

MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

February 17-19, 1952

May 18-20, 1952

October 5-7, 1952

November 16-18, 1952

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1952

OFFICERS:

President, Edward E. Brown
Vice President, Robert V. Fleming
Director, N. Baxter Jackson
Director, Geoffrey S. Smith
Director, George Gund
Secretary, Herbert V. Prochnow

EXECUTIVE COMMITTEE:

Edward E. Brown
Robert V. Fleming
N. Baxter Jackson
Geoffrey S. Smith
George Gund

MEMBERS:

Walter S. Bucklin	District No. 1
N. Baxter Jackson	District No. 2
Geoffrey S. Smith	District No. 3
George Gund	District No. 4
Robert V. Fleming	District No. 5
Paul M. Davis	District No. 6
Edward E. Brown	District No. 7
V. J. Alexander	District No. 8
Joseph F. Ringland	District No. 9
David T. Beals	District No. 10
De Witt Ray	District No. 11
James K. Lothead	District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

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

ARTICLE II. PRESIDENT AND VICE PRESIDENT

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

ARTICLE III. SECRETARY

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

ARTICLE IV. EXECUTIVE COMMITTEE

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

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

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

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

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

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

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

ARTICLE VI. MEETINGS

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

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

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

ARTICLE VII. ALTERNATES

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

ARTICLE VIII. AMENDMENTS

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

February 17, 1952

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 17, 1952

The first and organizational meeting of the Federal Advisory Council for the year 1952 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on February 17, 1952, at 2:20 P.M.

Present:

Ernest Clayton (Alternate for Walter S. Bucklin)	District No. 1
N. Baxter Jackson	District No. 2
Geoffrey S. Smith	District No. 3
George Gund	District No. 4
Robert V. Fleming	District No. 5
Paul M. Davis	District No. 6
Edward E. Brown	District No. 7
V. J. Alexander	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

Absent:

Walter S. Bucklin	District No. 1
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Mr. Edward E. Brown was elected Chairman *pro tem* and Mr. Herbert V. Prochnow, Secretary *pro tem*.

The Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1952.

The following officers were nominated and unanimously elected:

Edward E. Brown, President
Robert V. Fleming, Vice President
N. Baxter Jackson, Director
Geoffrey S. Smith, Director
George Gund, Director
Herbert V. Prochnow, Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at \$3,000 annually.

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

The Secretary presented his financial report for the year 1951, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the printed minutes for the meetings of the Council held on February 18, 19, 20, 1951; May 13, 14, 15, 1951; September 16, 17, 18, 1951; November 18, 19, 20, 1951; and the mimeographed notes of the meeting held November 18, 19, 20, 1951, copies of which had been sent previously to the members of the Council, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Secretary to ask each Federal Reserve Bank to contribute \$350.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1952, and to draw upon it for that purpose.

President Brown announced that Mr. A. L. Mills, Jr. and Mr. J. L. Robertson, who were recently appointed to the Board of Governors, would take the oath of office on Monday afternoon, February 18, at 4:00 P.M., in the Board Room of the Federal Reserve Building. The Board has extended an invitation to the members of the Council to be present.

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

The meeting adjourned at 5:57 P.M.

HERBERT V. PROCHNOW
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1951

Balance on hand December 31, 1950.....	\$ 6,981.55	Salaries.....	\$ 2,500.00
		Conference Expense.....	977.74
		Printing & Stationery.....	347.30
Assessments— 12 Federal Reserve Banks..	4,200.00	Postage, telephone and telegraph.....	18.52
		Balance on hand December 31, 1951.....	7,337.99
	<u>\$11,181.55</u>		<u>\$11,181.55</u>

Chicago, Illinois
February 1, 1952

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ended December 31, 1951, and certify that the above statement agrees therewith.

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

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1952

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

Present: Mr. Edward E. Brown, President; Messrs. Ernest Clayton (Alternate for Walter S. Bucklin), N. Baxter Jackson, Geoffrey S. Smith, George Gund, Robert V. Fleming, Paul M. Davis, V. J. Alexander, Joseph F. Ringland, David T. Beals, De Witt Ray, James K. Lohead, and Herbert V. Prochnow, Secretary.

Absent: Mr. Walter S. Bucklin.

The Council reviewed its conclusions of the previous day regarding the items on the agenda, and sent to the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 8 and 9, listing the agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Assistant Secretary of the Board of Governors at 12 noon on February 18, 1952.

The meeting adjourned at 11:40 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 FEBRUARY 19, 1952

1. When its meeting is held the Council will have received copies of the answers submitted in response to the questionnaires of the Patman Subcommittee. The Board would be pleased to have any comments that the Council might wish to make regarding the answers and particularly with regard to the answers submitted by Chairman Martin.

The members of the Council appreciate the opportunity they have had to read drafts of the answers the Chairman of the Board has made to a number of the questions submitted to him by the Patman Subcommittee. The Council has been very much impressed with the comprehensive and constructive manner in which the problems dealt with in these questions have been discussed. The answers in a number of cases include a thoughtful and scholarly analysis of the historical background necessary for adequate considerations of the complex monetary, banking, and fiscal issues involved. The members of the Council are pleased to find themselves in general agreement with the drafts of almost all of the answers submitted to them. They hope that the answers of the Chairman of the Board will contribute to a better and more widespread understanding of the important functions of the Federal Reserve System in the American economy. The Council will discuss certain of the replies with the Board.

2. The Board would like to have the views of the Council on the prospective business and economic situation during the next six months and also with respect to changes in the volume of bank loans during the first half of 1952 and the principal purposes for which loans will be made.

