MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 18, 1951

The fourth statutory meeting of the Federal Advisory Council for 1951 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on November 18, 1951, at 2:50 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. Lochead	District No. 12
Herbert V. Prochnow	Secretary

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on September 16, 17 and 18, 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 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 31 and 32.

The meeting adjourned at 5:50 P.M.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 19, 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. Lochead, and Herbert V. Prochnow, Secretary.

The Council reviewed its conclusions of the previous day regarding the items on the agenda and sent to the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 31 and 32, listing the agenda with conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 11:00 A.M. on November 19, 1951.

The meeting adjourned at 10:40 A.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 NOVEMBER 20, 1951

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.

Assuming no major change in the economy, such as an all-out war or a substantial curtailment of the defense program, the Council believes that business will be good in the months immediately ahead. Activity in certain lines, such as textile and shoe manufacturing, has been depressed. Considerable spottiness is likely in the next six months even if the over-all level of business is high. Retailers and suppliers have made considerable progress in liquidating excess inventories. By reducing their forward commitments also they have helped to lessen the inflationary pressures. Employment is high and savings are large, so that consumers have the current income and the backlog for substantial personal purchases.

There is a noticeable apprehension on the part of many customers of banks relative to the future of business. This apprehension results in questioning the wisdom of further expansion programs, and has caused considerable postponement and some abandonment of construction and other capital expenditures.

The members of the Council representing the highly industrialized districts report a continuing demand for loans, and believe that there will be some increase in the over-all volume of loans in their districts. The members of the Council representing districts in which heavy manufacturing is not so important expect loans either to remain stationary or to decline.

Under present conditions,

A. The Council believes that the Open Market Committee has followed the proper policy of maintaining a flexible and orderly market for government securities and a reasonably firm money market. A continuance of this policy is recommended. The Council also believes that no change should now be made in reserve requirements or in the rediscount rate. Conditions may change by the next meeting of the Board and the Council. The Council will be pleased to review this item of the agenda again at that time.

B. The Council believes the Voluntary Credit Restraint program has had, and is continuing to have, a salutary effect in restricting credit to loans essential to the defense effort and the functioning of the economy. The Council strongly urges continued emphasis on the program and dramatization of its objectives.

2. The Board would like to have a further discussion of the answers to be prepared in response to the questionnaire addressed to the Chairman of the Board by the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report. Copies of the answers to the questions submitted to the Board will be sent to the members of the Council as they are prepared for sending to the Patman Committee.

The Council will be pleased to discuss the answers to be prepared in response to the questionnaire addressed to the Chairman of the Board by the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report.

3. The Board would like to have an informal round table discussion participated in by all members of the Federal Advisory Council of the problem of the public debt in so far as it affects the responsibilities and operations of the Federal Reserve System.

Members of the Council will welcome such an informal round table discussion.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 19, 1951

At 2:15 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, Frederic A. Potts, Sidney B. Congdon, Paul M. Davis, W. L. Hemingway, Joseph F. Ringland, David T. Beals, De Witt Ray, and Herbert V. Prochnow, Secretary.

Absent: Messrs. Robert V. Fleming and James K. Lochead.

Mr. Arthur W. Marget, Director of the Division of International Finance of the Board of Governors, and his staff spoke on "Developments in International Finance, 1949-1951". A copy of the remarks of Mr. Marget and his associates was given to each member of the Council.

The meeting adjourned at 3:50 P.M.

HERBERT V. PROCHNOW
Secretary.

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

November 20, 1951

At 10:35 A.M. a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

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

Chairman William McC. Martin Jr.; Governors M. S. Szymczak, James K. Vardaman Jr., 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. Lochead, and Herbert V. Prochnow, Secretary.

President Brown read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* as printed on pages 31 and 32 of these minutes. Discussion of the Voluntary Credit Restraint program and the future demand for credit followed, in which members of the Council and the Board participated.

President Brown then read the second agenda item and stated that the members of the Council believe that the Staff has done good work in preparing those answers which so far have been submitted to the Council for review.

Chairman Martin stated that the Board will be pleased to send to the Council copies of the other answers as completed. Chairman Martin also said that the Board would welcome individual opinions from the Council members by letter.

President Brown read the third agenda item as given in the *Memorandum to the Board of Governors*. An extended discussion followed in which members of the Council and the Board participated.

It was agreed that the next meeting of the Council should be held February 17-19, 1952.

