

# MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 16, 1951

The third statutory meeting of the Federal Advisory Council for 1951 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on September 16, 1951, at 2:10 P.M., the President, Mr. Brown, in the Chair.

## Present:

Walter S. Bucklin	District No. 1
N. Baxter Jackson	District No. 2
Frederic A. Potts	District No. 3
Sidney B. Congdon	District No. 4
Robert V. Fleming	District No. 5
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. Lohead	District No. 12
Herbert V. Prochnow	Secretary

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on May 13, 14 and 15, 1951, copies of which had been sent previously to the members of the Council, were approved.

There was a long off-the-record discussion in which all of the members of the Council participated.

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 24 and 25 of these minutes.

The meeting adjourned at 5:51 P.M.

HERBERT V. PROCHNOW  
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 17, 1951

At 10:00 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

Present: Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson, 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. Lothead, 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 to the Board of Governors from the Federal Advisory Council*, which follows on pages 24 and 25, listing the agenda items with conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12 noon on September 17, 1951.

The meeting adjourned at 11:45 A.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 SEPTEMBER 18, 1951

The Council would appreciate receiving from the Board of Governors copies of the questionnaires submitted to the Board and to the Federal Reserve Banks by the Patman Subcommittee, and copies of the answers which the Board and the Federal Reserve Banks may make to the questionnaires. If the Board so desires and there is opportunity, the Council would be glad to discuss the answers of the Board to the questionnaire before they are submitted to the Patman Subcommittee.

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1. The Board would like to have any views the Council might wish to express 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.

Barring a full-scale war, or a serious lag in the defense program, the Council believes that business during the next six months will be active and will also show a seasonal increase. The demand for credit, partly for seasonal purposes and partly because of the impact of defense production, will markedly increase the volume of bank loans. Under these conditions,

- A. The Council believes that bank reserve requirements should not be raised but that, a decrease in reserve requirements may be necessary;
- B. The Council is opposed to an immediate increase in the rediscount rate, but the situation may change rapidly and the Council may have a different view by the time of its next regular meeting with the Board; and
- C. The Council believes that the expected increase in loans plus anticipated deficit financing will probably necessitate providing the banking system with additional reserves either through lower reserve requirements or open market operations. As between these two alternatives, a majority of the Council would favor providing the increased reserves by a reduction in reserve requirements rather than through the Federal Reserve Banks acquiring a large additional amount of Government securities by open market operations. The council does not believe that under presently anticipated conditions, and with the Voluntary Credit Restraint program in continued operation, a decrease in reserve requirements would accelerate the increase in loans which the Council believes is necessary and inevitable this fall.

2. What are the prospects with respect to total changes in the volume of bank loans during the rest of the current year?

The Council is unanimously of the opinion that the volume of bank loans will increase during the rest of the current year. An increase in bank loans is inevitable if defense production is to be financed and if the necessary requirements of the economy are to be met.

3. In the event strong inflationary pressures should reassert themselves, the limitations imposed by recent legislation on the authorities of the Board over consumer and real estate credit would make it impossible for these authorities to

be used effectively as instruments of selective credit regulation. What would be the recommendations of the Council as to what, if any, recommendations should be made by the Board to the Congress with respect to the removal of the limitations?

The Council on previous occasions has stated, and it still believes, that authority over consumer and real estate credit should not be given to the Board when peace-time conditions prevail. With the existence of a partial war economy, the Council approved granting to the Board, for a limited period, the authority for such selective credit regulations. The Council believes that the imposition by recent legislation of limitations upon the authority previously granted the Board by Congress over consumer and real estate credit was a serious mistake. At an appropriate time the Board should ask for the removal of these limitations.

4. What comments does the Council have to make with respect to the program for voluntary credit restraint and the manner in which it has operated?

At its May meeting with the Board, the Council stated that the Voluntary Credit Restraint program had met with the general approval not only of banks but also of insurance companies and investment bankers. The program continues to meet with their strong approval. The regional committees throughout the country are now fully organized and functioning. Many loans, aggregating a very large dollar amount, which would not promote either the defense effort or the efficient functioning of the civilian economy, and which without the Voluntary Credit Restraint program would be made, are not being granted by banks or other financial institutions. The knowledge that such loans will be declined has resulted in many would-be borrowers not applying for them.

