

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

October 5, 1952

The third statutory meeting of the Federal Advisory Council for 1952 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on October 5, 1952, at 2:15 P.M., the President, Mr. Brown, in the Chair.

Present:

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
James T. Brown (Alternate for Paul M. Davis)	District No. 6
Edward E. Brown	District No. 7
V. J. Alexander	District No. 8
Joseph R. Ringland	District No. 9
David T. Beals	District No. 10
De Witt Ray	District No. 11
George M. Wallace (Alternate for James K. Lohead)	District No. 12
Herbert V. Prochnow	Secretary

Absent:

Paul M. Davis	District No. 6
James K. Lohead	District No. 12

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on May 18, 19, and 20, 1952, copies of which had been sent previously to the members of the Council, were approved.

A complete list of the items on the agenda for the meeting and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on page 22 of these minutes.

The meeting adjourned at 5:45 P.M.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

October 6, 1952

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, Geoffrey S. Smith, George Gund, Robert V. Fleming, J. T. Brown (Alternate for Paul M. Davis), Joseph F. Ringland, David T. Beals, De Witt Ray, George M. Wallace (Alternate for James K. Lohead), and Herbert V. Prochnow, Secretary.

Absent: Messrs. Paul M. Davis, V. J. Alexander, and James K. Lohead.

The Council reviewed its conclusions of the previous day regarding the items on the agenda and sent to the Secretary of the Board of Governors the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on page 22, listing the agenda items with conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 11:55 A.M. on October 7, 1952.

The meeting adjourned at 11:35 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 OCTOBER 7, 1952

1. The Board would like to have the views of the Council on the prospective business and economic situation during the next three to six months. It would also appreciate receiving any suggestions the Council may have with respect to System credit policies during that period.

The Council believes the outlook is good for a high volume of business in the remaining months of 1952 and the early months of 1953. Employment and wages are at peak levels. Consumer expenditures are increasing. Industrial production is up. Excess inventories have been eliminated or substantially reduced in many lines. The shortage of steel caused by the steel strike ensures a heavy demand for steel in the next six months. Private capital expenditures and outlays for defense continue to be large. While there is spottiness in some lines of industry, and drought is adversely affecting a few limited areas, over-all business in the months immediately ahead in the opinion of all the members of the Council should be good. Profits for many businesses, however, will probably be lower.

Although it now appears that the demand for bank credit will be strong, largely because of seasonal factors, there is no assurance that the volume of bank loans in the next six months will rise substantially above a normal seasonal increase. Unless and until there is a considerable change in the economic outlook, the Council suggests that the present rediscount rate and reserve requirements be continued. The Council also believes that the policies followed by the Open Market Committee in recent months have operated satisfactorily, and it recommends a continuance of these policies which have maintained a reasonably firm money market and an orderly market for Government securities.

2. The Board would also like to have the views of the Council as to the best way to improve the understanding of Congress and the public as to the limited area in which the Federal Reserve Board and the Open Market Committee can operate to minimize inflation. This is important because of current discussion much of which is seriously misleading and may place the Board in a difficult light at a later time.

The Council believes there is a lack of adequate understanding by members of Congress and the public generally, including many bankers, regarding the functions and operations of the Federal Reserve System and the limited area in which it can operate. An answer to the question would call for a comprehensive program of education. While the Council believes such a program could be helpful, it also believes that to be effective it should not be undertaken without extended discussion between the Board and other groups as well as the Council. The Council will be glad to discuss the subject orally with the Board and hopes that in the discussion the Board will state the particular aspects of the subject which cause it concern and especially those which the Board feels may place it in a difficult light at a later time.

3. The Board would appreciate having a discussion with the Council of the recommendations contained in the report of the Patman Subcommittee.

The Council welcomes the opportunity to discuss with the Board the recommendations contained in the report of the Patman Subcommittee.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

October 6, 1952

At 2:18 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, Geoffrey S. Smith, George Gund, Robert V. Fleming, J. T. Brown (Alternate for Paul M. Davis), Joseph F. Ringland, David T. Beals, De Witt Ray, George M. Wallace (Alternate for James K. Lohead), and Herbert V. Prochnow, Secretary.