The meeting adjourned at 12:46 P.M.

HERBERT V. PROCHNOW
Secretary.

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

H. V. P.

The Secretary's notes on the meeting of the Federal Advisory Council on November 18, 1951 at 2:50 P. M. in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Council were present.

The Council approved the Secretary's notes for the meeting of September 16-18, 1951.

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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 the three items on the agenda. In relation to Item II, Brown states that the questions and answers the Board has submitted for the Council to review in connection with the Patman Questionnaire deal primarily with the statistical and historical questions. There may be some discussion regarding the question which relates to the powers of the officials and directors of the Federal Reserve banks. Brown then asks the members of the Council to give their views on Item I of the agenda.

Lockhead. Bankers and business men on the Pacific Coast are concerned with several phases of the business situation. One of the problems is the large cattle population and what may happen to meat prices. There is also a very large supply of canned goods. Some business interests on the Pacific Coast are becoming bearish on the economic outlook. Lockhead thinks Regulation W is quite effective, but Regulation X is not as effective as it should be.

Brown states that the term "general credit controls" in Item I of the agenda does not refer to selective credit controls but to such controls as open market operations, the rediscount rate and reserve requirements.

Lockhead believes that interest rates should be determined by the open market and should not be artificial. He does not believe at present in changing the rediscount rate or reserve requirements.

Ray. Deposits and loans in his area are at an all-time peak and he believes they may go higher. The petroleum industry needs even more money. Perhaps by February loans may decline moderately. There is an air of optimism in his district. Inventories are showing some decline. Ray sees no reason for a change in the rediscount rate or in reserve requirements. Interest rates, locally, are higher. Housing, especially in the middle bracket - $12,000 to $25,000 - has tapered off, but the markets for houses in the lower and higher price brackets are good. All in all, conditions look good in his district.

Beals. The economic situation in his district is not as active as it is in Texas. Retail sales are not much higher than a year ago, and they were lower than last year, up to a few weeks ago. There is a cattle population of about 91,000,000. When you consider the United States population and weight of cattle and distribution over the United States, the total cattle population does not look too excessive. There are some indications that meat prices will decline perhaps 10 per cent. Loans and deposits are high in the banks in the district. Loans in the large banks are declining somewhat. In Beals' bank there is no appreciable change in the volume of loans. Business in the district is perhaps a little less active than a year ago.

Lockhead. The total loan volume in his bank is higher than a year ago, but outside of the canning and cattle industries, the demand for money is decreasing.

Beals believes there should be no change in the rediscount rate or in reserve requirements.

Bucklin asks Lockhead if he will explain further his statement that his total loan volume is higher but that the demand for money is decreasing.

Lockhead. Except for the cattle and canning industries, loans from regular customers are tending to come down. He believes "pay day" in the United States may come by the end of 1952.

Ringland. Crops in his district have been good. In some parts of the country, including Montana, the crops have not yet been completely harvested. Conditions in general have been good. There is an active loan demand, but it is off from the peak. Ringland does not expect loans to go as high as last year. Department store sales are only slightly lower than a year ago. Favorable conditions are anticipated for the next six months. The rediscount rate and the present reserve requirements should not now be changed.

Hemingway. In the Eighth District conditions are generally good. There are more cattle in Arkansas and Mississippi. Retail trade is fairly well over its worst inventory problems, but this is not true of all wholesalers and manufacturers. The total volume of loans seems to be about stationary with no major movement either way. Hemingway favors a continuation of the present policies relative to the rediscount rate, reserve requirements and the operations of the open market committee.

Davis. There has been some liquidation of loans in the Sixth District. The demand for loans has not been particularly heavy. The loan volume is now about on an even keel with no major movement either way. Manufacturers are a little uneasy about future demands. No change is desirable now in the rediscount rate, reserve requirements or open market operations. Commodity loans are not as large as anticipated at this time of the year. Borrowing in the tobacco industry has not yet started. The total volume of loans is not as high as a year ago.

Fleming. The Fifth District is predominantly agricultural. Tobacco, live stock, dairy products, and cotton are the primary crops. The department stores are anticipating a good volume of Christmas business. Retail inventories have been considerably reduced. Building is tapering off. The low and high priced houses are having the best markets, and houses in the middle price bracket are having a slow market. The volume of loans is holding up. There is no reason now to change the rediscount rate, reserve requirements or the present policies of the Open Market Committee. By the first half of next year, conditions may make it necessary to review the question of any changes in general credit controls. By the end of 1952 there may be some real problems in financing government deficits.