The Council would like to express again to the Board of Governors, the officials of the Federal Reserve Banks and Governor Powell, who is directly in charge of the program, appreciation for their active and effective efforts to restrict unnecessary and undesirable credit.

The Council recommends more extensive use of literature, news releases, addresses, and other suitable media to bring and keep before lenders and borrowers the objectives of the program.

The Council would like to reemphasize the statement made to the Board in February and again in May of this year, that "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." The present Voluntary Credit Restraint program does not encompass loans guaranteed by the Government or its agencies. The program would be more effective if it included not only private credit, but also loans so guaranteed.

5. Is the V-loan program operating satisfactorily and to what extent is it meeting the need for defense production loans?

Due primarily to slowness in getting action on applications, which delay is not the fault of the Federal Reserve Banks or their staffs, the Council believes the V-loan program is not working as well as was anticipated or as it should.

# MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 17, 1951

At 2:30 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the Chair.

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

Absent: Mr. N. Baxter Jackson.

Dr. Ralph A. Young, Director of the Division of Research and Statistics of the Board of Governors, spoke on the subject, "How Much More Inflation?". Each member of the Council received a copy of Dr. Young's remarks.

The meeting adjourned at 4:00 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

September 18, 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:

Governors M. S. Szymczak, R. M. Evans, Edward L. Norton, and Oliver S. Powell; also, S. R. Carpenter, Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, 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. Lohead, and Herbert V. Prochnow, Secretary.

President Brown read the preliminary paragraph of the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which is printed on pages 24 and 25 of these minutes, dealing with the questionnaires of the Patman Subcommittee. An off-the-record discussion followed.

The President of the Council read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum* printed on pages 24 and 25 of these minutes.

The President of the Council then read the second item on the agenda, and the conclusions reached by the Council, as expressed in the *Confidential Memorandum*, previously mentioned.

President Brown then read the third item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum* to the Board, attached.

The fourth item on the agenda and the conclusions of the Council as stated in the *Confidential Memorandum* cited above were then read by President Brown. He added that one of the most effective features of the program is that banks can now decline loans requested by good customers but which are not necessary to the economy or to defense production without fear of losing these customers to other banks.

Governor Powell stated that there had been some mention of how to make the Voluntary Credit Restraint program effective if the government agencies continued to extend credit freely. He said that a sub-committee of the Wilson Committee sent a report to the President strongly urging government agencies not to grant credit which the banks had turned down. A part of this report in support of the Voluntary Credit Restraint program was read to the Council by Governor Powell.

President Brown expressed the appreciation of the Council to Governor Powell for his report.

The President of the Council then read item five on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum* to the Board. An off-the-record discussion followed.

The meeting adjourned at 1:54 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 September 16, 1951 at 2:10 P. M. in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

The Council approved the Secretary's notes for the meeting of May 13-15, 1951.

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(There was a long off-the-record discussion participated in by all members of the Council)

#### PATMAN SUBCOMMITTEE

Brown suggests that the Council ask the Board of Governors for a copy of the questionnaire which the Patman Subcommittee has presented to the Board. All members of the Council agree.

Hemingway states that an American Bankers Association committee will meet to discuss the proposed activities of the Patman Subcommittee. The American Bankers Association committee would welcome the viewpoints of the Council on this subject.

Brown. The subject is so broad, covering the entire banking system, that it is difficult to give a brief expression of the viewpoints of the members of the Council on all phases of it.

Lockhead believes the Association of Reserve City Bankers should work with the American Bankers Association.

Fleming states that it should be relatively easy for the American Bankers Association and the Association of Reserve City Bankers to work together because Mr. Dodge has been president of the American Bankers Association and is now president of the Association of Reserve City Bankers.

Brown. The Council also may wish to ask the Board for a copy of any questionnaire the Patman Subcommittee has or may submit to the Federal Reserve Banks.

THE BOARD WOULD LIKE TO HAVE ANY VIEWS THE COUNCIL MIGHT WISH TO EXPRESS 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. Business, barring war, will be active with a seasonal increase. The defense production loans will come on top of present loans.