Absent: Messrs. Paul M. Davis, V. J. Alexander and James K. Lohead.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors, Dr. Ralph Young, Director of the Division of Research and Statistics of the Board of Governors, and other members of the Board Staff presented a visual-audio report on "Economic and Monetary Conditions." Each member of the Council was given a copy of the report.

The meeting adjourned at 3:40 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

October 7, 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 R. M. Evans, James K. Vardaman, Jr., A. L. Mills, Jr. and J. L. Robertson; 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, Geoffrey S. Smith, George Gund, Robert V. Fleming, J. T. Brown (Alternate for Paul M. Davis), Joseph F. Ringland, David T. Beals, De Witt Ray, George M. Wallace (Alternate for James K. Lohead), and Herbert V. Prochnow, Secretary.

Absent: Messrs. N. Baxter Jackson, Paul M. Davis, V. J. Alexander, and James K. Lohead.

The President of the Council read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council* as printed on page 22 of these minutes.

Chairman Martin stated that the Council's remarks on the first item had been very helpful.

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

Chairman Martin read the letter which follows on page 25, which he sent to President Brown.

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

An extended discussion followed, much of it off-the-record, in which members of the Council and Board participated.

The meeting adjourned at 12:35 P.M.

HERBERT V. PROCHNOW
Secretary.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

October 7, 1952

Mr. E. E. Brown, President,
Federal Advisory Council,
c/o The First National Bank of Chicago,
Chicago, Illinois

Dear Ned:

At a recent meeting in Washington the Presidents of the twelve Federal Reserve Banks gave consideration to the objectives of the System's program of bank and public relations. It was emphasized that increased public attention has been focused upon the Federal Reserve System by the events leading up to and since the Treasury-Federal Reserve accord and also by the hearings before the Patman Subcommittee. It was the feeling of the Presidents that these events pointed up the increased need for, and the value of, a carefully prepared statement of the objectives as well as the scope and content of the System's bank and public relations program. They asked that the Board collaborate in the preparation of such a statement and that the assistance and advice of the Federal Advisory Council be solicited.

The Board agrees that the problem is an important one and it has been giving considerable thought to it, particularly since the Patman hearings. However, we have suggested to the Presidents that more progress might be made if the Presidents would formulate separately their views on the statement and if the Federal Advisory Council were asked for a statement of its views, with the thought that when these statements were available a decision could be made as to how to proceed in the preparation of a System statement.

Accordingly, the Board would appreciate it very much if the members of the Council would give consideration to this problem and submit to the Board by the time of the next meeting of the Council and the Board a statement of the Council's views with respect to what the System program might be. The members of the Council may wish to discuss the matter with the Presidents and Directors of their respective Federal Reserve Banks with a view to obtaining information on the System's existing program and the suggestions that have been made in the past with respect to desirable objectives.

Sincerely yours,

(Signed) Wm. McC. MARTIN, Jr.

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 October 5, 1952, at 2:15 P. M. in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Council were present except Mr. Paul M. Davis and Mr. James K. Lohead. Mr. James T. Brown, President, First National Bank, Jackson, Mississippi, served as an alternate for Mr. Davis. Mr. George M. Wallace, Chairman of the Board, Security-First National Bank of Los Angeles, California, served as an alternate for Mr. Lohead.

The Council approved the Secretary's notes for the meeting on May 18-20, 1952.

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THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT THREE TO SIX MONTHS. IT WOULD ALSO APPRECIATE RECEIVING ANY SUGGESTIONS THE COUNCIL MAY HAVE WITH RESPECT TO SYSTEM CREDIT POLICIES DURING THAT PERIOD.

E. E. Brown reads Item 1 on the agenda and asks each member of the Council to express his views regarding the item.

Bucklin expects business to be generally good for the next six months. Interest rates should remain firm. Department store sales are up over a year ago. Construction awards, except residential, are above last year. The summer business in New England was better than a year ago. There is no shortage of mortgage money. Orders for textiles are better.

Jackson. Loans will probably increase about \$2¼ billion. The outlook for business is good through 1952 and into the first quarter of 1953. Bank loans, exclusive of brokers' loans, are up slightly since the beginning of the year. There has been some direct placement of commercial paper with insurance companies.

Alexander asks who is buying commercial paper now.

E. E. Brown replies that some corporations buy commercial paper because they do better than if they invested in government securities.

