Council is that business will continue active in the next six months. Total loans in the next six months will probably move sidewise, or decline for a time, due to the reduction in inventories. Money for crops for defense and other plants, defense production and essential civilian requirements will increase total loans so they will be higher in the fall of 1951 than they were in the fall of 1950. The

Council believes that an increase in gross national product results in an increase in loans. Higher prices are also frozen into the economy at least for the present, and they will necessitate a larger volume of loans.

Bucklin. It is quite essential not to go too fast with controls and changes in the economy.

Brown. The latter half of the first item on the agenda, relative to general credit controls, apparently refers to the rediscount rate, open market operations, and bank reserve requirements. (Brown talks off-the-record). Brown asks the opinion of the Council regarding a change in bank reserves and the rediscount rate. All members of the Council are agreed that no change should be made in the months immediately ahead. Stability is especially important at present.

Jackson. Sproul believes that raising the rediscount rate would help curtail credit, but he fears what it would do to the government bond market.

Odlin believes the Council might state that it is absurd to talk of raising reserves, whereas reserves may have to be reduced.

Brown. The Council may state in its memorandum that it can see no reason now for raising reserves in the period immediately ahead. It may even be desirable to consider reducing reserves later. With the huge refunding program confronting the Treasury, and the large amount of new money which the Treasury may require, the Council does not believe that reserve requirements should be increased, or that the rediscount rate should be raised in the period immediately ahead. Open market operations should be continued on a basis that will supply the minimum reserves needed for business and for Treasury financing, and maintain a reasonably stable market for government obligations at or around present levels.

WHAT, IF ANY, ACTION SHOULD BE TAKEN BY THE BOARD WITH RESPECT TO CHANGES IN THE TERMS OF REGULATION W, CONSUMER CREDIT, AND REGULATION X, REAL ESTATE CREDIT?

Brown asks each member of the Council whether he believes any change is desirable now in Regulation W.

Odlin. The required monthly payments on cars are being criticized. The average age of automobiles on the road is $8\frac{1}{2}$ years. He favors no change in Regulation W at present.

Congdon believes Regulation W is satisfactory at present.

(At this point all members of the Council concurred that no change was desirable at present in Regulation W.)

Fleming states it might be desirable in connection with Regulation X to discuss its application to old housing.

Brown comments that the Board did not ask about new legislation, but about the operation of Regulation X.

Bucklin reports that the sources of funds for mortgage loans are getting tight.

Fleming states that the question of extending Regulation X to old housing can be brought out in the discussion with the Board.

Jackson believes no government guaranties should be issued for housing, unless it is definitely defense housing.

Brown says that he welcomes the action which the NPA has taken to require approval of certain kinds of construction projects. In connection with the answer to Item III of the Agenda, the Council may quote paragraph D from its memorandum to the Board on February 20, 1951, reading as follows:

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

(Brown notes that all members of the Council agree that no change in Regulation X is desirable at present.)

THE PROGRAM FOR VOLUNTARY CREDIT RESTRAINT IS NOW GETTING INTO OPERATION AND THE BOARD WOULD BE PLEASED TO HAVE ANY COMMENTS THAT THE MEMBERS OF THE COUNCIL MIGHT WISH TO MAKE AS TO THE PROGRESS OF THE PROGRAM IN THEIR RESPECTIVE DISTRICTS AND WHAT RESULTS ARE BEING OBTAINED.

Fleming reports that the voluntarycredit restraint program is beginning to bite. He believes it would be highly desirable for the Council to give credit in its memorandum to former Chairman McCabe, Chairman Martin, Governor Powell and the other members of the Board, as well as to officials of the Federal Reserve banks, for their cooperation in promoting the voluntary credit restraint program.

Hemingway states that the bankers are in earnest about the program, and he is hopeful of results. He has not had a chance to check with insurance companies and investment houses.

Ringland. The larger banks have declined a number of loans. Many smaller banks are making inquiries about loans to which the program would apply.

Jackson believes the credit restraint program is taking hold. He calls attention to the fact that the West Virginia bonus issue has been turned down.

Fleming. More literature on the program should be prepared and the program should be given greater publicity.

Davis says full page ads have appeared in his district.

Beals. The program has just started in his district. Meetings are being scheduled in various cities. A few bankers have felt it was a Federal Reserve activity. Some banks with a small volume of loans have felt that they need not be so strict.