Fleming. If the Treasury balance is kept at \$5 billion, then the Treasury will need \$4½ billion of new money. If the Treasury balance is kept at only \$3 billion, the Treasury will need \$2½ billion of new money.

Brown. The Board apparently agrees with the Treasury that the new money must come from the banks. Consequently, any increase in reserve requirements is out. There will be a heavy demand for loans to carry the financing of crops such as soy beans, cotton, and tobacco and for loans to finance defense production. It will be necessary for the Federal Reserve System to pump more reserves into the banking system, and that process is inflationary. If more reserves are not put into the banking system, then there is a possibility that interest rates will rise. The Board realizes that the Treasury offerings must not fail. There is a question of whether it is better to allow short-term rates to rise or to pump in reserves.

Fleming. The Treasury has come to the conclusion that it would like the debt spread out, when and as it can be done. It is not possible to finance for long-term periods now. There is no long-term money available in insurance companies.

Jackson. Seventy per cent of the corporate taxes will be collected in the first six months of 1952.

Brown. The demand for business loans, partly seasonal, and partly as a result of the impact of defense production, will markedly increase the demand for credit. (All members of the Council agree). Brown asks the members of the Council what policies should be followed under these conditions.

Lockhead does not favor raising either reserve requirements or the rediscount rate. He would be inclined to use the open market and to allow the short-term rates to rise fractionally.

Fleming. With the pressure for loans, the Board may have to reduce reserve requirements. He does not favor raising reserve requirements or raising the rediscount rate. Fleming does not believe in freezing the rate pattern until the defense needs become clearer. It may be necessary to go a little higher with rates.

Hemingway does not favor raising reserve requirements but might raise the rediscount rate slightly. He would be inclined to let the rate of interest rise fractionally.

Potts doubts whether it is politically possible to reduce reserve requirements. He favors open market operations, as a means of providing reserves, because the impact on the banking system is less severe.

Jackson. The loan demand in New York is heavy. All banks in New York look for a steady increase in the volume of loans. If the banks are to extend more credit to take care of the necessary requirements of the economy and the defense program, they cannot absorb government financing without having reserves pumped into the system. He believes there is a relatively large amount of uninvested pension funds in New York. These funds would not buy long-term securities but they might take short terms.

Brown. There is a tendency for corporations now to put money in short terms.

Jackson states that he favors some increase in the rediscount rate as it may have a deterrent effect on prospective borrowers.

Ray. There are no surplus reserves in his district. He does not favor an increase in reserve requirements, but he believes an increase in the rediscount rate might be helpful. Ray states that the reserve requirements may actually have to be reduced.

Congdon favors a moderate flexibility in short-term rates and a reduction in reserve requirements. He believes it is better to have government securities in the hands of the banks than in the hands of the Federal Reserve banks. Congdon does not favor raising the rediscount rate. He believes it is better to lower reserve requirements than to use the open market method of providing reserves.

Ringland favors a fractional increase in short-term rates and a reduction in reserve requirements. He also favors a slightly higher rediscount rate.

Davis reports that there has been a large reduction in loans in his district. He favors reducing reserve requirements and increasing the rediscount rate. He also favors slightly higher short-term rates. He states that their loans will probably increase but little above last year.

Beals. The flood in his district has changed the attitude of the Federal Reserve bank so that there has been less pressure to promote the credit restraint program. The feeling is that everything should be done to assist industry and the public back to a more normal basis. He expects higher loans in his district this fall.

Bucklin. Banks in his district anticipate substantially higher loans this fall. He favors a flexible short-term rate, perhaps a little higher. The government will have to raise rates to obtain any large amount of new money. Additional reserves will have to be provided for the banks to take care of essential needs this fall. Bucklin favors a slightly higher rediscount rate, if it does not adversely affect the government market.

Potts expects a new all-time high in the volume of loans in his district. Reserves have been tight. Potts favors moderate flexibility in the short-term rate, but he does not favor a higher rediscount rate. He prefers open market operations rather than lower reserve requirements as a means of providing reserves that may be needed this fall.

Fleming reports that one factor may retard the expenditures for defense production. Unless a large volume of scrap becomes available for defense production, defense expenditures may be retarded.