No member of the Council expects a sharp break or a serious recession in business activity in the first half of 1952. Employment and production are with few exceptions at a high level, and business generally is good. There are substantial differences in the viewpoints of members of the Council regarding the probable trends of bank loans up to July 1st in their respective districts. In addition to local factors, such as weather and its effect on various segments of the agricultural industry, there are a number of general factors, including the acceleration in the payment of corporate income taxes and the rate of defense expenditures, whose influence on the probable demand for bank credit is exceedingly difficult to foresee and measure with any certainty. A majority of the members of the Council expect some increase in bank loans in their districts, but a minority expect loans in the districts they represent to decline. Taking the country as a whole, no important change in the aggregate amount of bank loans is expected during the first half of 1952.

Loans will necessarily be made for the normal production and distribution of goods. Loans for the purpose of carrying inventory are tending to decline. Loans for industries engaged in defense activities are increasing and will undoubtedly continue to increase. Loans for the purpose of housing, in the opinion of a majority of the Council, will decrease, and loans for carrying installment credit will probably remain constant or decrease slightly.

3. Does the Council have any suggestions regarding System credit policies? What form should System policy take in the event inflationary pressures are renewed later in the year?

Until it becomes necessary for the Treasury to raise from the banks a considerable amount of new money to cover deficits, the Council believes that the present policies being followed by the Open Market Committee of maintaining a flexible and orderly market for government securities and a reasonably firm money market should be continued. During this period the Council also believes that no change should be made in reserve requirements or in the rediscount rate.

Unless the Treasury can find ways of channeling a large volume of individual savings into Government securities, it will be necessary for the Treasury in the last half of 1952 to borrow from the banks, which will be inflationary. Since no large reduction in bank loans is possible in view of the necessity of the banks financing both the essential civilian economy and the defense expenditures, any substantial purchases of Government obligations by the banks would require that the banking system be provided with reserves, either through a reduction in reserve requirements or through open market operations, or both. As between the two methods of providing reserves, a majority of the Council would favor creating additional bank reserves by lowering reserve requirements, rather than by having the Federal Reserve Banks acquire further large amounts of Government securities through open market activities.

By the next meeting of the Council with the Board in May, the requirements of the Government and the Treasury program necessary to attract non-bank funds into Government securities should be clearer. The Council would be pleased to discuss this question again with the Board in the light of conditions at that time.

The Council suggests the continued use of every means of publicizing the objectives of the Voluntary Credit Restraint program. The program has been and is a beneficial and constructive influence in restricting credit to essential uses.

In its *Memorandum to the Board* of September 18, 1951, the Council stated that it believed "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." The Council believes the time is now appropriate for the Board to ask for the removal of these limitations. This would enable the Board further to restrict housing and installment credit if desirable.

As a means to finance the prospective deficit other than by the banks, the Council believes that the Treasury should be urged to issue long-term bonds at an interest rate which would insure their sale. The terms required for the successful issuance of such long-term bonds should of course be discussed with insurance companies, the managers of large pension funds, and others.

4. The Board has been considering the legislation that it will propose for enactment in the current session of Congress and would appreciate the comments of the Council in that connection.

The Council does not know what legislation the Board contemplates proposing at the present session of the Congress. The Council will be pleased to discuss with the Board any legislation it intends to propose.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1952

At 2:25 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C., with the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. Ernest Clayton (Alternate for Walter S. Bucklin), N. Baxter Jackson, Geoffrey S. Smith, George Gund, Robert V. Fleming, Paul M. Davis, V. J. Alexander, Joseph F. Ringland, David T. Beals, De Witt Ray, James K. Lohead, and Herbert V. Prochnow, Secretary.

Absent: Mr. Walter S. Bucklin.

Dr. Ralph A. Young, Director, Division of Research and Statistics of the Board of Governors, introduced Mr. G. Richard Youngdahl, Assistant Director, who spoke to the Council on the subject, "Current Problems of Monetary Policy and Debt Management."

The meeting adjourned at 3:35 P.M.

HERBERT V. PROCHNOW
Secretary.

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

February 19, 1952

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 Wm. McC. Martin, Jr.; Governors M. S. Szymczak, R. M. Evans, James K. Vardaman, Jr., Oliver S. Powell, A. L. Mills, Jr. and J. L. Robertson; also Mr. S. R. Carpenter, Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Ernest Clayton (Alternate for Walter S. Bucklin), N. Baxter Jackson, Geoffrey S. Smith, George Gund, Robert V. Fleming, Paul M. Davis, V. J. Alexander, Joseph F. Ringland, David T. Beals, De Witt Ray, James K. Lohead, and Herbert V. Prochnow, Secretary.

Absent: Mr. Walter S. Bucklin.

President Brown read the first item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, as printed on pages 8 and 9 of these minutes.

Chairman Martin remarked that the answers of the Chairman are actually the viewpoint of the entire Board, as all members of the Board have approved the answers, except the two new members who were not on the Board at the time the answers were drafted.

The President of the Council then read the second item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum* previously mentioned. There was a brief discussion on this item, participated in by members of the Council and the Board.

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

Chairman Martin remarked that he sympathizes with the views of the Council on the financing problems of the Treasury. He added, however, that he does not favor the defeatist talk that there is no money available.

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

Chairman Martin reported that the Board will introduce a bill to renew the authority of the Federal Reserve System to buy \$5 billions of Government securities directly from the Treasury. The present law expires shortly and the new proposal extends the power permanently and not merely for two or three years.

President Brown replied that the new Council has not discussed the Bill, but that the former Council favored giving the authority with a two or three year limitation on it.

The meeting adjourned at 12:58 noon.

HERBERT V. PROCHNOW
Secretary.

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

H. V. P.

The Secretary's notes on the meeting of the Federal Advisory Council on February 17, 1952, at 2:20 P.M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present, except Mr. Bucklin. Mr. Ernest Clayton, President, Industrial Trust Company, Providence, Rhode Island, served as alternate for Mr. Bucklin.

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

The Secretary pro tem stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1952.

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

The following officers were nominated and unanimously elected:

Edward E. Brown, President
Robert V. Fleming, Vice President
N. Baxter Jackson, Director
Geoffrey S. Smith, Director
George Gund, Director
Herbert V. Prochnow, Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at \$3,000. annually.