Williams. The clearing house in his community used a full page advertisement. Bankers have accepted the program. He does not know the situation regarding insurance and investment concerns.

Odlin states he probably has the only sour note on the program. Two of the banks on the Coast, in answer to a question by Chairman Martin at a meeting recently, said that the program would have no real results. Odlin immediately attempted to give Chairman Martin the opposite impression. Most banks hope to make the program effective.

Brown states that the reason the two bankers from the Coast may have made this statement may have been because of a particular situation there.

Davis. The program is working out well.

Bucklin. There has been a little delay in his district in getting started. He believes bankers in his district are enthusiastic about the program. Bucklin states that the whole idea of a voluntary credit restraint program, which started in the Council, is an excellent one. In most sections of the country the program is becoming known. In his district they are planning on sending out more literature to get publicity.

Congdon. The program is working well in his district.

Brown. The program is also working well in his district. He believes the insurance companies and investment bankers are co-operating. The drop in bond prices has also hampered bond houses. The Council may state in its memorandum to the Board that government loans and guaranties are not included in the program, and credit restraint would be far more effective if government loans and guaranties could be restricted. He again calls attention to the following paragraph D in the Council's memorandum to the Board on February 20, 1951:

"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."

Brown suggests this paragraph be included in the memorandum to the Board for this meeting. The Council may also state that it welcomes the action of NPA in requiring approval for projects taking large amounts of steel.

THE DESIRABILITY OF THE FEDERAL RESERVE BOARD UNDERTAKING A STUDY OF THE PROSPECTIVE DEMANDS FOR AND SUPPLY OF CREDIT OVER THE NEXT SIX TO TWELVE MONTHS, THE STUDY TO INCLUDE:

A. REQUIREMENTS FOR NEW PRODUCTIVE PLANT, INVENTORIES AND WORKING CAPITAL, THAT CANNOT BE FINANCED FROM RETAINED EARNINGS AND SAVINGS (PROSPECTIVE OUTLAYS FOR NEW PLANT IN 1951 ARE NOW ESTIMATED AT $23,910 MILLION):

B. AMOUNT OF BANK FINANCING OF FEDERAL EXPENDITURES THAT WILL BE REQUIRED:

C. ESTIMATED EXTENT OF NET REDEMPTIONS OF SAVINGS BONDS, AND THE METHODS OF PAYMENT:

D. AMOUNT BY WHICH PRIVATE CREDIT CAN BE CONTRACTED IN NON-ESSENTIAL LINES.

IF SUCH A STUDY INDICATES THAT THE DEMAND FOR CREDIT IS LIKELY TO EXCEED THE PROSPECTIVE SUPPLY OF AVAILABLE FUNDS, A DECISION SHOULD BE REACHED AS TO WHETHER DEMAND IS TO BE DECREASED BY FURTHER RESTRICTIONS, OR WHETHER THE SUPPLY IS TO BE ALLOWED TO INCREASE.

Brown states no one in government can give any reasonably accurate estimate of military expenditures, and without such an estimate no study of this kind would be really complete. The Council may state it believes such a study should be made and should be a continuing study.

The meeting adjourned at 5:45 P.M.

THE COUNCIL CONVENED AT 10 A.M. ON MAY 14, 1951, IN ROOM 1032 OF THE MAYFLOWER HOTEL, WASHINGTON, D.C. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT, EXCEPT MR. RAY, MR. CONGDON, MR. POTTS AND MR. LOCHEAD. MR. DAVID WILLIAMS SERVED AS AN ALTERNATE FOR MR. POTTS AND MR. ODLIN SERVED AS AN ALTERNATE FOR MR. LOCHEAD. MR. CONGDON WAS AT THE MEETINGS ON MAY 13 and 15, BUT HAD TO BE AWAY FROM THIS MEETING ON IMPORTANT BUSINESS AT HIS BANK.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on May 15, 1951. The Memorandum was delivered to the Secretary of the Board of Governors at 12:20 P.M. on May 14, 1951. It will be noted that each item of the agenda is listed together with the comments of the Council.

The meeting adjourned at 12:06 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON MAY 15, 1951

1. The Board would like to have the views of the Council on the prospective business and economic situation during the next six months and on the policies that should be followed by the System in the field of general credit controls.