Congdon states the Fourth District is extremely active. Employment is tight. Department store sales are running at a good rate. There is a heavy demand for money. The volume of V loans is not great. The volume of loans in the large banks in the district is up substantially over a year ago. Congdon's bank expects a larger use of its loan commitments than was made last year. Plant expansion is going on quite rapidly, although there is a little more caution. The effect of the Mills' plan will be bad on the cash position of business. For the immediate future, business looks active in the Fourth District. The voluntary credit program has worked very well, partly, perhaps, because banks have been fairly well loaned up. Congdon believes no change should now be made in the rediscount rate, reserve requirements or the activities of the Open Market Committee. If the demand for credit continues active in the next six months, some change may need to be made in the general credit controls.

Potts. The Third District is highly industrialized. Business activity is at a high level, although there are some exceptions in leather, wool, and the textiles, especially carpets. The volume of V loans is quite high. A large steel plant is now being built in the district. With a few notable exceptions, many lines of business should be at a high level in the months immediately ahead. The Pennsylvania Railroad has had a decline in car loadings which is contrary to the seasonal trend. Loans are down a little. Potts looks for a possible reduction in loans by January. Department store sales are off. No change is desirable at present in reserve requirements or in the rediscount rate. Open market operations should be conducted to provide a flexible and orderly market.

Jackson. Textile mills have been operating under considerable difficulty. The mills have had a great deal of liquidation. The rayon situation has in some respects been the worst, with a nine months' supply of rayon compared to a normal of three months. The converters and department stores have taken large losses. The garment manufacturers have also had serious problems and have had a very difficult time. Other lines are active. The demand for money has not been as great as was expected, but the total volume of loans is increasing. A study was made for his bank by Lionel D. Edie covering various factors relating to the financial problems of corporations. The following figures were of particular interest:

MANUFACTURERS

Cash and governments to sales	1944 -	10.6% of sales
" " " " "	1951 -	5.1% of sales

Tax accruals:

War tax	1944	5.0% of sales
" "	1945	4.7% of sales
Present		7.4% of sales
	1952	7.7% of sales

If inventories were in the same relation to sales today as in 1941, the inventories would be up $8 billion.

These figures would indicate that there may be a rather heavy demand for money because corporations will be short of cash in the months ahead. He understands that there has been a considerable letup in the demand for automobiles in the last three weeks. Brokers' loans are down. There is also some letup in new housing starts. Jackson does not believe any change is desirable now in the rediscount rate or in reserve requirements.

Bucklin. Business in the Second District is good. The shoe and leather industries have been in some difficulty, although recently there is some encouragement in the new orders they are receiving. The construction industry is not showing an increase in volume. Credit in the Boston Banks is relatively easy, although that does not hold true in some banks in New England. Installment loans are off in volume. Companies in the wool industry have liquidated their inventories very well in view of the price decline they experienced. Bucklin anticipates an increase in loans in the months immediately ahead. His bank has made some V loans. Loans in his bank are as high as they have been in the last twelve months. No change in the rediscount rate or in reserve requirements is desirable now.

Brown. Business in the Seventh District is very active. Some industries such as leather have had a difficult time. Calf skins have declined sharply in price. Retail and mail order department stores have begun to correct their inventory situations. The machine industry is in good condition. Brown's bank is getting requests for V loans. Business leaders are questioning whether the present prosperity will last. Railroads are hesitating to order freight cars, although they will order diesel engines because they can reduce their costs. A number of executives in the steel industry believe that by the latter part of 1952 steel will be plentiful. Loans in the Chicago banks are up substantially over a year ago. There is a heavy demand for loans at present. Brown believes that business in the Seventh District will be active in the months immediately ahead, and that there will be a heavy demand for loans. There is a noticeable apprehension by customers of banks relative to the future of business, and if this apprehension becomes widespread, it may have a serious effect on construction and other capital expenditures. Crops in the district have been good. The soy bean crop has been large. The banks have probably had less demand for loans than they anticipated, although the volume of loans is increasing. The Council may state that, at present, no change in reserve requirements or in the rediscount rate is desirable. Open market operations are being satisfactorily handled. The members of the Council representing highly industrialized districts expect a continuing demand for loans with some increase in the total volume, whereas, members of the Council, in districts where heavy manufacturing is not so important, expect loans to remain stationary or to decline. Unless there is a major change in the economy, such as a full-scale war or a considerable curtailment of the defense program, business should be good in the immediate future. The inventory situation has begun to correct itself. Brown states that in its memorandum to the Board the Council may also call attention to the apprehension of many customers relative to the future of business. Open market activities have promoted flexibility and a reasonably tight money market. Economic conditions may change by the next meeting of the Council, and the Council will be glad to review this item of the agenda at the next meeting. The Council may also state that the voluntary credit program has had a good effect and emphasis on it should be continued with a dramatization of its objectives.