The Secretary presented his financial report for the year 1951 which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. It will be printed and attached to the formal printed minutes.

The Secretary's notes of the meetings of the Council on November 18, 19, and 20, 1951 were approved.

A resolution was adopted authorizing the Secretary to draw upon each Federal Reserve bank for \$350 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1952.

President Brown announced that Mr. Mills and Mr. Robertson, who were recently appointed to the Board of Governors, would take the oath of office on Monday afternoon, February 18, at 4:00 P.M., in the Board Room of the Federal Reserve Building. The Board has extended an invitation to the members of the Council to

WHEN ITS MEETING IS HELD THE COUNCIL WILL HAVE RECEIVED COPIES OF THE ANSWERS SUBMITTED IN RESPONSE TO THE QUESTIONNAIRES OF THE PATMAN SUBCOMMITTEE. THE BOARD WOULD BE PLEASED TO HAVE ANY COMMENTS THAT THE COUNCIL MIGHT WISH TO MAKE REGARDING THE ANSWERS AND PARTICULARLY WITH REGARD TO THE ANSWERS SUBMITTED BY CHAIRMAN MARTIN.

Brown. The answers of the Chairman of the Board to the Patman Subcommittee questions were, as a whole, exceptionally well done. The Council may state verbally to the Board that it does not approve the idea of the Board having authority over reserve requirements of non-member banks. However, the Council may state that it finds itself in general agreement with the substance of those answers the Council has had the opportunity to see. The discussion on special reserves and on other phases of the subject of reserves was quite objective. Politically, it would probably be impossible to pass legislation giving the Board authority over reserve requirements of non-member banks. The present arrangement of member and non-member banks offers an "escape" against possible unreasonable reserve requirements.

Ringland. Authority over non-member bank reserves might be properly administered by a banking agency at one time, but might be improperly administered by the same agency with different personnel at a later date.

Brown. The Council of Economic Advisers wishes special reserves, and this idea was originally included in the President's message. It was later withdrawn. (At this point there were off-the-record remarks) The Board has done a very skillful job in preparing the answers to the Patman inquiry.

Fleming. (Off-the-record remarks) In the oral statement of the Council, the President of the Council may wish to express opposition to the idea of special reserves. The Council of Economic Advisers approved special reserves.

Brown. The Board should be commended strongly for the scholarly answers prepared for the questionnaire.

Fleming. The President may say to Chairman Martin that the Council will strongly oppose any proposal for special reserves. (An off-the-record discussion followed)

THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT SIX MONTHS AND ALSO WITH RESPECT TO CHANGES IN THE VOLUME OF BANK LOANS DURING THE FIRST HALF OF 1952 AND THE PRINCIPAL PURPOSES FOR WHICH LOANS WILL BE MADE.

Brown. asks the members of the Council to report individually for their districts.

Clayton. A sharp contrast in employment conditions in individual New England areas marked the New England economy as the new year began. A decline in the number of workers engaged in the textile, leather, and miscellaneous manufacturing industries of 52,500 workers compared with a year ago created several distress areas; increased employment in the durable goods industries has ameliorated the distress areas only to a limited extent. While increased consumer demand for textile and leather goods is expected shortly, improvement in the New England textile picture remains uncertain because of its poor competitive position in the synthetic fibre field. Sustained, high level employment in the metal products and machinery industries as a result of government contracts is expected. In addition, increased employment in the aircraft and private shipbuilding industries and in government

Residential construction awards in New England for the year 1951 were almost equal to those of 1950 compared to declines in other sections of the country. New construction awards for manufacturing buildings in 1951 were three times those awarded in 1950.

Department store sales in New England during January were off about 20 per cent from the high levels of the second post-Korea buying wave of January 1951. February 1952 sales are running much closer to 1951 levels and above those of 1950. Christmas business in 1951 ran ahead of 1950 for the section as a whole.

Business conditions in New England have not been as active as in the rest of the country during the past few months, due to slack conditions in textiles and shoe manufacturing. It seems likely that business in these industries will continue to run behind the country as a whole, but the point is at hand when some recovery may occur. Inventories are down and prices are being reduced to a point where competitive orders may be secured. It is not likely that government contracts will provide the stimulus to either textiles or shoe manufacturing that aided the New England economy in 1950-51.

With advanced percentages of tax payments required in the first half of 1952 under the Mills plan, and due to the restricted working capital position of many corporations, bank loan volume may well increase during the March and June tax periods. However, underlying liquidation tendencies shown by reduction of loans in 1952 to date, should continue, as for example in consumer goods lines, finance company loans and the liquidation of commodity loans in accordance with the seasonal trend. It is doubtful that such liquidation will offset tax money loans, but its effect, coupled with the volume of U. S. securities held by corporations for tax payments, might well reduce the pressure for loans below levels currently being forecast.

Here, too, there has been greater reduction of loans in the New England area, and it is likely that expansion due to tax demands will be in a lesser degree than throughout the country generally.

Jackson. The most recent figures for loans was \$11.6 billion (December 19), whereas the previous week the total loans stood at \$11.1 billion. It now seems probably that the aggregate loan volume will increase in District 2 because of the Mills plan and defense expenditures. Retail trade in 1951 was 5 per cent above 1950, but the gain was largely in the first six months. Retail trade for January 1952 is off 17 per cent from 1951, but January 1951 represented a buying splurge after the Chinese entry into Korea. Inventories are in better condition. There are still excess inventories in home appliances. The primary textile markets have large inventories. Converters are in better condition than last summer. The mills have finished goods in warehouses. Finance company business is off 20 to 25 per cent, compared with a year ago. The second hand car market is reported better. The shortage of copper and some other metals may hold housing starts to not over 800,000. The total volume of loans will probably increase.

Smith. Business activity will continue high in 1952. The second half of the year may be better than the first half. Defense expenditures will tend to increase business activity. Soft goods may be better. Retail trade has been off compared to the same period last year. Smith believes building construction may be off, but it may not decline as much as some now anticipate. There will probably be some increase in loans in his district because of defense expenditures and the Mills plan.