The Council believes, based on current economic trends, that business will continue active in the next six months. The total volume of loans in the next sixty or ninety days will probably move sidewise, and may even decline slightly, because of the liquidation of inventories. However, the banking system will shortly be confronted with large demands for credit to finance new crops, defense plant expansion and the manufacture of defense products. The Council believes that by the Fall of 1951 the total loans required to maintain the defense effort and essential civilian production will exceed the volume of loans in the Fall of 1950. In this period of national emergency involving heavy defense expenditures, it is desirable for essential production and gross national product to rise. A larger volume of bank loans necessarily results. In addition, for the present at least, higher prices and wages have been frozen into the economy, and they require a larger volume of loans.

In view of the economic outlook for the balance of the calendar year, the huge refunding program confronting the Treasury and the large amount of new money which the Treasury will require in that period, stability in the financial and credit field is highly desirable, and drastic or rapid changes in general credit controls should be avoided. Unless conditions radically change, the Council believes therefore that no upward change in reserve requirements is desirable in the next six months. Indeed it is quite probable that a decrease in reserve requirements may be necessary by the end of 1951. In view of Treasury requirements and the present unsettlement and nervousness in the Government bond market, the Council also now believes that the rediscount rate should not be raised during the period immediately ahead. Open market operations should be conducted on a basis that will supply the minimum reserves needed for essential business credit and for Treasury financing, and to maintain a reasonably stable market for Government obligations at or around present levels.

2. What, if any, action should be taken by the Board with respect to changes in the terms of Regulation W, Consumer Credit, and Regulation X, Real Estate Credit?

Regulation W has and is cutting into instalment credit and is accomplishing its intention. Regulation X is just beginning to show its effects due to the many starts and approvals made before its adoption, in which cases it does not apply. The Council after full discussion does not favor any change at present in the terms of Regulation W and Regulation X.

3. The program for voluntary credit restraint is now getting into operation and the Board would be pleased to have any comments that the members of the Council might wish to make as to the progress of the program in their respective districts and what results are being obtained.

The program for voluntary credit restraint has met with the general approval not only of banks but of insurance companies and investment bankers. This general approval is even greater than was anticipated. Although the regional committees have only recently been organized and are just now getting in operation, the program has already resulted in much critical screening by banks of applications for loans as to their purpose. Many loans, particularly those for large amounts, have been turned down because they would not contribute to the defense effort or the carrying on of the essential civilian economy. Many borrowers have not applied for loans because of the knowledge that they would be declined because they could not meet the test of the program.

The Council believes that as the program is better understood and is further implemented and gets under way it will be increasingly effective in restraining unnecessary and undesirable credit expansion. The Council recommends the preparation and distribution at frequent intervals of additional literature and publicity materials on the subject to keep the program constantly before lenders and borrowers and in the press.

The Council wishes to express its appreciation to the Board of Governors and the officials of the Federal Reserve Banks for their leadership and cooperation in getting the program under way. In particular, the former Chairman of the Board, Mr. McCabe, the present Chairman, Mr. Martin, and Governor Powell, who has direct charge of the program, are to be commended for their active and unremitting efforts to promote the program both with Congress, other departments of the Government, and with the banks and other lending institutions.

The voluntary credit restraint program does not cover loans guaranteed by the Government or its agencies. The present program would be more effective if it involved not only private credit, but also loans so guaranteed. In this connection, the Council wishes to call attention to the following statement in its memorandum to the Board of Governors on February 20, 1951:

> "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."

Even if the demand for loans is restricted to those necessary for the defense effort and carrying on the essential civilian economy, the requests for credit for construction are and will be so heavy that the Council welcomes the action which the NPA has taken to require its approval of certain kinds of construction projects. The need of obtaining approval before materials can be obtained for construction should greatly help not only the conservation of scarce materials and labor but also should restrain credit expansion.

4. It has been proposed that additional authority granted to the Board of Governors over bank reserves take the form of a supplementary reserve on any increase in a bank's loans from a base amount. Copies of memoranda relating to this and other suggested reserve requirement plans are attached and the Board would appreciate the views of the Council particularly with respect to the proposed loan expansion reserve plan.