THE BOARD WOULD LIKE TO HAVE A FURTHER DISCUSSION OF THE ANSWERS TO BE PREPARED IN RESPONSE TO THE QUESTIONNAIRE ADDRESSED TO THE CHAIRMAN OF THE BOARD BY THE SUBCOMMITTEE ON GENERAL CREDIT CONTROL AND DEBT MANAGEMENT OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT. COPIES OF THE ANSWERS TO THE QUESTIONS SUBMITTED TO THE BOARD WILL BE SENT TO THE MEMBERS OF THE COUNCIL AS THEY ARE PREPARED FOR SENDING TO THE PATMAN COMMITTEE

There was an off-the-record discussion of some of the questions of the Patman Subcommittee and the answers which the Board of Governors had given to the members of the Council for their review. It was the opinion of the members of the Council that the answers which had been received dealt largely with historical and statistical questions. The members of the Council will state in their memorandum to the Board that they will be pleased to discuss the answers to be prepared in response to the questionnaire addressed to the Chairman of the Board by the Patman Subcommittee.

<u>Hemingway</u> states that the United States Chamber of Commerce is prepared to take a public position strongly favoring the independence of the Federal Reserve System.

THE BOARD WOULD LIKE TO HAVE AN INFORMAL ROUND TABLE DISCUSSION PARTICIPATED IN BY ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL OF THE PROBLEM OF THE PUBLIC DEBT INSOFAR AS IT AFFECTS THE RESPONSIBILITIES AND OPERATIONS OF THE FEDERAL RESERVE SYSTEM.

<u>Brown</u> asks who would like to lead off in the discussion with the Board.

Hemingway states that there ought to be a free and orderly market. In time of war a market can be pegged, but otherwise it should not be.

Fleming believes that piecemeal financing is wrong. The Treasury should have a chart of future bond issues with longer maturities.

Congdon. The Treasury must do what a corporation does, that is, pay the going rate and offer the public what it wishes as to type of security.

Brown suggests that Hemingway begin the discussion with the Board on this item on the agenda.

V-LOANS

Brown reads the following paragraph from a letter addressed by S. R. Carpenter, Secretary of the Board of Governors to the Secretary of the Council:

"In view of the question raised at the last meeting of the Council concerning delays in processing V-loan applications, it would be appreciated if you would let me know whether the Council would like to have a representative of the Department of Defense meet with the Council or perhaps attend the joint meeting for the purpose of discussing this question. If such an arrangement is desired, we shall take the steps necessary to have a suitable representative on hand for that purpose. Such a representative could no doubt be more helpful to the Council if he knew in advance what types of cases the Council wished to discuss, and in the event a discussion is desired we hope you will be able to indicate some of the specific questions that may be raised."

Brown then reads the following memorandum he had given to the Secretary of the Council, and which was sent to Mr. Carpenter by the Secretary of the Council:

"I think it would be better not to have a representative of the Department of Defense meet with the Council on the question of V-loans. The members of the Council themselves do not handle V-loans, and discussions with the Department of Defense should be held between representatives of the banks selected by the A.B.A. or some other banking group because they are technicians, and not with members of the Council, who are necessarily concerned with matters of general policy."

All members of the Council agree with Brown's views on the matter.

The meeting adjourned at 5:50 P.M.

THE FEDERAL ADVISORY COUNCIL CONVENED AT 10 A.M. ON NOVEMBER 19, 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 November 20, 1951. The Memorandum was delivered to the Secretary of the Board of Governors at 11 A.M. It will be noted that each item of the Agenda is listed together with the comments of the Council.

The meeting adjourned at 10:40 A.M.

CONFIDENTIAL

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

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.

