

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
1953

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL

February 15-17, 1953

May 17-19, 1953

September 13-15, 1953

November 15-17, 1953

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1953

OFFICERS:

President, Edward E. Brown
Vice President, Robert V. Fleming
Director, Henry C. Alexander
Director, Geoffrey S. Smith
Director, George Gund
Secretary, Herbert V. Prochnow

EXECUTIVE COMMITTEE:

Edward E. Brown
Robert V. Fleming
Henry C. Alexander
Geoffrey S. Smith
George Gund

MEMBERS:

Ernest Clayton	District No. 1
Henry C. Alexander	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
Charles J. Chandler	District No. 10
De Witt Ray	District No. 11
John M. Wallace	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 15, 1953

Director No. 1
Director No. 2
Director No. 3
Director No. 4
Director No. 5
Director No. 6
Director No. 7
Director No. 8
Director No. 9
Director No. 10
Director No. 11
Director No. 12
Secretary

Director No. 1
Director No. 2
Director No. 3
Director No. 4
Director No. 5
Director No. 6
Director No. 7
Director No. 8
Director No. 9
Director No. 10
Director No. 11
Director No. 12
Secretary

The Council has approved the amendments to the by-laws of the Federal Reserve Bank of St. Louis, Missouri, which were proposed at the meeting of the Council held on February 15, 1953. The amendments are as follows: ...

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 15, 1953

The first and organizational meeting of the Federal Advisory Council for the year 1953 was convened in Room 1032 of the Mayflower Hotel, Washington, D.C., on February 15, 1953, at 2:18 P.M.

Present:

Ernest Clayton	District No. 1
Henry C. Alexander	District No. 2
Geoffery 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
Charles J. Chandler	District No. 10
De Witt Ray	District No. 11
John M. Wallace	District No. 12
Herbert V. Prochnow	Secretary

Mr. George Gund 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 1953.

The following officers were nominated and unanimously elected:

Edward E. Brown, President
Robert V. Fleming, Vice President
Henry C. Alexander, 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 1952, which had been audited by Mr. Walter A. Grau, 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 17, 18, 19, 1952; May 18, 19, 20, 1952; October 5, 6, 7, 1952; November 16, 17, 18, 1952; and the mimeographed notes of the meeting held November 16, 17, 18, 1952, 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 1953, and to draw upon it for that purpose.

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 5:35 P.M.

HERBERT V. PROCHNOW
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1952

Balance on hand, December 31, 1951.....	\$ 7,337.99	Salaries.....	3,000.00
		Conference Expense.....	779.03
		Printing and Stationery.....	344.00
Assessments—		Miscellaneous.....	25.35
12 Federal Reserve Banks	4,200.00	Balance on hand, December 31, 1952.....	7,389.61
			<u>7,389.61</u>
	<u>\$11,537.99</u>		<u>\$11,537.99</u>

Chicago, Illinois
February 1, 1953

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, 1952, and certify that the above statement agrees therewith.

Respectfully,
THE FIRST NATIONAL BANK OF CHICAGO
(Signed) Walter A. Grau
Assistant Auditor

MINUTES OF THE MEETINGS OF THE FEDERAL ADVISORY COUNCIL

February 16, 1953

At 10:05 A.M., the Federal Advisory Council reconvened in Room 1032 of the Mayflower Hotel, Washington, D. C., with the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. Ernest Clayton, Henry C. Alexander, Geoffrey S. Smith, George Gund, Robert V. Fleming, Paul M. Davis, V. J. Alexander, Joseph F. Ringland, Charles J. Chandler, De Witt Ray, John M. Wallace, and Herbert V. Prochnow, Secretary.

The Council reviewed its conclusions of the previous day regarding the items on the agenda, and sent to the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 8 and 9, listing the agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12 noon on February 16, 1953.