In its memorandum to the Board on October 3, 1950, the Council said that if economic conditions should clearly necessitate any change in the maximum statutory reserve requirements, the Council was unanimously of the opinion that the pattern used in 1948 should be followed, extending temporary authority for increased maximum cash reserves. The Council also then stated that it believed any authority granted should be for a period of not more than two and one-half years so Congress could review the matter. For reasons which have been discussed in the answer to Item One of the agenda, present economic conditions make it untimely for the Board now to urge legislation to increase maximum statutory bank reserve requirements. The Council does not approve any proposal in any form to increase maximum statutory bank reserve requirements at this time. Under present international conditions it is obvious that the Congress will be in session almost continuously and could if necessary under radically changed conditions act promptly. The acceptance of any such proposal at present would be detrimental to the voluntary credit restraint program, and to Treasury financing in the months immediately ahead. Considering the large volume of credit which may be required this Fall for essential defense and civilian needs, and the magnitude of Treasury refunding and new financing, stability and confidence in the economy and in the Government bond market are highly to be desired.

The proposed loan expansion reserve plan is undesirable in general for the reasons given, and specifically because it (1) would not meet fluctuating seasonal credit requirements, (2) would work injustices between various banks, (3) would tend to freeze each bank in the same pattern of investment it happened to have had at the base period, and (4) would fail to provide credit for areas which are growing rapidly in production.

5. The desirability of the Federal Reserve Board undertaking a study of the prospective demands for and supply of credit over the next six to twelve months, the study to include:

A. Requirements for new productive plant, inventories and working capital, that cannot be financed from retained earnings and savings (Prospective outlays for new plant in 1951 are now estimated at $23,910 billion);

B. Amount of bank financing of Federal expenditures that will be required;

C. Estimated extent of net redemptions of savings bonds, and the methods of payment;

D. Amount by which private credit can be contracted in non-essential lines.

If such a study indicates that the demand for credit is likely to exceed the prospective supply of available funds, a decision should be reached as to whether demand is to be decreased by further restrictions, or whether the supply is to be allowed to increase.

The Council believes it would be advisable to maintain a continuing study of the kind suggested above.

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THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:20 P.M. ON MAY 14, 1951. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT, EXCEPT MR. RAY, MR. CONGDON, MR. POTTS AND MR. LOCHEAD. MR. DAVID WILLIAMS SERVED AS AN ALTERNATE FOR MR. POTTS AND MR. ODLIN SERVED AS AN ALTERNATE FOR MR. LOCHEAD. MR. CONGDON WAS AT THE MEETINGS ON MAY 13 AND 15, BUT HAD TO BE AWAY FROM THIS MEETING ON IMPORTANT BUSINESS AT HIS BANK.

Woodlief Thomas, Economic Adviser to the Board, and Frank R. Garfield, Adviser on Economic Research, together with members of the staff, presented a visual-audio report on business conditions. A copy of the report accompanies these minutes.

The meeting adjourned at 4:05 P.M.

ON MAY 15, 1951, AT 10:30 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. POTTS, MR. RAY AND MR. LOCHEAD. MR. DAVID WILLIAMS SERVED AS AN ALTERNATE FOR MR. POTTS AND MR. RENO ODLIN SERVED AS AN ALTERNATE FOR MR. LOCHEAD. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, GOVERNORS ECCLES, SZYMCZAK, EVANS, VARDAMAN, NORTON AND POWELL. MR. CARPENTER, SECRETARY OF THE BOARD OF GOVERNORS, WAS ALSO PRESENT.

THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT SIX MONTHS AND ON THE POLICIES THAT SHOULD BE FOLLOWED BY THE SYSTEM IN THE FIELD OF GENERAL CREDIT CONTROLS.

Brown reads Item 1 of the agenda and the conclusions of the Council, as expressed in the Confidential Memorandum to the Board attached. The eleventh Federal Reserve District is not represented, but the feeling in all the other Districts is that loans will be higher by the fall of 1951 than they were in the fall of 1950. The Council understands the latter part of Item 1 on the agenda, mentioning general credit controls, refers to reserve requirements, the rediscount rate, and open market operations. If it were not for Treasury requirements, a number of the members of the Council would probably favor a higher rediscount rate. It is highly desirable to have a stable government bond market in view of Treasury financing. The Council is not in favor of a pegged government bond market, but it believes the bond market should have a chance to stabilize itself.

Fleming. In view of the anticipated large gross national product, including defense expenditures, demand for credit this fall will be very heavy.