Jackson. The insurance companies are now more interested in corporate bonds than mortgage paper.

Fleming mentions one large insurance company whose mortgage placements are below a year ago.

Jackson. Any increase in the prime rate depends largely on whether loans increase substantially above a year ago. He doubts whether the rediscount rate will be increased even if the prime rate goes up. Department store sales in the New York area are not as good as in the rest of the country and are below a year ago. The large textile stocks of a year ago are down.

Smith. Department store sales in his district are a little below last year. The inventory situation is better. Installment credit is up. The sale of small houses is holding up well. Food processing loans have increased. Smith expects economic conditions to remain good into the first quarter of 1953.

Gund. Employment is high and labor is tight. Business is good. Defense production is high. There has been a recovery in the textile industry. Consumer expenditures are increasing. Building construction is good, although mortgage money is tight. Gund expects interest rates to remain firm. Loans in his bank are at an all-time high. He believes business for the next six months will be good.

Fleming. Business is good in his district. The atomic energy plant has helped to increase business and employment. Department store sales are above a year ago. Life insurance sales are up. The inventory situation is healthier. Mortgage money is tight. Bank credit is at an all-time high and is expected to go higher.

J. T. Brown. reports that he did not have an opportunity to prepare figures for the meeting as he did not know he would attend until about a day before the meeting. Conditions in his district are somewhat similar to those in the Fifth District. There is no slackening in the demand for housing loans. There is some weakness in the wholesale situation, particularly wholesale grocers. Steel production is high. General business in the district is good. Bank loans are at an all-time high. Brown stated a major change is taking place in the South because of the shift from mule power to motor power.

Alexander. Many new industries are moving into the South. The business trend is up. Construction is high. Savings deposits are still increasing although banks have considerable savings and loan competition. Loans of his bank are at an all-time high. Interest rates are firm. The outlook for the next six months is good.

Ringland. Conditions in his district are generally very good. The late rains helped crops. There are a few spotty situations such as milling concerns which did not have diversification. Meat packers have also had difficulties. Bank deposits are higher. There is a strong demand for money. Business prospects for the next six months are reasonably good.

Beals. The only essential difference between this district and the other districts is the drought which the Tenth District has experienced. The corn crop is excellent. The winter wheat was also excellent. The feed crop, however, is small. The cotton crop in part of the district was injured. The construction industry is active. Defense industries are growing steadily. The outlook for the next six months is good.

Ray states that Beals has described the cotton situation in his district as it also applies to the adjoining cotton section of Texas. The cotton crop is down somewhat but cotton prices are good. Business is very satisfactory. The petroleum business is a little slower because of the steel strike, but production is up over a year ago. Construction is high and mortgage money is tight. Retail sales are above a year ago. There is no unemployment. It is expected that business for the remainder of the year will be good. Retail inventories are down over a year ago. Wholesale inventories are up, but the situation is not serious. Bank loans are high, and bank interest rates are highly competitive.

Wallace. Employment and industrial production are high, and income is good. Retail sales are up. Business is expected to be good into the early months of 1953. Mr. Wallace asked the Secretary to read the following statement on business conditions:

There have been few times since the end of World War II when there has been such universal agreement as now with respect to the near-term outlook for business. Economists (both in and out of the Federal Government), economic commentators, and analysts for private business concerns are almost uniformly of the opinion that business and economic trends will be strong during the balance of 1952 and during at least the early months of 1953. Employment, income, retail sales, industrial production, and similar comprehensive measures are expected to be either in a rising trend or at least well maintained at a high level during the next six months or so.

While nearly all economic observers expect a high level of activity during the months immediately ahead, most of them seem to expect some sort of adjustment or recession to get under way within the next year or two. There is considerable disagreement as to both the timing and severity of this anticipated recession. Some observers expect it to start before the end of the second quarter of 1953, while others feel that it will not appear until some time in 1954. A few predict that it will be so slight as to be little more than a "breathing spell" or temporary interruption in the boom. Others feel that it may be a recession of some severity. Apparently, few are inclined to predict that it will become a full-fledged depression.