Assuming no major change in the economy, such as an all-out war or a substantial curtailment of the defense program, the Council believes that business will be good in the months immediately ahead. Activity in certain lines, such as textile and shoe manufacturing, has been depressed. Considerable spottiness is likely in the next six months even if the over-all level of business is high. Retailers and suppliers have made considerable progress in liquidating excess inventories. By reducing their forward commitments also they have helped to lessen the inflationary pressures. Employment is high and savings are large, so that consumers have the current income and the backlog for substantial personal purchases.

There is a noticeable apprehension on the part of many customers of banks relative to the future of business. This apprehension results in questioning the wisdom of further expansion programs, and has caused considerable postponement and some abandonment of construction and other capital expenditures.

The members of the Council representing the highly industrialized districts report a continuing demand for loans, and believe that there will be some increase in the over-all volume of loans in their districts. The members of the Council representing districts in which heavy manufacturing is not so important expect loans either to remain stationary or to decline.

Under present conditions,

A. The Council believes that the Open Market Committee has followed the proper policy of maintaining a flexible and orderly market for government securities and a reasonably firm money market. A continuance of this policy is recommended. The Council also believes that no change should now be made in reserve requirements or in the rediscount rate. Conditions may change by the next meeting of the Board and the Council. The Council will be pleased to review this item of the agenda again at that time.

B. The Council believes the Voluntary Credit Restraint program has had, and is continuing to have, a salutary effect in restricting credit to loans essential to the defense effort and the functioning of the economy. The Council strongly urges continued emphasis on the program and dramatization of its objectives.

2. The Board would like to have a further discussion of the answers to be prepared in response to the questionnaire addressed to the Chairman of the Board by the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report. Copies of the answers to the questions submitted to the Board will be sent to the members of the Council as they are prepared for sending to the Patman Committee.

The Council will be pleased to discuss the answers to be prepared in response to the questionnaire addressed to the Chairman of the Board by the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report.

3. The Board would like to have an informal round table discussion participated in by all members of the Federal Advisory Council of the problem of the public debt in so far as it affects the responsibilities and operations of the Federal Reserve System.

Members of the Council will welcome such an informal round table discussion.

THE FEDERAL ADVISORY COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:15 P.M. ON NOVEMBER 19, 1951. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSRS. FLEMING AND LOCHEAD, BOTH OF WHOM WERE GIVEN COPIES OF THE DISCUSSION.

Mr. Arthur W. Marget, Director of the Division of International Finance of the Board of Governors, and his staff, spoke on "Developments in International Finance 1949-1951." A copy of the remarks of Mr. Marget and his associates was given to each member of the Council.

The meeting adjourned at 3:50 P.M.

ON NOVEMBER 20, 1951, AT 10:35 A.M., THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, GOVERNORS SZYMCZAK, VARDAMAN AND POWELL. MR. CARPENTER, SECRETARY OF THE BOARD, ALSO WAS PRESENT.

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. Barring a full-scale war and a substantial curtailment of the defense program, the members of the Council believe that over-all business in the next six months will be good. There is considerable apprehension in business regarding the period following the next six months. Although there has been some spottiness in various lines, it is remarkable that the failures have been so few, in view of the drastic decline in certain commodity prices. The Open Market Committee has shown skill in handling the market. The members of the Council are unanimous in their belief that the present rediscount rate and reserve requirements should not now be changed. Banks in the industrial districts expect higher loans, partly because of the Mills' Plan, which it is anticipated will force corporations to borrow.

Jackson. Business loans in New York have been increasing steadily for a number of weeks. He quotes figures regarding the financial position of corporations which were given to the Council at its meeting on the previous day, and which are found earlier in these notes. Many corporations are experiencing steadily shrinking working capital positions.

Martin. Has the loan volume been less than banks anticipated?

Jackson. It is less.

Martin. Is it substantially less?

Jackson states that he would not use the word "substantially", but it is less, if you consider all banks.

Brown. The increase in loans has been less than anticipated over the country. Commodity loans, including cotton loans, are not as high as expected.

Fleming asks whether the Board has given any consideration to the effect of the Mills' Plan.

Martin states that the Board has a study which was made by one of Congdon's associates. Martin asks Powell to comment on the Voluntary Credit Restraint program.