Brown says a much higher loan total is anticipated this fall in the Seventh Federal Reserve district. He believes the Board must consider the possibility of having to provide reserves. He does not favor raising the rediscount rate. Summarizing the views of the Council, he states that all members of the Council feel reserve requirements should not be raised but it may be necessary to consider lowering reserve requirements. After a showing of hands on the question, Brown states the Council is opposed to an immediate raise in the rediscount rate but the situation may change rapidly and the Council may have a different view by the time of its next regular meeting in November. The expected increase in loans this fall, plus anticipated deficit financing, may necessitate lower reserve requirements or open market operations by the Federal Reserve System, as a means of providing the banking system with reserves. After a showing of hands on the question, Brown states that a majority of the Council favors the reduction of reserve requirements in preference to open market operations. The Council may also state to the Board that it does not believe that under present conditions a decrease in reserve requirements would accelerate the increase in loans which the Council believes is necessary and inevitable this fall.

WHAT ARE THE PROSPECTS WITH RESPECT TO TOTAL CHANGES IN THE VOLUME OF BANK LOANS DURING THE REST OF THE CURRENT YEAR?

Brown. Previous discussion has indicated that the Council is unanimously of the opinion that the demand for loans will increase during the rest of the current year. The Council may also state to the Board that it believes an increase in bank loans is inevitable if defense production is to be financed and if the necessary requirements of the economy are to be met.

Congdon believes inventories may show some decline.

Brown states he will explain orally to the Board that, under pressure of the banks, many overinventoried situations will be corrected, but loans to finance cotton, tobacco, and other commodities will be up.

IN THE EVENT STRONG INFLATIONARY PRESSURES SHOULD REASSERT THEMSELVES, THE LIMITATIONS IMPOSED BY RECENT LEGISLATION ON THE AUTHORITIES OF THE BOARD OVER CONSUMER AND REAL ESTATE CREDIT WOULD MAKE IT IMPOSSIBLE FOR THESE AUTHORITIES TO BE USED EFFECTIVELY AS INSTRUMENTS OF SELECTIVE CREDIT REGULATION. WHAT WOULD BE THE RECOMMENDATIONS OF THE COUNCIL AS TO WHAT, IF ANY, RECOMMENDATIONS SHOULD BE MADE BY THE BOARD TO THE CONGRESS WITH RESPECT TO THE REMOVAL OF THE LIMITATIONS?

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Hemingway. If the Board is to be responsible for the volume of consumer and real estate credit, the Board should have authority. He agrees with Chairman Martin's statement to the Congress on this matter.

Brown. The Council may suggest that the Board ask Congress to remove the limitations placed upon its actions. If Congress is unwilling to remove these limitations, then Congress should take the power from the Board.

Fleming. Someone may say that if the Board should have complete authority over consumer and real estate credit, perhaps it should have complete authority over reserves.

Bucklin. The Council may say that if there are to be selective credit controls, such as X and W, the Council feels that authority over such controls and their administration should be placed in the Board of Governors.

Fleming. We may state that the limitations placed on the Board were a mistake.

Brown. The Council may suggest that if any recommendations are made by the Board to the Congress they should be for the removal of such limitations. The Council on previous occasions has stated, and it still believes, that authority over consumer and real estate credit should not be given to the Board in peacetime conditions. The Council approved, under present conditions, the granting of authority to the Board for such selective credit regulations for a limited period. The Council believes that the limitations, imposed by recent legislation on the Board's authority over consumer and real estate credit, constituted a mistake. The Council believes that at the appropriate time the Board may ask for the removal of these limitations.

WHAT COMMENTS DOES THE COUNCIL HAVE TO MAKE WITH RESPECT TO THE PROGRAM FOR VOLUNTARY CREDIT RESTRAINT AND THE MANNER IN WHICH IT HAS OPERATED?

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Fleming believes the Board has done a good job with the Voluntary Credit Restraint program, but he believes it needs more dramatizing.

Brown. Unless the members of the Council have other views, the Council may in its memorandum to the Board reaffirm the Council's position, as expressed in the May memorandum, and emphasize the dramatization of the program, but leave out reference to the NPA.

IS THE V-LOAN PROGRAM OPERATING SATISFACTORILY AND TO WHAT EXTENT IS IT MEETING THE NEED FOR DEFENSE PRODUCTION LOANS?