Martin suggests a round table discussion and invites all members of the Board to participate. Martin says that the problem is a fluid one. With a normal turnover of loans, the banking system should be able to take care of loan requirements. The hands of the Board cannot very well be tied on the three instruments of control - reserves, the rediscount rate, and open market operations. We are balancing on a thin pinnacle. The Board noticed the Council's emphasis on the word "essential".

Brown. The Council took the word essential from the voluntary credit restraint program.

Vardaman does not see how the defense program, together with the civilian economy, can be financed without a major degree of inflation. He believes civilian production should be cut back and that the economy should not try to carry both defense and civilian production.

Martin. Marshall states that $2 billions out of every $10 billions of appropriations for the military is needed because of inflation.

Fleming. It is difficult to cut civilian production without a Pearl Harbor.

Eccles. The question of further bank credit is a question of more money. The only reason for having more money is to get more goods. With maximum employment,with the military establishment going into larger scale activity, we can only increase production by longer hours of work and better techniques. Credit for defense plant and facilities must come from credit now used by municipalities, states, and civilians. Credit for defense purposes should be diverted from civilian use to defense. Defense credit must not be placed on top of civilian credit. That would be extremely dangerous. A tight rein must be kept on credit. Allocations and permits must be used for defense production which is required. Credit for civilian use should be reduced and diverted to defense use unless the credit for civilian use actually increases essential production. Eccles agrees with the Council on the question of the rediscount rate and, in general, with the Council's views on the need for a stable government bond market. With the Treasury's financing problems, the government bond market needs stability but it need not be a pegged market. The money market has been tightened. The money market does not require a free market but, rather, a managed market. Eccles is not worried about a lack of confidence in the bond market, and he is confident the Open Market Committee can stabilize the market at any time. The Open Market Committee will meet in the next few days and will consider the matter of stabilizing the government bond market. Even defense loans by banks are competitive and, therefore, may also be inflationary. The Federal Reserve System should be in a position to sterilize excess reserves, which provide a six to one basis for expanding loans. Eccles would disagree with the idea of reducing reserves, except in a deflationary period.

Fleming. The Council did not say the reserves would have to be reduced now.

Brown. The Council's memorandum mentioned that a reduction in reserves was a possibility by the end of the year.

Eccles. The Open Market Committee can take care of the situation without reducing reserves. The open market activities constitute a very flexible instrument of control. The activities of the Open Market Committee permit greater flexibility than decreasing or increasing reserves. You can do with open market operations exactly what the situation requires.

Fleming states that the Treasury problems in the next six months are of very great importance. He does not believe that corporations will have a great deal to invest.

Martin. The point Eccles has made is very important. We are balancing on a pinnacle.

Fleming calls attention to the new crop loans and the heavy defense loans that need to be made.

Jackson states that government loans and guarantees have had a substantial increase. He reads the following statement from the National City Bank of New York Bulletin for May 1951: "According to a special study appearing in the 1952 Government budget document, the total loans, guarantees and credit commitments by wholly-owned government enterprises will amount to $44.4 billion at the end of the current fiscal year on June 30; and not even this huge total covers everything, since for various reasons it excludes numerous other agencies under government sponsorship, including the Commodity Credit Corporation. The total, moreover, is on the rise, the June 30, 1951, figure indicating an increase of $9½ billion, or 27 per cent, over the comparable figure last year. By June 30, 1952, a further increase of $4½ billion is expected. This is in a period of mounting inflationary pressures when the authorities are imposing restrictions on numerous types of private lending." These government loans show a larger percentage of increase than bank loans. It is very difficult to convince the public and the banks of the necessity of cutting bank loans when the government peddles government guaranteed loans freely. The peak of bank loans will probably come this fall and next spring.

Eccles. In the last war, bank loans did not go up a great deal. The government financed loans through a huge government deficit. Eccles asks what good it is to have a balanced federal budget at the same time that banks expand credit.