Powell. Loan expansion this Fall has been about what was expected seasonally. If you take out the seasonal factor, the chart line of loans has remained about level. If you also take out about $800 million to $900 million of defense loans, it is clear that other loans have been held down. If you take out defense loans and commodity loans, other loans are down. The volume of bond issues has also been held down. Bond issues have been held substantially to the essential needs of defense and the economy. The American Bankers Association is now making a survey of loans turned down, but this record cannot possibly be complete because many banks do not keep complete records of loans that are declined, perhaps over the telephone.

Lochead. Is it possible to restrict the credit going into housing? The housing program is bringing more inflation.

Powell. The hands of the Federal Housing Administration are tied by Congress. To make any change in this respect you would have to go back and change the mandates of Congress. Powell has talked with FHA officials to get their cooperation, but the Voluntary Credit Restraint program does not include these housing loans.

Szymczak agrees with the Council's statement on business conditions. No one can now be sure of the direction which business will take. Some of the economic forces in the economy are moving up, whereas others are moving down. The over-all trend of loans is probably up. Defense expenditures, plus plant and equipment expenditures, may cause an upsurge in the volume of loans.

Martin states that the expansion of loans is so much less than he expected that it worries him in some respects. Martin expects a modest increase in loans to March, beyond which he cannot see.

Vardaman does not see any chance for the over-all demand for money to decrease. He believes fear has caused a hesitancy to borrow, but he believes this will disappear. In the South he found people borrowing from banks and on their insurance. They were doing everything possible to keep from using their own money. Money also was being put in safety deposit boxes. Every request for credit now is based on the argument of defense.

Powell. Plant expansion, inventories, construction, and consumer credit, are all factors in the loan situation. By the second quarter of next year the demand for new steel expansion may be over, and this may be some indication of what to expect in other industries. In 1951 plant expansion steadily increased throughout the year. The total volume of plant expansion in 1952 may be not far from that in 1951, but it is possible that the pattern may be reversed with a declining volume throughout the year. Inventories are tapering off. A decline in plant expansion and decreasing inventories may reduce the demands for credit. He does not agree with Vardaman's views although a real war scare could conceivably cause an increase in loans.

Potts asks whether Powell expects a real decrease in loans in 1952.

Powell states he expects a decrease in 1952.

Vardaman comments that his views are based on hunches and guesses, whereas Powell's are based on statistics and are presumably unanswerable. However, Vardaman comments that he has seen several requests for further steel mill expansion. He believes the government will try to make possible a large volume of goods for consumers at the same time it has a large defense program. It is an election year and this will be a factor. He cites the case of Willys Overland, which is bringing out a new car, despite government statements that the major effort in 1952 in the economy will be for defense. Vardaman believes that the Administration wishes a luxurious peace and full preparation for war at the same time, so he does not believe the demand for loans will decline in 1952.

THE BOARD WOULD LIKE TO HAVE A FURTHER DISCUSSION OF THE ANSWERS TO BE PREPARED IN RESPONSE TO THE QUESTIONNAIRE ADDRESSED TO THE CHAIRMAN OF THE BOARD BY THE SUBCOMMITTEE ON GENERAL CREDIT CONTROL AND DEBT MANAGEMENT OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT. COPIES OF THE ANSWERS TO THE QUESTIONS SUBMITTED TO THE BOARD WILL BE SENT TO THE MEMBERS OF THE COUNCIL AS THEY ARE PREPARED FOR SENDING TO THE PATMAN COMMITTEE.

Brown. The Council believes the staff has done an excellent job in preparing those answers which have so far been submitted to the Council for consideration. The answers which the Council has received so far deal mainly with statistical and historical questions.

Martin. The Board has sent to the Patman Subcommittee the answers to eleven questions, in order to show good faith in trying to meet the deadline for submission of the answers. There is an understanding with the Patman Subcommittee that the Board can make changes in the next forty-five days or so, even in the answers which have so far been submitted. The answers will probably not be printed for 45 days. Ralph Young heads the staff which is preparing the answers. If the staff cannot agree on the answer to some question, the staff member who objects can present his case for decision to the Board. The Board will be pleased to send its answers to the Council and have individual opinions from Council members by letter. Martin states he does not wish the Board's answers to give the impression that the Board never makes a mistake. (Some off-the-record comments were made at this time.)

Vardaman asks Martin whether it is his objective to get an opinion from the Council as a group, or whether he wishes the views of individual members of the Council.

Martin believes it would be impossible for the Council as a group to discuss all the answers and give a consolidated Council view.