Lockhead. The V-Loan program takes too long in approving applications.

Congdon states that administratively the program is very slow and that there are also delays in assigning subcontracts.

Brown comments also on the delay in the assignment of subcontracts and the slowness in getting applications approved. (An off-the-record discussion follows.) The Council may state that the V-Loan program is slow in getting applications through but that the delays are not the fault of the Federal Reserve banks, or their staffs.

The meeting adjourned at 5:51 P. M.

THE FEDERAL ADVISORY COUNCIL CONVENED AT 10 A.M. ON  
SEPTEMBER 17, 1951, IN ROOM 932 OF THE MAYFLOWER HOTEL,  
WASHINGTON, D. C. ALL MEMBERS OF THE 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 September 18, 1951. The Memorandum was delivered to the Secretary of the Board of Governors at 12:00 noon. It will be noted that each item of the Agenda is listed together with the comments of the Council.

The meeting adjourned at 11:45 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS  
FROM THE  
FEDERAL ADVISORY COUNCIL  
RELATIVE TO THE AGENDA FOR THE JOINT MEETING  
ON SEPTEMBER 18, 1951

The Council would appreciate receiving from the Board of Governors copies of the questionnaires submitted to the Board and to the Federal Reserve Banks by the Patman Subcommittee, and copies of the answers which the Board and the Federal Reserve Banks may make to the questionnaires. If the Board so desires and there is opportunity, the Council would be glad to discuss the answers of the Board to the questionnaire before they are submitted to the Patman Subcommittee.

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1. The Board would like to have any views the Council might wish to express 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.

Barring a full-scale war, or a serious lag in the defense program, the Council believes that business during the next six months will be active and will also show a seasonal increase. The demand for credit, partly for seasonal purposes and partly because of the impact of defense production, will markedly increase the volume of bank loans. Under these conditions,

- A. The Council believes that bank reserve requirements should not be raised but that a decrease in reserve requirements may be necessary;
- B. The Council is opposed to an immediate increase in the rediscount rate, but the situation may change rapidly and the Council may have a different view by the time of its next regular meeting with the Board; and
- C. The Council believes that the expected increase in loans plus anticipated deficit financing will probably necessitate providing the banking system with additional reserves either through lower reserve requirements or open market operations. As between these two alternatives, a majority of the Council would favor providing the increased reserves by a reduction in reserve requirements rather than through the Federal Reserve Banks acquiring a large additional amount of Government securities by open

market operations. The council does not believe that under presently anticipated conditions, and with the Voluntary Credit Restraint program in continued operation, a decrease in reserve requirements would accelerate the increase in loans which the Council believes is necessary and inevitable this fall.

2. What are the prospects with respect to total changes in the volume of bank loans during the rest of the current year?

The Council is unanimously of the opinion that the volume of bank loans will increase during the rest of the current year. An increase in bank loans is inevitable if defense production is to be financed and if the necessary requirements of the economy are to be met.

3. In the event strong inflationary pressures should reassert themselves, the limitations imposed by recent legislation on the authorities of the Board over consumer and real estate credit would make it impossible for these authorities to be used effectively as instruments of selective credit regulation. What would be the recommendations of the Council as to what, if any, recommendations should be made by the Board to the Congress with respect to the removal of the limitations?

The Council on previous occasions has stated, and it still believes, that authority over consumer and real estate credit should not be given to the Board when peace-time conditions prevail. With the existence of a partial war economy, the Council approved granting to the Board, for a limited period, the authority for such selective credit regulations. The Council believes that the imposition by recent legislation of limitations upon the authority previously granted the Board by Congress over consumer and real estate credit was a serious mistake. At an appropriate time the Board should ask for the removal of these limitations.

4. What comments does the Council have to make with respect to the program for voluntary credit restraint and the manner in which it has operated?

At its May meeting with the Board, the Council stated that the Voluntary Credit Restraint program had met with the general approval not only of banks but also of insurance companies and investment bankers. The program continues to meet with their strong approval. The regional committees throughout the country are now fully organized and functioning. Many loans, aggregating a very large dollar amount, which would not promote either the defense effort or the efficient functioning of the civilian economy, and which without the Voluntary Credit Restraint program would be made, are not being granted by banks or other financial institutions. The knowledge that such loans will be declined has resulted in many would-be borrowers not applying for them.