Gund. Conditions in the district are essentially healthy. Defense orders are exceptionally large. Coal is on a particularly favorable basis because of exports. The best grades of coal are being exported. A new tonnage record in iron ore is anticipated. His bank pays only 1 per cent on savings, and has a volume of \$481,000,000 in savings. The clothing industry has been hard hit. Retail trade is down. Gund doubts whether interest rates will be higher, and he thinks they may actually go down. Loans will probably increase in his district.

Fleming. The hydrogen bomb activity is causing some labor shortage. Department store sales may actually be higher in the first half of 1952 than they were for the same period last year. There is some dampening down of construction. The shortage of funds and interest rates may hold down housing more than shortages of materials. However, there should be a good volume of housing starts. Fleming expects an increase in loans because of the Mills plan and defense expenditures. The cattle population has increased considerably in his district.

Davis. expects business to be good. Housing construction is quite active because of defense activities. The Mills plan may result in some increase in bank loans but otherwise loans probably will not increase and may actually decrease. Loans over all may go off, even more than they have so far.

Brown. Business in the Seventh District is very active, except that there is some unemployment in the Detroit-Flint area because automobile activity is low. Loans have gone down since September, but the decline in loans seems to have stopped. Inventories of foods are up. Department store sales so far in 1952 are below the same period in 1951, but are above the corresponding period of 1950. Most kinds of steel may be in supply shortly. Demands for defense industry loans are coming to the banks. There will probably not be as many housing starts in 1952 as in 1951. Business may have high activity but may have lower profits. Loans may go off for another month or so and then will probably go above the level for the same period a year ago. The liquidation of food inventories may bring some decline in loans in that field.

Alexander. Deposits are about the same as a year ago. Ordinarily his district would get a boost from deposits of the cotton merchants at this time of the year. They had a freeze in cotton before a frost and this is fatal. A frost before a freeze is O. K., but a freeze before a frost is bad. Loans are not as high as they were a year ago. The mills are buying hand-to-mouth, and the cotton merchants are carrying the cotton. The shoe business in St. Louis is better. This district does not have the defense orders it should have. Savings have increased in banks and in building and loan associations. Housing has slowed down somewhat. Department store sales are below 1951 but above 1950.

Ringland. Deposits are a little ahead of last year but loans are running off. Even with the effect of the Mills Plan, it is doubtful whether loans will reach the peak of 1951. General conditions in the district probably are not as good as they are over the country. Country banks are asking for excess lines. Department store sales in 1952 compared with 1951 are off more than the figures for the country as a whole. Ringland does not expect the demand for loans that the rest of the country may experience. Savings deposits are down, but building and loan association deposits are higher. These associations pay 2-1/2 per cent. The commercial banks pay 1-1/2 per cent on savings. Some of the labor supply of the district is being lost to the rest of the country. It is hoped the district will have good crops in 1952.

Beals states that his district is predominantly agricultural, although war industry is picking up. The building industry is quieter at present although there may be more building in 1952 than is now expected. The wheat crop has been disappointing, and it is hoped that the crop this year will be better. Live stock loans are being liquidated. Deposits are going off seasonally. The retail trade is a little better than it was at the first of the year. The live stock industry is going through a period of flux. The Southeastern part of the United States shows the largest increase in live stock. This trend has caused some problems; for example, a small packing plant is today better than a large one. Business generally is fairly satisfactory. Seasonally by loans should go up, but there will probably be no real increase in loans unless the tax situation brings a demand for bank credit. There have been embezzlements in grain storage.

Ray. There is no unemployment in the Eleventh District. The greatest problem is drought. Certain areas are experiencing the most serious drought in many years. The retail holiday business in 1951 was above 1950. Inventory problems are not serious. New car registrations are down, and the dealers state that this condition exists because low-priced cars were not available. Residential construction is down. Refining is slightly above a year ago. Deposits are down normally from December. Loans are somewhat lower. Savings deposits are up. Banks pay 2 per cent now on savings deposits up to \$10,000. The savings and loan associations pay 2-1/2 per cent to 3 per cent. Interest rates on loans are higher. There is a heavy demand for bank credit. If the drought areas receive rain, there will be an upward trend in loan volume. Ray states that there has been no large demand for loans for tax purposes. The loan trend is probably up, but not substantially higher.

Lockhead says that he is more optimistic about business conditions than he was at the last meeting of the Council. They have had more rain and much more snow in the mountains, so they are assured of water. Business is good. Loans in the food industry are too high. Cannery are not reducing their inventories fast enough. Lockhead expects more homes to be built than were constructed last year. There is no backlog of unsold houses, but there has been some problem with large apartment projects. The lumber market is quite high. Savings in banks have only increased moderately but savings in building and loan associations have increased considerably. Lockhead's bank increased the savings interest rate to 2 per cent and has had a substantial increase in its savings deposits. The trend of loans may be down.

Brown. No member of the Council expects a collapse or marked break in business. Employment is good. Production is high. There are substantial differences of opinion in the Council regarding the demand for loans. A majority of the members of the Council expect an increase and a minority expect a decrease. Taking the country as a whole, there will probably be, in the first half of 1952, no major change in the loan volume either way.

DOES THE COUNCIL HAVE ANY SUGGESTIONS REGARDING SYSTEM CREDIT POLICIES? WHAT FORM SHOULD SYSTEM POLICY TAKE IN THE EVENT INFLATIONARY PRESSURES ARE RENEWED LATER IN THE YEAR?

Fleming. The Voluntary Credit Restraint program should be dramatized constantly.

Brown. The questions of open market policy and what may be done with the rediscount rate are particularly important. Brown states that the Treasury staff gave a rather detailed report to the A. B. A. Borrowing Committee regarding fiscal problems.