Congdon. In talking about artificial restraint on loan expansion, we may overlook the natural forces at work in the banking system now. These natural forces are the result particularly of the effective job the Board has done in freeing the government securities market, and they are also the result of the loan expansion which has taken place. Banks generally are heavily loaned up and are not seeking new loans. This is not entirely a matter of the availability of reserves. It is also influenced by the proportions of loans to deposits, and to capital funds. History shows loans expand more rapidly in the early phases of a boom period. This fact was reported by Ralph Young in a study for the Association of Reserve City Bankers. Loans later level off or decline. We have probably passed the early phase of the boom period. The result has been some over accumulation of inventory in anticipation of scarcities and sharp price increases. Loans to carry these over-inventories will be liquidated. Borrowers want liquidation, and banks want liquidation. There is no longer an urge to build inventories because of expected large increases in prices. We may now have reached the top of a sharp price rise. Loans for civilian purposes will tend to liquidate, although that process will be slowed somewhat by a lack of buying in some areas and an unbalance in some inventories. Congdon agrees with Eccles on the limitations imposed by the labor supply, and also on the desirability of bringing down civilian loans as defense loans go up. That movement, however, will not be an even one. Defense loans will go up faster than civilian loans go down for some months ahead. Consequently, total loans may be expected to increase for a time. Furthermore, we must recognize that higher prices which have already come about, are frozen into the economy for some time ahead. This situation will make it necessary to use a larger amount of money to carry business. The present position of the banking system, combined with the Board's present open market policy will provide the corrective forces needed.

Martin believes Congdon's views have a great deal of merit in a democracy in the midst of an undeclared war. He thinks we are groping toward an integrated program. If we had a war economy, we could put on strong controls. We need patience now.

THE PROGRAM FOR VOLUNTARY CREDIT RESTRAINT IS NOW GETTING INTO OPERATION AND THE BOARD WOULD BE PLEASED TO HAVE ANY COMMENTS THAT THE MEMBERS OF THE COUNCIL MIGHT WISH TO MAKE AS TO THE PROGRESS OF THE PROGRAM IN THEIR RESPECTIVE DISTRICTS AND WHAT RESULTS ARE BEING OBTAINED.

Martin asks Powell to comment on this item.

Powell. We are just beginning to define the term "essentiality" and it is a difficult term to define. He has been amazed at the number of new cars that have been produced all winter in the face of the defense effort. The thinking the country over is becoming more uniform on our problems. More literature will be coming from the National Committee. Next Monday (May 21) the National Committee will meet and consider real estate problems outside of those affected by Regulation X. We will also consider foreign municipals, including

Canadian and Australian obligations. Banks are probably making too many loans to sales finance companies. They are also lending to building andloan associations. The word "essentiality" is gradually being hammered out. He is amazed at what the defense agency considers essential - such as steel for certain highways which the National Committee might consider non-essential. The turnover of bank deposits is around 23 now, compared to 30 back in the late 1920's. Consequently, Powell thinks we could have an increase of 50 per cent in the turnover of deposits. There may be substantial reductions in real estate, consumer, and inventory loans. He does not agree with Eccles that we can say rigidly that our manpower is fully used. We are producing far more now than we thought could be produced last fall. In addition we can import goods. The A. B. A. suggests that banks send customers a statement of principles regarding the voluntary program.

Fleming believes it would help the banks if the letter which the A.B.A. suggests banks send out could say it was sent at the direction of the National Committee.

Williams says that the operation of LIFO is a considerable factor in freezing inventories.

Powell. The inventory situation is more excessive in connection with retailers' stocks than with industry.

Williams. Some industry is over-inventoried.

Eccles does not agree with Powell on the matter of the turnover of deposits. He believes the turnover will not be as great as it was in the past. Banks require larger deposits now than they did twenty years ago. This change is due to the fact that more banks now have service charges, which has resulted in building larger individual deposits. Consequently, the turnover is not so large. In 1929 we also had $6 billion of loans in the call money market and there are no such loans now.

Vardaman states that he is getting inquiries on V-loans. There is no unanimity in the government on restrictive measures. The Administration has not spoken strongly enough for civilian restrictions. Every Congressman is hearing from home about bank loan restrictions. The bankers are being blamed. Congress will undoubtedly set up an agency for defense plant financing, and even perhaps for municipal financing. Consequently, when the banks, insurance companies and investment houses restrict credit the pressure in turn is on Congress by the people for government agencies to extend the credit which the regular private lending agencies have declined. We are hollering down a hollow log, unless we get the Administration to restrict the civilian economy.

WHAT, IF ANY ACTION SHOULD BE TAKEN BY THE BOARD WITH RESPECT TO CHANGES IN THE TERMS OF REGULATION W, CONSUMER CREDIT, AND REGULATION X, REAL ESTATE CREDIT?