The Council would like to express again to the Board of Governors, the officials of the Federal Reserve Banks and Governor Powell, who is directly in charge of the program, appreciation for their active and effective efforts to restrict unnecessary and undesirable credit.

The Council recommends more extensive use of literature, news releases, addresses, and other suitable media to bring and keep before lenders and borrowers the objectives of the program.

The Council would like to reemphasize the statement made to the Board in February and again in May of this year, that "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." The present Voluntary Credit Restraint program does not encompass loans guaranteed by the Government or its agencies. The program would be more effective if it included not only private credit, but also loans so guaranteed.

5. Is the V-loan program operating satisfactorily and to what extent is it meeting the need for defense production loans?

Due primarily to slowness in getting action on applications, which delay is not the fault of the Federal Reserve Banks or their staffs, the Council believes the V-loan program is not working as well as was anticipated or as it should.

THE FEDERAL ADVISORY COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:30 P.M. ON SEPTEMBER 17, 1951. ALL MEMBERS OF THE COUNCIL WERE PRESENT, EXCEPT MR. JACKSON.

Dr. Ralph A. Young, Director of the Division of Research and Statistics of the Board of Governors spoke on the subject "How Much More Inflation?" A copy of Dr. Young's remarks was given to each member of the Council.

The meeting adjourned at 4 P.M.

ON SEPTEMBER 18, 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. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: GOVERNORS SZYMCAK, EVANS, NORTON AND POWELL. MR. CARPENTER, SECRETARY OF THE BOARD, ALSO WAS PRESENT.

#### PATMAN SUBCOMMITTEE

Brown reads the preliminary paragraph of the Memorandum to the Board of Governors which is included in these notes. It will be noted that this paragraph deals with the questionnaires of the Patman Subcommittee. (An off-the-record discussion follows.)

Szymczak. The Board will be pleased to provide the Council with drafts of the Patman Subcommittee's questionnaires and the answers when they are ready. The Board Staff is now working on the answers to the preliminary draft of the questionnaire sent to the Board by the Subcommittee. When the final drafts of the questionnaires are available, copies will be sent to the Council.

Hemingway states that a questionnaire will probably be sent by the Patman Subcommittee to the American Bankers Association, and a committee of the Association will discuss the matter in general in Chicago at the time of the Association convention, September 30-October 3, 1951.

Powell understands that questionnaires will also go to the Treasury, certain economists and perhaps certain bankers.

THE BOARD WOULD LIKE TO HAVE ANY VIEWS THE COUNCIL MIGHT WISH TO EXPRESS 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 Memorandum to the Board attached. The Council believes that in view of the anticipated volume of deficit financing, the short-term rate may fluctuate fractionally, but no major change in the rate would be desirable. The members of the Council believe that it may be necessary to provide additional reserves for the banking system. The Council is rather sharply divided as to whether these reserves should be provided by open market operations or lower reserve requirements. It may be necessary to raise slightly the rediscount rate at a later date. The Council believes that the increase in loans will be so large plus anticipated deficit financing, that additional reserves will be required by the banking system.

Fleming. The Treasury figures indicate that if the Treasury is to keep a \$5 billion balance it will need \$4-1/2 billion of new money; if a balance of only \$3 billion is kept, then \$2-1/2 billion of new money will be needed. The question of reserves depends in part on the magnitude of Treasury financing.

Jackson reports that the New York banks expect a continuing demand for money. Corporations will pay 35 per cent of their taxes in the first quarter of 1952, and 35 per cent in the second quarter. In other words, 70 per cent of the corporation taxes will be paid in the first six months of 1952. The only money which is available is short-term money, and the banks will undoubtedly be called upon to finance part of the government deficit.

Szymczak. On balance, the insurance companies and savings banks may be selling government securities in the months immediately ahead.

Congdon believes that the worst place to lodge government securities is in the Federal Reserve System. To have them in the banks is bad enough, but he believes it is worse to have them in the Federal Reserve System. Congdon also believes that if the banks need additional reserves it is better to reduce reserve requirements than to use open market operations to obtain more reserves.