Fleming states that as he recalls the Treasury figures, the March quarter might show a cash balance of \$8 billion, at which time there are \$2 billion of maturities. The cash balances then decline rapidly. The Treasury may need \$3-1/2 billion of new money in the May-June period. In order to carry a balance of \$5 billion, the Treasury from July to December 31 would need \$11-1/2 billion. The Treasury may have to turn to the banking system for funds. It is not probable that the Board of Governors will reduce bank reserve requirements, as it would be politically unwise. The Treasury would probably oppose raising the rediscount rate. By December 31, 1952, the public debt may reach \$274 billion. If the banking system must take bonds, and if reserve requirements are not to be reduced, it will be necessary to prime the bank pump through open market operations.

Brown. The Treasury estimates that the new money of insurance companies will offset new insurance loans. On balance, the insurance companies may not have to sell bonds.

Smith. Is the Treasury showing any sign of changing the E, F and G bonds? Smith believes they may have to do something drastic if they are to obtain large amounts through these sources.

Brown. The Treasury is considering the problem.

Fleming states that in response to a somewhat similar agenda item at the November meeting of the Council, the Council made the following response, as indicated in the Council's Memorandum to the Board of Governors for November 20, 1951 found on page 31 of the November 20, 1951, minutes:

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.

Fleming states that at the September 1951 meeting of the Council the Board also placed a somewhat similar item on the agenda. Fleming then reads the following excerpt from page 24 of the September 18, 1951, minutes:

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.

Jackson. If the Treasury is faced with the need for new funds, then it may be a question of reducing reserves or open market operations, the question the Council discussed at the November and September 1951 meetings.

Fleming. The Council could say that it meets again in May and will review the situation at that time when the facts are clearer. The Council may state that there does not appear to be any need for a change in present policies between now and May.

Brown. Unless the Treasury can find ways of taking individual savings, it will have to go to the banks. The banks cannot buy bonds unless there is a reduction in reserve requirements, or unless open market activities give banks additional reserves. Neither step is desirable, but as between the two steps, the Council would favor a reduction in reserves as more desirable. By the next meeting of the Council in May, the program of the Treasury should be clear. In the meantime, the position which the Council has previously taken remains unchanged. Every possible method should be taken to dramatize and publicize the Voluntary Credit Restraint program. The Treasury should be urged to issue long-term bonds bearing at least three per cent interest. The bonds should be issued after discussion with insurance companies, managers of large pension funds, and other possible buyers.

THE BOARD HAS BEEN CONSIDERING THE LEGISLATION THAT IT WILL PROPOSE FOR ENACTMENT IN THE CURRENT SESSION OF CONGRESS AND WOULD APPRECIATE THE COMMENTS OF THE COUNCIL IN THAT CONNECTION.

Brown. The Council may state that it does not know what legislation the Board considers proposing for the present session of Congress. The Council will be pleased to discuss with the Board any legislation it may have in mind. Brown also states he will ask the Board whether the Spence holding company bill is a Board bill. The Secretary of the Board had sent copies of the Spence Bill to the Council for its information.

The meeting adjourned at 5:57 P.M.

THE COUNCIL CONVENED AT 10 A.M. ON
FEBRUARY 18, 1952, IN ROOM 932 OF
THE MAYFLOWER HOTEL, WASHINGTON, D.C.
ALL MEMBERS OF THE FEDERAL ADVISORY
COUNCIL WERE PRESENT EXCEPT MR. BUCKLIN.
MR. ERNEST CLAYTON SERVED AS ALTERNATE
FOR MR. BUCKLIN.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on February 19, 1952. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors at 12 noon on February 18, 1952. It will be noted that each item of the agenda is listed together with the comments of the Council.

The meeting adjourned at 11:40 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 19, 1952

1. When its meeting is held the Council will have received copies of the answers submitted in response to the questionnaires of the Patman Subcommittee. The Board would be pleased to have any comments that the Council might wish to make regarding the answers and particularly with regard to the answers submitted by Chairman Martin.

The members of the Council appreciate the opportunity they have had to read drafts of the answers the Chairman of the Board has made to a number of the questions submitted to him by the Patman Subcommittee. The Council has been very much impressed with the comprehensive and constructive manner in which the problems dealt with in these questions have been discussed. The answers in a number of cases include a thoughtful and scholarly analysis of the historical background necessary for adequate consideration of the complex monetary, banking, and fiscal issues involved. The members of the Council are pleased to find themselves in general agreement with the drafts of almost all of the answers submitted to them. They hope that the answers of the Chairman of the Board will contribute to a better and more widespread understanding of the important functions of the Federal Reserve System in the American economy. The Council will discuss certain of the replies with the Board.

2. The Board would like to have the views of the Council on the prospective business and economic situation during the next six months and also with respect to changes in the volume of bank loans during the first half of 1952 and the principal purposes for which loans will be made.

No member of the Council expects a sharp break or a serious recession in business activity in the first half of 1952. Employment and production are with few exceptions at a high level, and business generally is good. There are substantial differences in the viewpoints of members of the Council regarding the probable trends of bank loans up to July 1st in their respective districts. In addition to local factors, such as weather and its effect on various segments of the agricultural industry, there are a number of general factors, including the acceleration in the payment of

corporate income taxes and the rate of defense expenditures, whose influence on the probable demand for bank credit is exceedingly difficult to foresee and measure with any certainty. A majority of the members of the Council expect some increase in bank loans in their districts, but a minority expect loans in the districts they represent to decline. Taking the country as a whole, no important change in the aggregate amount of bank loans is expected during the first half of 1952.

Loans will necessarily be made for the normal production and distribution of goods. Loans for the purpose of carrying inventory are tending to decline. Loans for industries engaged in defense activities are increasing and will undoubtedly continue to increase. Loans for the purpose of housing, in the opinion of a majority of the Council, will decrease, and loans for carrying installment credit will probably remain constant or decrease slightly.

3. Does the Council have any suggestions regarding System credit policies? What form should System policy take in the event inflationary pressures are renewed later in the year?