Among the factors which suggest that the business trend will be strong during the next three to six months are:

1. The correction of previous inventory excesses has been completed in many lines and is far along in others.
2. Public psychology is favorable. Consumer spending has shown a noticeable pickup in recent months.
3. The rebound from the effects of the steel strike will be a stimulating factor for some time yet in a large segment of the economy.
4. Federal expenditures are expected to exceed receipts during each of the next few months. This will be an inflationary factor, and will stimulate activity. A Federal deficit of several billions of dollars still seems inevitable for the current fiscal year.
5. The defense program is still in the expanding phase, and will continue to expand until at least the middle of 1953. This is, of course, a powerful force acting in a direct and positive way upon business activity.
6. Capital expenditures by business are at a very high level and are expected to remain high for at least the next few months.

7. The fact that the election is approaching has been a stimulating factor in the business picture. (Note the government actions which resulted in the abandonment of the voluntary credit restraint program, the dropping of Regulation W, the suspension of Regulation X, the relaxation of price and rent controls, the virtual abandonment of attempts to hold wage increases in check, the increase in Social Security payments, the efforts to cultivate the farmer with "disaster loans," etc., etc.) The Administration can be expected to continue its efforts to stimulate the economy--certainly until the November general election is past.

Several of the factors which are now acting to support or stimulate economic and business activity may well change during the next year or two and become neutral or depressing factors. The best appraisal seems to be that the general economic trend will turn downward before the end of 1953, but probably little, if any, before the middle of the year.

E. E. Brown. Business for the balance of 1952, and probably for the early months of 1953, should be good. Small flour mills have had some difficulty and the packers have also had problems. Steel production is high. There are indications that agricultural machinery is overproduced. Crops are good. Retail sales are also good. The outlook is for a high volume of business through the last quarter of 1952 and the first quarter of 1953. However, profits for many businesses will be lower. Loans are less than they were a year ago. Brown does not expect more than a seasonal increase in loans. Department store loans are not as large as last year because inventories are lower.

Ringland suggests that perhaps we are getting back to a more normal loan situation.

E. E. Brown does not believe that Chicago, if left to itself, would increase the prime rate. If the prime rate is increased in New York, Chicago may also have to increase the rate.

Bucklin. Loans in Boston are under a year ago.

Jackson. If loans do not go up more than seasonally, then a 3-1/4 per cent rate probably could not be held.

E. E. Brown. If the rediscount rate is raised, the prime rate will probably go up. If the rediscount rate is not raised, then it is a question whether any increase in the prime rate can be held. A raise in the rediscount rate might be justified by the 3 per cent prime rate, but such action might upset the whole government price structure.

Jackson does not believe the increase in loans will be much more than seasonal. The Federal Reserve open market policy has been satisfactory in recent months. Bank credit has not increased to any extent.

E. E. Brown. Some large concerns are making long-term, higher rate insurance loans and are repaying short term, lower rate bank loans. It is possible that the long term rate may move up, although the short-term rate may stay the same. Brown states that the Council may suggest that the present open market policy be continued for the next six months and that there be no change in the present rediscount rate or reserve requirements. (All members of the Council agree with this conclusion).

(At this point there was an off-the-record discussion on recent certificate financing).

THE BOARD WOULD ALSO LIKE TO HAVE THE VIEWS OF THE COUNCIL AS TO THE BEST WAY TO IMPROVE THE UNDERSTANDING OF CONGRESS AND THE PUBLIC AS TO THE LIMITED AREA IN WHICH THE FEDERAL RESERVE BOARD AND THE OPEN MARKET COMMITTEE CAN OPERATE TO MINIMIZE INFLATION. THIS IS IMPORTANT BECAUSE OF CURRENT DISCUSSION MUCH OF WHICH IS SERIOUSLY MISLEADING AND MAY PLACE THE BOARD IN A DIFFICULT LIGHT AT A LATER TIME.

E. E. Brown reads item 2 and asks for comments of members of the Council.

Smith states that President Williams of the Philadelphia Federal Reserve Bank does not believe the public fully understands the functions of the Federal Reserve System and that a program might be set up to provide a better understanding of the operations and functions of the System.

E. E. Brown says that some business men make statements that the Federal Reserve System, through monetary policy alone, should control inflation. When these business men are asked specifically how the System should control inflation, they have no answer.

Gund believes television might be used to educate and inform the public, but that a different medium or technique should be used for Congress.

J. T. Brown. Few bankers, and practically none of the public, understand the Federal Reserve System. Brown explains a CED program that was used for education in his district.