Potts states that he does not favor lowering reserve requirements. He believes that open market operations are smoother and that the impact on the banking system is less severe.

Szymczak. The economy seems to be moving in two directions--up and down. It is too early to decide which way the economy will actually move. The Treasury leans in the direction of larger balances, and tends to under-estimate its revenues. One of the important economic factors now is the large volume of inventories. Defense production is also dragging its feet. There is some tendency not to push defense production too strongly. The Board thinks the Treasury will need \$2.1 billion by the end of the year, and the Board anticipates that the new tax bill will yield \$4.7 billion of extra money, a part of which will come in this year. Szymczak does not believe a change in reserve requirements would be desirable. If some change is needed in the Fall, he would prefer open market operations to the extent necessary. Reducing reserve requirements would broadcast the situation to the whole country, and the Board would prefer open market operations. The Board is not thinking now of a change in the rediscount rate. The feeling of the Board at present is just to sit tight. The Treasury could obtain money through bills and tax anticipation notes. The Treasury believes there is no money in the long or intermediate market now. The Board agrees, but no one knows what the situation may be next June.

Fleming believes that some definite plan should be worked out for spreading the debt so that this objective is kept constantly in mind.

Szymczak. The Board agrees.

Jackson. The Council would not favor open market operations, if it meant the accumulation of large government holdings in the Federal Reserve System.

WHAT ARE THE PROSPECTS WITH RESPECT TO TOTAL CHANGES IN THE VOLUME OF BANK LOANS DURING THE REST OF THE CURRENT YEAR?

Brown reads Item 2 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. Although the volume of retail inventories is down from last Spring, the volume is still high. Commitments are probably less than a year ago, but they are also probably still high. The demand for crop loans promises to be heavy.

Szymczak. The banks have been tight and have been borrowing at the Federal Reserve banks. Manufacturers' inventories have gone up greatly. In some cases businesses have bought metals which are not now being used to the extent anticipated for defense production.

Brown states he believes Ralph Young estimated a 12-1/2 per cent increase in the volume of loans. The banks know that their customers are pressing heavily for loans.

IN THE EVENT STRONG INFLATIONARY PRESSURES SHOULD REASSERT THEMSELVES, THE LIMITATIONS IMPOSED BY RECENT LEGISLATION ON THE AUTHORITIES OF THE BOARD OVER CONSUMER AND REAL ESTATE CREDIT WOULD MAKE IT IMPOSSIBLE FOR THESE AUTHORITIES TO BE USED EFFECTIVELY AS INSTRUMENTS OF SELECTIVE CREDIT REGULATION. WHAT WOULD BE THE RECOMMENDATIONS OF THE COUNCIL AS TO WHAT, IF ANY, RECOMMENDATIONS SHOULD BE MADE BY THE BOARD TO THE CONGRESS WITH RESPECT TO THE REMOVAL OF THE LIMITATIONS?

Brown reads Item 3 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. The Council believes Congress made a mistake. However, the change has been as recent as July, so the Board can hardly go back to the Congress yet and ask for the removal of the limitations.

Szymczak. The Council of Economic Advisers would have no open market operations, but would work only through selective credit controls. The Council of Economic Advisers even wanted a selective inventory control which the Board felt would not work. The Board did not believe that it should yield to the automobile dealers and extend the time for payment to eighteen months. The Board felt that, if it yielded, automobile dealers would figure that they only needed in the future to put pressure on Congress and the Board would yield.

Norton. Is there any evidence that there will be large batches of cheaper (\$12,000) VA housing?

(Various Council members report that there is no evidence.)

Norton believes that there are more expensive houses being built than at any time in his experience.

Potts asks whether Norton has the overall figures on housing.

Norton states he does not have the figures with him. However, housing starts will run a little over one million in 1951. There was a backlog originally of 600,000. The backlog is now down considerably.

Potts asks Norton about the situation in materials.

Norton. The contractors report they can get anything but copper.

Ringland. Is there a cubic footage limitation?

Norton states that he is not certain that there is such a limitation.

Congdon. If mortgage money becomes easy, he believes there would be much low cost housing.

Norton agrees.