Until it becomes necessary for the Treasury to raise from the banks a considerable amount of new money to cover deficits, the Council believes that the present policies being followed by the Open Market Committee of maintaining a flexible and orderly market for government securities and a reasonably firm money market should be continued. During this period the Council also believes that no change should be made in reserve requirements or in the rediscount rate.

Unless the Treasury can find ways of channeling a large volume of individual savings into Government securities, it will be necessary for the Treasury in the last half of 1952 to borrow from the banks, which will be inflationary. Since no large reduction in bank loans is possible in view of the necessity of the banks financing both the essential civilian economy and the defense expenditures, any substantial purchases of Government obligations by the banks would require that the banking system be provided with reserves, either through a reduction in reserve requirements or through open market operations, or both. As between the two methods of providing reserves, a majority of the Council would favor creating additional bank reserves by lowering reserve requirements, rather than by having the Federal Reserve Banks acquire further large amounts of Government securities through open market activities.

By the next meeting of the Council with the Board in May, the requirements of the Government and the Treasury program necessary to attract non-bank funds into government securities should be clearer. The

Council would be pleased to discuss this question again with the Board in the light of conditions at that time.

The Council suggests the continued use of every means of publicizing the objectives of the Voluntary Credit Restraint program. The program has been and is a beneficial and constructive influence in restricting credit to essential uses.

In its Memorandum to the Board of September 18, 1951, the Council stated that it believed "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." The Council believes the time is now appropriate for the Board to ask for the removal of these limitations. This would enable the Board further to restrict housing and installment credit if desirable.

As a means to finance the prospective deficit other than by the banks, the Council believes that the Treasury should be urged to issue long-term bonds at an interest rate which would insure their sale. The terms required for the successful issuance of such long-term bonds should of course be discussed with insurance companies, the managers of large pension funds, and others.

4. The Board has been considering the legislation that it will propose for enactment in the current session of Congress and would appreciate the comments of the Council in that connection.

The Council does not know what legislation the Board contemplates proposing at the present session of the Congress. The Council will be pleased to discuss with the Board any legislation it intends to propose.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:25 P.M. ON FEBRUARY 18, 1952. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. BUCKLIN. MR. ERNEST CLAYTON SERVED AS ALTERNATE FOR MR. BUCKLIN.

Dr. Ralph Young introduced Mr. Richard Youngdahl who spoke to the Council on the subject "Current Problems of Monetary Policy and Debt Management". The following confidential summary was presented by Mr. Youngdahl for inclusion in the Secretary's notes:

CONFIDENTIAL

BUDGET OUTLOOK

(1) Present Budget estimates and estimates revised as seems most likely. No attempt to justify.

	Budget		Revised	
	<u>1952</u>	<u>1953</u>	<u>1952</u>	<u>1953</u>
<u>Conventional:</u>				
Outgo	70.9	85.4	67.5	81.0
(Security)	(49.5)	(64.8)	(46.6)	(60.1)
Income	<u>62.7</u>	<u>71.0</u>	<u>63.5</u>	<u>71.3</u>
Budget Deficit	8.2	14.4	4.0	9.7
Cash Deficit	4.0	10.3	4.4	5.6

(3) Program is for continued expansion of security expenditures to a peak of about 65 or so in second half of next fiscal year.

Stabilize at peak through 1954 within limits of economy without severe strain on consumption and with allowance for growth in capacity to produce.

No room for consumption spurt. Curtailment needed only in construction (probably needed anyway).

Problems of credit and debt management in 1952 (Calendar):

- (a) Financing of deficit and large private capital outlays.
- (b) Attracting savings adequate to these tasks.
- (c) Restrain bank credit expansion.

Treasury requirements in 1952 (Calendar):

	<u>1st half</u>	<u>2nd half</u>
Cash surplus or deficit	6.0	-10.0
Debt redemption, net	4.5	2.0
New borrowing needs		12.0

Debt management task

- (a) Offer securities to attract savings from other outlets:

Direct - - Savings bonds

Indirect - Institution

Much funds committed, but still room to do job.

- (b) Attract temporary corporate funds especially tax accruals.

A forceful anti-inflationary credit policy will need

positive debt management.

The meeting adjourned at 3:35 P.M.

ON FEBRUARY 19, 1952, AT 10:35 A.M. THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. BUCKLIN. MR. CLAYTON SERVED AS ALTERNATE FOR MR. BUCKLIN. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN; GOVERNORS SZYMCAK, EVANS, VARDAMAN, POWELL, MILLS AND ROBERTSON. MR. CARPENTER, SECRETARY OF THE BOARD OF GOVERNORS WAS ALSO PRESENT

WHEN ITS MEETING IS HELD THE COUNCIL WILL HAVE RECEIVED COPIES OF THE ANSWERS SUBMITTED IN RESPONSE TO THE QUESTIONNAIRES OF THE PATMAN SUBCOMMITTEE. THE BOARD WOULD BE PLEASED TO HAVE ANY COMMENTS THAT THE COUNCIL MIGHT WISH TO MAKE REGARDING THE ANSWERS AND PARTICULARLY WITH REGARD TO THE ANSWERS SUBMITTED BY CHAIRMAN MARTIN.

Brown. On behalf of the Council, Brown congratulates the new members of the Board. After reading item I of the agenda and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached, Brown mentions that the Council understands that drafts of answers it has received have been further revised. The Council has not received the Chairman's answer relative to the "accord". Brown states that the Council commends the Chairman of the Board for the fairness of his answers on reserves. The Council understands the pressure that would necessarily be on the Chairman because of previous positions of the members of the Board on the question of special reserves. The Council has not seen the final answer of the Chairman on the question of reserve requirements of non-member banks, but the Council has always opposed giving the Board authority over the reserves of non-member banks. The Council would feel free to oppose any such proposal in the future, although it is understandable why the Board and the twelve Federal Reserve banks might favor having the same reserves for non-member banks.

Martin says the Council will be given copies of his answer on the "accord" (copies were handed to the members of the Council).