E. E. Brown. The Federal Reserve System cannot fight inflation successfully if the government has large deficits or if another situation, such as Korea, should develop.

Fleming believes any program of education should be put on through the twelve regional banks.

Bucklin states that a customer of his bank suggested that his bank should run advertisements explaining the operations of the Federal Reserve System.

Ringland. It might be desirable also to explain how the Open Market Committee operates.

Smith believes that the problem as stated in the agenda item provides a negative approach. What should be done is to tell affirmatively what the System can do.

E. E. Brown thinks Smith has a good suggestion.

Fleming believes the Council ought to find out, in a discussion with the Board, exactly what the Board feels is its problem. Perhaps the Council then could come up with some suggestions at the November meeting.

J. T. Brown states that the program should come from the twelve banks and not from the Board.

Fleming. No book that is prepared would be widely read.

E. E. Brown believes Smith has a sound idea. The Federal Reserve System should explain its functions and powers and the fact that they have no control over fiscal policy, tariffs, and other matters which affect the economy.

Bucklin. The present and past members of the boards of directors of the Federal Reserve banks might be helpful in working out a program.

E. E. Brown states that the Council may advise the Board that it will be glad to discuss this agenda item with the Board. The Council is doubtful if the Board could promote a program without being criticised for spreading "propaganda".

J. T. Brown says that state and group bankers' meetings might feature this subject.

Fleming believes it is best to advise the Board the Council will be pleased to discuss the situation with the Board.

THE BOARD WOULD APPRECIATE HAVING A DISCUSSION WITH THE COUNCIL OF THE RECOMMENDATIONS CONTAINED IN THE REPORT OF THE PATMAN SUBCOMMITTEE.

E. E. Brown reads Item 3 and states there are some aspects of the Patman Report on which the members of the Council may now have a definite opinion. There is the question of the advisability of a directive to the Federal Reserve System as to policy. There are also the questions of a "Super-Duper" or consultative council, auditing of the accounts by the General Accounting Office, and submitting the Board's budget and the budget of each of the twelve banks to the Banking and Currency Committees of the Congress.

Bucklin. The twelve banks should probably have an outside audit by an outstanding firm of accountants which might make test checks of the audits of these banks. The primary objective is to keep the General Accounting Office out of the situation.

E. E. Brown. The Council might recommend an outside audit. It does not seem advisable to discuss the Patman Subcommittee report until after the election when the Council and the Board will know who is to be on the Senate and House Banking and Currency Committees and who will make up the Council of Economic Advisers. Brown states he assumes the Council is opposed: (a) to a "Super-Duper" council; (b) to the suggestion that the accounts be audited by the General Accounting Office; and (c) to submission of the budget of the Board and the budgets of the twelve banks to the Banking and Currency Committees of the Congress. The Council also would favor an outside audit.

Fleming states he believes Flanders is right in suggesting a reduction in the term of office of the members of the Board from fourteen to ten years and a reduction in the number of members of the Board from seven to five.

E. E. Brown believes Flanders is correct in his viewpoint that any requirements which would tend to make Federal Reserve bank directorships partisan by parceling them out to members of special-interest groups, whether business, agriculture, or labor would not be desirable.

The meeting adjourned at 5:45 P. M.

THE FEDERAL ADVISORY COUNCIL CONVENED AT 10 A.M. ON OCTOBER 6, 1952, IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D.C. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. PAUL M. DAVIS, MR. JAMES K. LOCHEAD AND MR. VANCE ALEXANDER. MR. J. T. BROWN SERVED AS AN ALTERNATE FOR MR. DAVIS AND MR. GEORGE M. WALLACE SERVED AS AN ALTERNATE FOR MR. LOCHEAD. MR. ALEXANDER WAS CALLED HOME BECAUSE OF A DEATH IN THE FAMILY.

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 October 7, 1952. The Memorandum was delivered to the Secretary of the Board of Governors at 11:55 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 11:35 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON OCTOBER 7, 1952

1. The Board would like to have the views of the Council on the prospective business and economic situation during the next three to six months. It would also appreciate receiving any suggestions the Council may have with respect to System credit policies during that period.