Fleming thinks Martin should submit to the Council only those questions which are highly important. (At this point there was an off-the-record discussion.)

Hemingway. The United States Chamber of Commerce is prepared to testify regarding the desirability of independence of the Federal Reserve System.

Martin states that he has struggled conscientiously with the question, "What is independence?" (At this point there was an off-the-record discussion.)

THE BOARD WOULD LIKE TO HAVE AN INFORMAL ROUND TABLE DISCUSSION PARTICIPATED IN BY ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL OF THE PROBLEM OF THE PUBLIC DEBT INSOFAR AS IT AFFECTS THE RESPONSIBILITIES AND OPERATIONS OF THE FEDERAL RESERVE SYSTEM.

Brown asks whether the Board wishes to speak first on this question.

Martin asks Vardaman to express his views, as Vardaman suggested the question, and has been urging that the Treasury get away from the hand-to-mouth financing.

Vardaman. Over 64 per cent of the marketable debt matures in less than four years. In another three years, 78 per cent of the debt will mature in less than four years.

Hemingway has for a long time held the view that something should be done to correct the situation Vardaman has described. Except in time of war, or perhaps when there are very heavy gold imports, government securities must find their level in a free market. Delay in reaching the decision to find a free market will make it harder to accomplish. The American people see no real appeal in government securities at present. It is necessary to get away from the patriotic appeal to an investment basis on government bonds.

Jackson believes there is an advantage in having savings bonds on a non-marketable basis, but the other government market is a professional market. Jackson does not believe that the saver is concerned about what happens in the professional market. The ultimate cost to the public is greater under the present piecemeal financing.

Fleming. A chart should be prepared with a plan for spreading out the debt. The penalty imposed to make investors hold savings bonds is a mistake. There may at present be no long-term money available, but a plan should nevertheless be drawn up so that the objective of spreading out the debt is clear and always before those who handle the debt.

Vardaman. Can you see any hope of a revival of interest in long-term governments and savings bonds in the near future?

Fleming believes the government can meet its problems this fiscal year, but that they may be more serious by the end of 1952 when the government may need more money. What will the Federal Reserve System do then, if there are no reserves in the banking system? Will it be necessary to reduce reserve requirements, or raise interest rates on government securities?

Jackson states that the American people have been increasing their savings substantially, but they have been putting these savings into savings accounts. The saver must have substantially the same rate on savings bonds that he can get from a savings account. Jackson believes that pension funds would buy governments on a realistic basis.

Congdon. The process of spreading the debt into longer maturities is at best a slow one. He believes Fleming's idea of a chart showing the objectives is a good one. The objective of spreading the debt must be constantly before the officials responsible for the debt. The rate offered must meet the market. Freeing governments from the peg is only half of the problem.

Brown believes long-term marketable issues could be sold at perhaps 2-3/4 per cent to three per cent. There would be heavy purchases year after year. The $2\frac{1}{2}$'s would have to find their natural level. He suggests the possibility of a 25 year or 30 year issue. The Federal Reserve is tied up with the Treasury in many ways, and it could not let any issue fail. The Federal Reserve System must work out with the Treasury a plan for spreading out the debt.

Vardaman does not believe the Treasury can take care of its needs next Fall in the market.

Davis. The Treasury could take care of its requirements if it offered a satisfactory rate.

Vardaman agrees.

Potts believes that, except in time of extreme emergency, it is now agreed that the low interest rate theory is discredited. He also believes a longer term issue at a higher rate could be sold. (Potts makes an off-the-record comment on the work of the Patman Subcommittee.)

Bucklin. All members of the Council believe that the savings bonds must have an investment appeal, and that a chart of objectives, as Fleming has suggested, would be highly desirable. There may be some differences of opinion among members of the Council regarding the possibility of selling a long-term issue at a higher rate.

The meeting adjourned at 12:46 P.M.

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The Council and the Board agreed that the next meeting would be February 17, 18, 19, 1952.

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At 2:25 P.M. Messrs. Brown, Bucklin, Congdon, Hemingway and Beals met in the Board Room to read a first draft of the Board's answer to Question B-8 of the questions submitted by the Patman Subcommittee to the Chairman of the Board. Other members of the Council received copies of the first draft of the Board's reply to Question B-8, but were unable to remain for this informal meeting because of appointments or transportation reservations.

There was no discussion.

The meeting adjourned at 2:50 P.M.