Fleming states it would be politically impossible to get the same reserve requirements for all banks. The small banks are close to their Representatives in Congress and would get their support. The FDIC itself might oppose any such proposal. The large banks might feel it was an attempt to get their correspondent bank business. From a practical standpoint, Fleming believes it would be impossible to get Congress to enact such legislation.

Martin. The answers of the Chairman are actually the viewpoint of the entire Board, as all members of the Board have approved the answers, except the two new members who were not on the Board at the time the answers were drafted. Martin states that the Board had nine consultants, including, Messrs. Robert D. Calkins, E. A. Goldenweiser, Chester Morrill, Carl E. Parry, Herbert Prochnow, R. J. Saulnier, T. W. Schultz, Walter W. Stewart, Jacob Viner and Lucius Wilmerding.

Fleming says that he had hoped to avoid testifying before the Patman Subcommittee, but he has been called to appear.

Brown again commends the Chairman and the Board for the splendid job which has been done in preparing the answers to the Patman questionnaire.

Martin states that Allan Sproul and Malcolm Bryan will testify for the Federal Reserve banks. Martin also states that Snyder and he will testify at the beginning of the hearings which start March 10. The Council of Economic Advisers will probably testify next. Lee Wiggins will testify and there will be testimony from a number of economists and several bankers.

Brown asks Robertson who will testify for the Comptroller.

Robertson. I'm not!

THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT SIX MONTHS AND ALSO WITH RESPECT TO CHANGES IN THE VOLUME OF BANK LOANS DURING THE FIRST HALF OF 1952 AND THE PRINCIPAL PURPOSES FOR WHICH LOANS WILL BE MADE.

Brown reads item II and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. The Board is familiar with the report showing that loans in the first six weeks of 1952 declined. The districts that are largely agricultural are the ones now expecting that loans may decline. The industrial districts expect increases in loans. The members of the Council believe that inventory loans will decline. Steel of most kinds should be in supply by July 1. Between now and July 1 there will probably be little increase in loans over the country as a whole. There is some difference of opinion among members of the Council regarding trends in the various types of loans. Mr. Lohead believes housing starts will be larger in 1952.

Lohead states he believes residential starts will be larger in 1952 than they were in 1951.

Martin. The housing starts in January 1952 were 68,000, which is off from January 1951.

Brown. A majority of the members of the Council believe that housing loans for the first half of 1952 will be lower.

Martin asks whether anyone is pessimistic about the business outlook.

Ringland states he is inclined to be pessimistic. Business in his district is generally off. There is no procurement office in the district so they have not received their share of defense orders.

Jackson. The loan demand is different/districts. Loans in his district have been going up. There is some inquiry for loans as a result of the acceleration of tax payments. It is difficult to see how loans in the New York district can decline.

Mills. Is it the opinion of the Council that if there were one million housing starts this construction could be financed out of loans running off and savings, or would the money supply have to increase?

Brown. One million starts would increase the total bank credit outstanding. Payments on mortgages are much slower and are spread out over a longer period than payments on automobiles.

Fleming. Most of the renters and owners of new homes want radios, washing machines and other types of goods.

Vardaman asks the Council's opinion on labor conditions. If you do not have a million housing starts, you may have unemployment.

Fleming. The labor situation is tight in the fifth district.

Alexander. The Paducah area has had trouble with strikes. Memphis really has no unemployment. The problem in the eighth district is in agriculture. Labor for cotton is very expensive. Less cotton may be planted in 1952, and yet the cotton crop may be bigger.

Beals. There is a definite reduction in employed plumbers, carpenters, electricians and similar workers in these fields in his district.

Vardaman is worried about the reaction of Congress in an election year if there should be considerable unemployment. Social legislation might follow.

Brown. There are certain spotty areas of unemployment, for instance, in the Detroit area and in textiles in New England. Taken as a whole, the spottiness does not affect the probability that business will be active in the first half of 1952.

Ray. There is always a shortage of labor in Texas, especially in agriculture. Housing starts are down. Texas is experiencing the worst drouth in thirty years, but the drouth is spotty. General conditions are good. Department store sales are down. The inventory situation is under better control than it has been. Oil production is expected to hold steady. Automobile sales are down as much as twenty per cent. Aircraft production is large, and there is a shortage of skilled labor.

DOES THE COUNCIL HAVE ANY SUGGESTIONS REGARDING SYSTEM CREDIT POLICIES? WHAT FORM SHOULD SYSTEM POLICY TAKE IN THE EVENT INFLATIONARY PRESSURES ARE RENEWED LATER IN THE YEAR?

Brown reads item III and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. The Treasury will receive large payments in March and June. Messrs. Young and Youngdahl of the Board's Staff expect no cash deficit in fiscal '52. The Council believes present policies should be continued. The Council is conscious, and the Board is perhaps more so, of the serious problems which may face the Treasury in its anticipated deficits in the last half of the calendar year, 1952. If it is possible to reduce bank credit in the last half of the calendar year, 1952, it will, of course, reduce the Treasury's problem. But there is no assurance that this will be possible. There are two fields in which a reduction in credit might take place: (1) housing, and (2) installment credit. Messrs. Young and Youngdahl estimated that there might be a reduction in bank credit of as much as \$2 billion. All members of

the Council felt the \$2 billion figure was too large. With an election year it is doubtful if Congress will be economy-minded. If the Treasury must go to the banks, and if bank loans show no real decline, then some reserves must be pumped into the banking system. If the deficit is not large, then all members of the Council would favor open market operations. However, if the deficit is large, the Council would not favor adding further large amounts of securities to the holdings of the Federal Reserve System through open market activities. A three per cent rate on a long term bond might move a large amount of such bonds, especially when one considers the rate at which utilities have done long-term financing.

Fleming. The Treasury should not wait until it is the last seller in the market and until insurance and pension funds have invested in utility and other securities. With the renewal of the Defense Production Act up for consideration, the Council believes that now would be the time to ask for the removal of the limitations which the Congress in July 1951 placed upon the Board relative to Regulations W and X.