The Council believes the outlook is good for a high volume of business in the remaining months of 1952 and the early months of 1953. Employment and wages are at peak levels. Consumer expenditures are increasing. Industrial production is up. Excess inventories have been eliminated or substantially reduced in many lines. The shortage of steel caused by the steel strike ensures a heavy demand for steel in the next six months. Private capital expenditures and outlays for defense continue to be large. While there is spottiness in some lines of industry, and drought is adversely affecting a few limited areas, over-all business in the months immediately ahead in the opinion of all the members of the Council should be good. Profits for many businesses, however, will probably be lower.

Although it now appears that the demand for bank credit will be strong, largely because of seasonal factors, there is no assurance that the volume of bank loans in the next six months will rise substantially above a normal seasonal increase. Unless and until there is a considerable change in the economic outlook, the Council suggests that the present rediscount rate and reserve requirements be continued. The Council also believes that the policies followed by the Open Market Committee in recent months have operated satisfactorily, and it recommends a continuance of these policies which have maintained a reasonably firm money market and an orderly market for government securities.

2. The Board would also like to have the views of the Council as to the best way to improve the understanding of Congress and the public as to the limited area in which the Federal Reserve Board and the Open Market Committee can operate to minimize inflation. This is important because of current discussion much of which is seriously misleading and may place the Board in a difficult light at a later time.

The Council believes there is a lack of adequate understanding by members of Congress and the public generally, including many bankers, regarding the functions and operations of the Federal Reserve System and the limited area in which it can operate. An answer to the question would call for a comprehensive program of education. While the Council believes such a program could be helpful, it also believes that to be effective it should not be undertaken without extended discussion between the Board and other groups as well as the Council. The Council will be glad to discuss the subject orally with the Board and hopes that in the discussion the Board will state the particular aspects of the subject which cause it concern and especially those which the Board feels may place it in a difficult light at a later time.

3. The Board would appreciate having a discussion with the Council of the recommendations contained in the report of the Patman Subcommittee.

The Council welcomes the opportunity to discuss with the Board the recommendations contained in the report of the Patman Subcommittee.

THE FEDERAL ADVISORY COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:18 P.M. ON OCTOBER 6, 1952. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSRS. DAVIS, LOCHEAD AND ALEXANDER. MR. J. T. BROWN SERVED AS AN ALTERNATE FOR MR. DAVIS AND MR. GEORGE M. WALLACE SERVED AS AN ALTERNATE FOR MR. LOCHEAD.

Dr. Woodlief Thomas, Dr. Ralph Young and other members of the Board Staff presented a visual-audio report on "Economic and Monetary Conditions". Each member of the Council was given a copy of the report.

The meeting adjourned at 3:40 P.M.

ON OCTOBER 7, 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 MESSRS. DAVIS, LOCHEAD, ALEXANDER AND JACKSON. MR. J. T. BROWN SERVED AS AN ALTERNATE FOR MR. DAVIS AND MR. GEORGE M. WALLACE SERVED AS AN ALTERNATE FOR MR. LOCHEAD. MR. JACKSON WAS CALLED HOME BECAUSE OF ILLNESS IN HIS FAMILY. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, GOVERNORS EVANS, VARDAMAN, MILLS AND ROBERTSON. MR. CARPENTER, SECRETARY OF THE BOARD, ALSO WAS PRESENT.

THE BOARD WOULD LIKE TO HAVE THE VIEWS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT THREE TO SIX MONTHS. IT WOULD ALSO APPRECIATE RECEIVING ANY SUGGESTIONS THE COUNCIL MAY HAVE WITH RESPECT TO SYSTEM CREDIT POLICIES DURING THAT PERIOD.

E. E. Brown reads item 1 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. He adds that reports from all the Federal Reserve districts are that business prospects are good for the next six months. It is expected that the increase in loans will be largely seasonal. (At this point there were off-the-record comments on the prime bank rate). Brown points out that some corporations are borrowing through long-term securities at higher rates to pay off lower rate short-term bank loans. This may tend to force long-term rates up and hold short term rates down.

Martin states that he would be interested in learning whether monetary policy has made money too tight. Borrowings from the Federal Reserve System have been as high as two times excess reserves. He also asks how effective a raise in the rediscount rate would be if we had another Korea.

E. E. Brown. In the event of a serious economic situation such as that which prevailed at the time of Korea, Brown believes it would be advisable to have about half of the money needs met by borrowings at the Federal Reserve banks and half by open market operations.