WHAT COMMENTS DOES THE COUNCIL HAVE TO MAKE WITH RESPECT TO THE PROGRAM FOR VOLUNTARY CREDIT RESTRAINT AND THE MANNER IN WHICH IT HAS OPERATED?

Brown reads Item 4 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. One of the most effective features of the program is to be found in the cases of good customers of large banks who requested loans which are not necessary to the economy or to defense production. The banks can now decline these loans without fear of losing these customers to other banks. There is always a danger that after any new program is once launched, less publicity will be given to it later. Brown urges the continuous use of literature, speeches, and other publicity materials. He comments that many loans are extended by the government which the banks would not grant, but that it is probably difficult to control these government loans.

Szymczak. Powell has done a very good job. It is good to have insurance people, investment bankers and commercial bankers working together. There is some danger that if too many small borrowers are turned down they will go to Congress for help. If the Board should have to use Section 13b, in addition to the V-Loan program, they will do so to keep small business away from Congress. The matter of government lending was taken up with the President, and he asked the government lending agencies to conform to the Voluntary Credit Restraint program.

Powell. The compliments regarding this program belong to the national committee and the regional committees. Powell states he was aware during the late summer that the program was not getting the publicity it should, but prices were falling and loans declining so he did not feel it imperative to promote the program through publicity more actively. However, on September 5 the National Committee met and decided to step up the publicity. Powell favors having the publicity come from the regional groups. It is better to stop the pressure for credit locally by publicity before the requests for credit are made. There has been some question of how to make the Voluntary Credit Restraint program effective if the government agencies continue to extend credit freely. The Wilson committee gave good support to the program. A subcommittee (Wilson, Lawton and Keyserling) of the Wilson Committee sent a report to the President strongly urging government agencies not to grant credit which the banks turn down. The report was in support of the Voluntary Credit Restraint program, and a part of it was read to the Council by Powell. Powell states that the President told Lawton of the Budget Bureau to send the report as a directive to the government lending agencies. Powell states that complaints which bankers or bankers associations make regarding government loans should be specific, and include examples if the Board is to be helpful. If the Board is given definite cases of government loans which were unnecessary and not desirable, the cases can be taken up by the Board with

the proper authorities in Washington. Powell states he has also written to the heads of the various government lending agencies and has received letters from them offering to cooperate. He also has statistics on the activities of the various government lending agencies, and their loans have increased no more than banks. P.C.A. loans have not expanded any more than bankers' loans.

Brown states that the savings and loan associations have groups working on the Voluntary Credit Restraint program.

Powell. The Voluntary Credit Restraint program has not tried to influence Congress on F.H.A. or public housing.

Szymczak. The Board and its members have tried to make their influence felt on these matters.

Brown raises the question of whether thought has been given to amending The Defense Production Act so that government loans would come under the program.

Powell states he has stayed away from raising this question, because he felt that all the government agencies might gang up on the program and defeat it.

Brown expresses the appreciation of the Council to Powell for his report.

IS THE V-LOAN PROGRAM OPERATING SATISFACTORILY AND TO WHAT EXTENT IS IT MEETING THE NEED FOR DEFENSE PRODUCTION LOANS?

Brown reads Item 5 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached.

(An off-the-record discussion follows).

Szymczak states that the Board can take some action on some of the complaints, because of the interest of the Federal Reserve System in V-Loans.

Davis asks how much money is available under Section 13b.

Szymczak is not certain, but believes it is around \$250 million.

Davis has been told that it is only about \$129 million.

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Szymczak wishes the Council to know that it does not have to write out all of the answers to items on the Agenda. The Council does not have to commit itself definitely in writing, but may leave agenda items to be discussed orally. There may be items where additional information will be forthcoming from the Board at the meeting, which may result in a change in the Council's viewpoint. Szymczak wishes the Council to know that the written memorandum which the Council now prepares is not necessary, and need be used only in those cases where the Council prefers to write its answers to questions on the Agenda.

Brown states that the written memorandum was the result of a request of a previous Chairman of the Board.

Szymczak comments that the previous Chairman had requested the written memorandum, but that the Board now feels it is not necessary, except as the Council may wish to write its views.

The meeting adjourned at 1:54 P.M.

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The Council and the Board agreed that the next meeting would be November 18-20, 1951. The joint meeting with the Board will be on November 20, 1951.