Vardaman states that he would dismiss Regulation X as the government really controls that field. The removal of the restrictions which Congress imposed would reduce total outstanding credit very little. Automobile manufacturers at times pile up cars in the hands of dealers. Regulation W is a headache to the Board and it would be to anyone who enforces it. Would it not be better to control production at the factory level rather than at the retail level?

Brown. The Council still believes that in a peacetime economy there is no place for Regulation W or Regulation X. The Council has approved these regulations temporarily because of the defense situation. The manufacturers will not long pile up inventories in retailers' hands. Brown believes Regulation W would be more effective in controlling factory output than control at the factory level.

Davis states that as he recalls, Martin had reported that the largest automobile manufacturers were not objecting to Regulation W. The unions and producers of less-readily-accepted automobiles were objecting to the regulation. The biggest department store in Atlanta has no objection to Regulation W.

Fleming. Many stores like Regulation W as a trade regulation to help them police their accounts.

Alexander asks whether Vardaman favors the control of production.

Vardaman asks if there is not some way of stopping the flow of goods from factories as it flowed to retailers a few months ago when retailers were not selling the goods.

Martin states that in connection with the financing problems of the Treasury he sympathizes with the views in the Council's memorandum. However, he does not favor defeatist talk that there is no money available. The cooperation of the Treasury and the Federal Reserve has never been better. Members of the staff attend luncheons each week and have other meetings. Martin is disturbed by the failure of some business men and bankers to understand the size of the Treasury problem, and he is disturbed that they seem to think immediately in terms of piping funds into the banks.

Brown. That is the reason the Council said it would explore the subject further in May. Brown does not believe there is much difference between the Council and the Board on the problem.

THE BOARD HAS BEEN CONSIDERING THE LEGISLATION THAT IT WILL PROPOSE FOR ENACTMENT IN THE CURRENT SESSION OF CONGRESS AND WOULD APPRECIATE THE COMMENTS OF THE COUNCIL IN THAT CONNECTION.

Brown reads the answer of the Council as expressed in the Memorandum to the Board found earlier in these notes. So far as the Council knows, the only bank legislation introduced at present is the Spence Holding Company Bill and the Council was not sure whether the Board was sponsoring the Bill, but the Council is under the impression that the Board is not sponsoring the Spence Holding Company Bill.

Martin states that he has informed the Senate Committee that the Spence Holding Company Bill is not the Board's Bill. He has not read the Bill. He doubts whether many members of the Board have had an opportunity to read the Bill. He will give the Council a copy of an analysis which the Board's legal counsel has made of the Bill.

Brown asks whether the Board has any bank legislation in mind for the present session of Congress.

Martin reports that the Board will introduce a bill to renew the authority of the Federal Reserve System to buy \$5 billions of Government securities directly from the Treasury. The present law expires shortly and the new proposal extends the power permanently and not merely for two or three years.

Brown states that the new Council has not discussed the Bill, but the former Council favored giving the authority with a two or three year limitation on it.

Vardaman says that he was away when the Board approved the proposed legislation, but if he had been present he would have opposed giving the Federal Reserve System authority of this kind. He would favor legislation with a two or three year limitation of the authority.

Fleming. The Council understands the need for legislation of this kind because of the large federal debt, but the Council favors a two or three year limitation.

Martin. The only other legislation the Board has in mind relates to capital requirements. Martin asks Powell to comment on the proposed legislation.

Powell states that the principal feature of the proposed legislation relates to banks with branches. The capital and surplus required for the establishment of branches would have to be equal only to the capital and surplus required of national banks in the same communities. The state supervisors approved proposed legislation of this kind at their last convention. The second provision of the bill relates to state member banks. Many state banks cannot now join the Federal Reserve System because their capital and surplus is not sufficient to qualify them. The proposed legislation would favor taking state banks into the System if they have capital sufficient to satisfy the F.D.I.C. The other provision of the proposed legislation would give the Federal Reserve System the right to approve in-town branches.

Ray asks if the bill has been introduced.

Powell. No.

Brown asks if there is any provision for capital based on assets.

Powell replies there is no such provision.

Martin informs the Council that the Board has not read the Spence bill and he does not know whether or not the Board will support the bill.

Evans. The Board will discuss the bill based on the digest of the bill by the Board's legal counsel.

INQUIRY REGARDING BANK PROFITS AND EXCESS PROFITS TAX

Brown. Is the Board ready to report on its survey regarding bank profits and the excess profits tax?

Martin replies Powell is supervising the survey.

Powell. For the present, the survey is purely a study. Reports from the big banks are in, but only 53 per cent of the reports from the small banks have been received. No analysis of the figures can be made before they are reasonably complete.

REGULATION Q

Martin reports that they are having some problems in relation to Regulation Q, and he asks Powell to comment. There has been a new development in Texas. A member bank advertises that it will take non-par checks and give par. This is done to obtain balances. The banks send the checks to a non-par bank in Louisiana and gives the Louisiana bank balances in remuneration for its part in the process. This procedure aggravates the problem of correspondent bank balances going into unnatural channels. The state bankers have taken the matter up for study. The F.D.I.C. is concerned to the extent that "hot money" flows into a bank and affects the risk. However, the F.D.I.C. has not seen fit to take any action.

Ringland comments that he is interested in the matter, as banks in his district are losing deposits to other districts.

Alexander reports that banks in his district are losing deposits.

Ray states that Powell has described the situation quite accurately. It is a keen competitive situation. The idea originated with a bank in Washington, D. C.

Robertson says it did originate with a bank in Washington, D. C.

Vardaman believes the only hope of correcting the situation is through the State Bank supervisors.

The meeting adjourned at 12:58 Noon.

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THE NEXT MEETING

The members of the Council and the Board agreed on May 18, 19 and 20 as the next meeting dates, the Council to hold its joint meeting with the Board on May 20.