Brown reads Item II and the conclusions of the Council as expressed in the memorandum to the Board attached.

Martin asks Norton to comment on Item II.

Norton states that the trend in starts is down, and presents the following figures:

BUILDING STARTS

	1950	1951	
January	79,000	87,000	
February	83,000	80,000	down 3,000
March	117,000	93,000	down 24,000
April	133,000	88,000	down 45,000

The backlog at present is about 550,000 housing units. About 60 per cent of the starts are now guaranteed by the government. Many of the insurance companies have shut down on the extension of credit for housing. The mortgage market will cut down the starts. Norton does not think they can hold the starts in 1951 to the figures they had hoped for, namely, 800,000 to 850,000. The starts in 1951 will probably go to one million.

Eccles. Even in the defense housing areas builders are hesitating to enter, because they cannot finance the construction.

Davis asks whether FNMA will be extended.

Norton believes FNMA will be extended with the pressure that will come from Congress.

Martin asks Evans to comment on Regulation W.

Evans. Regulation W is an older regulation than Regulation X, so those who have to operate under it were more familiar with what was required. The Board is now being blamed because the regulation is said to be too strict. The Board sent some of the staff to study the Canadian regulations and found the restrictions were even tighter than ours. Only thirty per cent of the automobiles bought in Canada are purchased on an installment basis, whereas fifty per cent are bought on the installment plan in the United States. The Board is having some problem in connection with compliance, and expects to take criminal action. There have been some violations. (Off-the-record Governor Evans mentioned some of these complaints and the problems involved). Evans states that the Board would prefer not to relax the regulation. The regulation touches many low income people, and the argument is often used with the Board that these people are particularly hurt. Evans tells those who argue this way that the regulation injures the low income group, but that inflation injures them even more, especially those on pensions.

Brown. By and large the finance companies do not object to the regulation. The largest automobile companies also are not objecting. The Council does not believe Regulation W should be relaxed at present.

Martin states there may be important increases ahead on V loans. Approximately 125 applications are being received each month.

Vardaman understands the President signed the bill this morning.

Eccles believes the Council could urge that defense financing be held to the minimum in connection with the construction of defense plant. There are thousands of applications and the amount involved is fantastic.

Vardaman. The defense people are not interested in inflation. They are only interested in getting the goods. Vardaman cites the case of the rehabilitation of a certain plant that was not necessary.

IT HAS BEEN PROPOSED THAT ADDITIONAL AUTHORITY GRANTED TO THE BOARD OF GOVERNORS OVER BANK RESERVES TAKE THE FORM OF A SUPPLEMENTARY RESERVE ON ANY INCREASE IN A BANK'S LOANS FROM A BASE AMOUNT. COPIES OF MEMORANDA RELATING TO THIS AND OTHER SUGGESTED RESERVE REQUIREMENT PLANS ARE ATTACHED AND THE BOARD WOULD APPRECIATE THE VIEWS OF THE COUNCIL PARTICULARLY WITH RESPECT TO THE PROPOSED LOAN EXPANSION RESERVE PLAN.

Brown states that of all the reserve plans that have been considered the loan expansion reserve plan is probably the least practical and the least likely to be approved. Brown comments on the injustices of the proposal in relation to competing banks with different amounts of loans.

Martin. The Board has taken no action on any reserve plan. The Wilson committee will probably make an announcement in a few days regarding its plans. Many members in Congress think the credit restraint program is promoted merely to avoid bank reserve legislation. We already have Regulation W and Regulation X and many persons think reserves are also a part of the problem. The General Counsel of the Board has made an amendment to the loan expansion reserve plan (copies of this were given to the members of the Council).

Hemingway. The problem of tightening credit is a highly difficult one. He cites an actual case of the difficulty involved. It is possible to operate under the voluntary credit restraint program, but it is difficult when the problems involve those in so-called essential industries.

Powell mentions a case of a manufacturer compelling a retailer to take additional units of a product, and another case of a manufacturer requiring a retailer to build a large showroom. Powell believes that it is the bankers' problem to prevent these situations when they involve bank credit.

Szymczak states that what Hemingway is saying is that the overall control of credit would relieve the banker of his worries. He just would not have money to loan to anyone.

Odlin. It is all right to say that the banker is all out of money, but that does not help legitimate business. The banks are not seeking loans. Bank loans must be at a certain level to support this economy.