Smith reports that the "money desk" people in Philadelphia felt money had been a little too tight.

(At this point the Secretary was called from the room).

Vardaman reports that the Federal Reserve System has put approximately \$1.4 billion in the market in recent months, none of which has come out.

Fleming believes the corporate financing which Brown has mentioned has had a considerable effect on the market.

Bucklin reports that Dr. Sprague told him that with the low interest rates prevailing during the war, it was natural for the Treasury and Federal Reserve to have differences of opinion as to the readjustment of rates after the war to more normal levels. Dr. Sprague believes that the differences between the Federal Reserve and the Treasury have been magnified in the press.

Martin states that the Federal Reserve and Treasury relationships have for many months been very good.

Fleming thinks that a large volume of municipals may come on the market in the months ahead, because of many municipal projects.

Martin states that the Council's comments on Item 1 of the agenda have been very helpful.

THE BOARD WOULD ALSO LIKE TO HAVE THE VIEWS OF THE COUNCIL AS TO THE BEST WAY TO IMPROVE THE UNDERSTANDING OF CONGRESS AND THE PUBLIC AS TO THE LIMITED AREA IN WHICH THE FEDERAL RESERVE BOARD AND THE OPEN MARKET COMMITTEE CAN OPERATE TO MINIMIZE INFLATION. THIS IS IMPORTANT BECAUSE OF CURRENT DISCUSSION MUCH OF WHICH IS SERIOUSLY MISLEADING AND MAY PLACE THE BOARD IN A DIFFICULT LIGHT AT A LATER TIME.

E. E. Brown reads item 2 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. Brown states that the Council was not trying to evade an answer to this question, as the Council realizes the great lack of understanding by the public of the operations and functions of the Federal Reserve System. If the Board of Governors initiates a widespread program of education, the Board may be accused of trying to show the need for more powers. The Reserve City Bankers Association might be helpful in this matter. It might be more difficult for the American Bankers Association to cooperate in a major way, because many of its members are not members of the System. Many people, including leading business men, do not realize that the Board does not have control over the Federal deficit, tariffs, scare-buying in situations like that which developed at the time of Korea, and other aspects of the economy.

Martin reports that the Board has given this matter considerable thought without coming to a final conclusion. Martin then reads the following letter which he is today sending to President Brown:

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

October 7, 1952

Mr. E. E. Brown, President,
Federal Advisory Council,
c/o The First National Bank of Chicago,
Chicago, Illinois.

Dear Ned:

At a recent meeting in Washington the Presidents of the twelve Federal Reserve Banks gave consideration to the objectives of the System's program of bank and public relations. It was emphasized that increased public attention has been focused upon the Federal Reserve System by the events leading up to and since the Treasury-Federal Reserve accord and also by the hearings before the Patman Subcommittee. It was the feeling of the Presidents that these events pointed up the increased need for, and the value of, a carefully prepared statement of the objectives as well as the scope and content of the System's bank and public relations program. They asked that the Board collaborate in the preparation of such a statement and that the assistance and advice of the Federal Advisory Council be solicited.

The Board agrees that the problem is an important one and it has been giving considerable thought to it, particularly since the Patman hearings. However, we have suggested to the Presidents that more progress might be made if the Presidents would formulate separately their views on the statement and if the Federal Advisory Council were asked for a statement of its views, with the thought that when these statements were available a decision could be made as to how to proceed in the preparation of a System statement.

Accordingly, the Board would appreciate it very much if the members of the Council would give consideration to this problem and submit to the Board by the time of the next meeting of the Council and the Board a statement of the Council's views with respect to what the System program might be. The members of the Council may wish to discuss the matter with the Presidents and Directors of their respective Federal Reserve Banks with a view to obtaining information on the System's existing program and the suggestions that have been made in the past with respect to desirable objectives.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Fleming does not believe that literature alone would be adequate. The Chairman of each Federal Reserve bank might bring together the leading bankers and business men in his district and explain the functions and operations of the System, as well as the limitations on its activities. There could also be a meeting of stockholders of each Federal Reserve bank. Much of the work which has to be done should probably be done by the local Federal Reserve banks.