Szymczak. Keyserling talks of more expansion. If the trouble in Korea should come to an end, the further inflation has gone, the worse the period following it would be.

Eccles. The overall supply of money must not increase faster than production.

Ringland. Place the strictest possible interpretation on "essential" and there are still real problems. There may be two banks of about the same size in a community. If these banks cannot take care of the essential needs of their customers, the customers will simply go to other communities where bank credit may be available, or to insurance companies, or to government agencies. Obviously the problem is not easily solved.

Eccles believes that new crop loans must be made, but many types of loans can be cut down.

Hemingway. Is there enough non-essential credit in the banks now to take care of the essential credit needs? The Council does not think so.

Jackson. Where is the percentage, or the line, beyond which a banker should not loan funds? When do the banks sin in the percentage of their loans in relation to their deposits, and what is an essential loan?

Odlin. Bank loans can be a result as well as an effect.

THE DESIRABILITY OF THE FEDERAL RESERVE BOARD UNDERTAKING A STUDY OF THE PROSPECTIVE DEMANDS FOR AND SUPPLY OF CREDIT OVER THE NEXT SIX TO TWELVE MONTHS, THE STUDY TO INCLUDE:

A. REQUIREMENTS FOR NEW PRODUCTIVE PLANT, INVENTORIES AND WORKING CAPITAL, THAT CANNOT BE FINANCED FROM RETAINED EARNINGS AND SAVINGS (PROSPECTIVE OUTLAYS FOR NEW PLANT IN 1951 ARE NOW ESTIMATED AT $23,910 MILLION);

B. AMOUNT OF BANK FINANCING OF FEDERAL EXPENDITURES THAT WILL BE REQUIRED;

C. ESTIMATED EXTENT OF NET REDEMPTIONS OF SAVINGS BONDS, AND THE METHODS OF PAYMENT;

D. AMOUNT BY WHICH PRIVATE CREDIT CAN BE CONTRACTED IN NON-ESSENTIAL LINES.

IF SUCH A STUDY INDICATES THAT THE DEMAND FOR CREDIT IS LIKELY TO EXCEED THE PROSPECTIVE SUPPLY OF AVAILABLE FUNDS, A DECISION SHOULD BE REACHED AS TO WHETHER DEMAND IS TO BE DECREASED BY FURTHER RESTRICTIONS, OR WHETHER THE SUPPLY IS TO BE ALLOWED TO INCREASE.

Brown comments that it is difficult to know what the military expenditures will be, and no one probably can give a close estimate.

Fleming states that a committee of the Association of Reserve City Bankers suggested the study.

Martin reads the following statement of Ralph Young of the Staff regarding Item V:

"The Board's research staff is already engaged in continuing studies of prospective demands and supply of credit along the lines suggested by the Federal Advisory Council. As one phase of this program, the staff is pioneering in developing a special framework for showing the money and credit flows record -- sources and uses of funds -- of each major sector of the economy. This special undertaking, which has been in process for the past four years, is now at an advanced stage and it is expected that the basic historical tables will be made available to the public within the next six months.

"The matter of projecting these figures six to nine or twelve months ahead, presents many difficult technical problems and must at this stage of our empirical knowledge remain a judgment procedure. Gaps in the availability of critical current data, of course, present many handicaps to effective projection work. The filling of such gaps is not alone a matter of the statistical work of the Board, but also of the statistical work of other Government agencies and private organizations. Progress in this work is likely to be hampered in the immediate future because appropriations for the statistical programs of a number of Government agencies are being seriously cut back.

"On the basis of existing data, the Board's staff is not hopeful that reasonable ways can be devised of estimating the amount by which private credit can be contracted in non-essential lines. The Council may wish to give consideration to suggestions as to how such estimate might be developed."

Eccles says that it is necessary to restrict considerably the issuance of certificates of necessity and convenience, and it is necessary to use allocations in order to meet our present problems. He believes that the "Big Four" of the Wilson Committee, of which Martin is a member, could tell the defense people to use existing plants wherever it is at all possible to do so. This country cannot build schools, factories, and defense plants at the same time without inflation.

Brown mentions to Martin that the Council has an Executive Committee which will be pleased to meet at any time on short notice to consider any matters regarding which Martin and the Board would like advice or information.

The meeting adjourned at 1:18 P.M.

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The next meeting of the Council will be September 16-18, 1951.