E. E. Brown. It would be difficult for the Council to work out a complete program before the next meeting of the Board and the Council. The Council meets only a few hours on the Sunday and Monday preceding its next meeting with the Board in November. Brown asks what it is that troubles the Board most on this matter.

Martin states that the Board needs to decide what the System's "song" or function really is and then decide how to sing it.

Beals. What is the System's "song" as you see it?

Martin. The System's "song" is to regulate the daily money supply for the country's economy.

Beals. Does this responsibility refer back to an Act of Congress?

Martin replies that in the Patman hearings Flanders pressed the question of the extent to which the System is responsible for full employment and economic stability.

J. T. Brown thinks that the Federal Reserve System is the least understood agency of the government. He believes that any program which is undertaken should be promoted by the twelve Federal Reserve banks. The banking schools, such as those at Rutgers, Louisiana State and the University of Wisconsin can do a good job on this problem. The Federal Reserve System has done a poor job in educating the people regarding its functions.

Bucklin. It would be difficult for the Board to do this job. Much of it must be done through the twelve banks.

Ray states that the story must be told by word-of-mouth more than by literature. The bankers themselves are very poorly informed. This is a selling job.

Bucklin. The problem is a very difficult one.

E. E. Brown asks whether there will be a conference of the chairmen of the twelve banks.

Martin. Yes, in Chicago.

E. E. Brown thinks these chairmen could submit some good ideas.

Fleming. The program will have to be a continuing one, if it is to be effective.

Smith. It is important to explain the operations and functions of the System without using banking and economic jargon.

THE BOARD WOULD APPRECIATE HAVING A DISCUSSION WITH THE COUNCIL OF THE RECOMMENDATIONS CONTAINED IN THE REPORT OF THE PATMAN SUBCOMMITTEE.

E. E. Brown reads item 3 of the agenda and the conclusions of the Council, as expressed in the Memorandum to the Board attached. The members of the Council do not believe: (a) in a "super-duper" or consultative council; (b) that the Board budget, or the budgets of the twelve Federal Reserve banks, should be submitted to the Banking and Currency Committees of the Congress; and, (c) that the accounts of the Board of Governors should be audited by the General Accounting Office. Most of the members of the Council believe that the minimum term of office for members of the Board should be ten years, and that the Board should be reduced in number from seven to five members. All members of the Council favor a salary increase for the Board. The Council would oppose removing the tax exempt feature from dividends on stock of the Federal Reserve banks, but this is a minor point. The Council is against a mandate or directive, because conditions change and no matter how carefully the mandate or directive is now drawn, certain terms of it will undoubtedly plague the Board in the future.

Martin states that the Board has not formulated definite views on the Patman report.

Fleming. The Council also opposes the Patman recommendation that legislation be enacted providing that ninety per cent of the earnings of the Federal Reserve banks, after expenses and dividends, be paid to the Treasury as a franchise tax.

E. E. Brown. It is advisable to leave this arrangement flexible rather than to fix it by legislation.

Robertson comments that even a good mandate now might lead to a bad one later.

Fleming. (At this point there was an off-the-record discussion on bank legislation).

Gund. The independence of the Federal Reserve System should be strongly maintained as a check on any government policies designed, unwittingly or otherwise, to promote serious inflation.

Bucklin. An outside audit of the spot-check type might be desirable and practical.

Vardaman believes that the Board of Governors may as well be realistic. The System has not made friends, and Vardaman believes there is less than one chance in a thousand in preventing examinations by the General Accounting Office, unless the Board goes into the Congress and proposes outside audits. Then the Board might evade this unfavorable development. Vardaman seems to feel also that the budget might at least be filed with the Banking and Currency Committees of the Congress. He believes Patman was much fairer to the System than it had been anticipated he would be.

Fleming. (At this point there were off-the-record comments on the Patman Subcommittee report by members of the Board and the Council).

Vardaman reports that Edward A. Wayne, Vice President of the Federal Reserve Bank of Richmond, Virginia, has an excellent presentation of the "Operations and Functions of the Federal Reserve System". He believes it would be worthwhile for the members of the Council and others to see this presentation on some convenient occasion.

Robertson reports that Wayne has given the presentation at the Philadelphia and Boston Federal Reserve banks.

The meeting adjourned at 12:35 P.M.

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The next meeting of the Council will be held on November 16, 17 and 18, 1952.