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 17, 1953

1. Consideration of a modification of the United States Bureau of Internal Revenue regulation having for its purpose an increase in the permitted loss reserves in commercial banks to an amount more realistic with possible potential loss should a serious business depression occur.

The Bureau of Internal Revenue formula, which fixes the maximum permissible additions to loss reserves that can be deducted from the taxable income of commercial banks, was fair when it was first adopted, and it operated satisfactorily for several years. However, the heavy losses of 1929 and the early 1930's cannot be taken into consideration under the present formula, and few banks have had any considerable losses in recent years. The volume of loans is at an all-time high level, but the present formula does not permit banks to deduct for income tax purposes additions to reserves in an amount bearing a sound relationship to probable losses, based on past experience.

Tax policy should encourage additions to loss reserves at this time in order to strengthen the banking system and protect bank depositors. The Council would appreciate any assistance which the Board might find it possible to give in working out a formula with the Bureau of Internal Revenue which would meet present conditions. A committee of the American Bankers Association has suggested a formula which the Board of Governors might find helpful in its consideration of this problem.

2. What are the views of the Council on the prospective business and economic situation during the next six months and the probable changes in the volume of bank loans during that period? What problems, if any, does the Council foresee in the substantial growth of consumer and real estate credit that has taken place?

Business is operating at a high level, and industrial production, wages and personal income are setting peacetime records. Unemployment is low. Retail sales over the country as a whole are good. Despite spottiness in certain industries, businessmen are generally optimistic regarding the economic outlook for the next six months. The Council believes this optimism is justified. In some sections of the country in which agriculture is of major importance, and where drouth conditions now threaten, the continuance of the present high rate of business activity will depend on the weather. For months there has been a gradual decline in the prices of various basic commodities, especially farm products. These price declines will result in a decrease in farm purchasing power and will affect some industries adversely. However, these price declines may serve a constructive purpose if they temper excessive business optimism and restrain increases in other prices.

The Council believes that the present volume of bank loans, except for normal seasonal fluctuations, will show little change in the next six months. All members of the Council are concerned with the growth of consumer credit. The demands on banks for this type of credit, whether by finance and small loan companies, retail stores, mail order concerns, or directly by consumers, show no immediate sign of abatement. A strong minority of the Council believes that legislation should now be adopted permitting

the reimposition of Regulation W. A majority of the Council is opposed to such legislation now, but favors reviewing the matter at a later date when developments in the economy should make clearer whether any legislation is desirable.

The Council does not believe present conditions justify reimposing Regulation X. There is some evidence that housing construction is showing a tendency to level off. A policy of stricter and more realistic appraisals, not only by those approving Government-guaranteed loans, but also by officials supervising the savings and loan associations, is highly desirable and should be helpful in restricting the growth in the volume of unsound real estate credit.

3. Does the Council have any comments or suggestions to make with respect to System credit policies during the recent period and what these policies should be in the months ahead?

In view of the fact that bank loans increased more than seasonally in the last few weeks of 1952, the Council believes that the recent increase in the rediscount rate from $1\frac{3}{4}$ per cent to 2 per cent was justified. The 2 per cent rediscount rate is also more nearly in accord with present money market rates. Other than its psychological influence, the increase in the rediscount rate had little effect. The Council believes that no increases should be made in present reserve requirements, and that unless there is an important change in the economic outlook the present rediscount rate should be continued. If conditions in the next few months should make tighter money desirable, the Council suggests the use of open market operations for that purpose.

4. The Board has not yet finally formulated its views as to definite recommendations with respect to legislation during the present session of the Congress and would like to have the comments of the Council as to the proposals that might be made.

The Council understands the Federal Reserve System has exhausted its authorization for expanding and modernizing the facilities of its branches. The Council would favor legislation giving the System \$15 million to \$20 million with which to expand its branch facilities to handle the increasing volume of business of the System.

The Council would also favor legislation permitting the reissuance without penalty of all Federal Reserve Notes by any of the Federal Reserve Banks, regardless of which Bank issued the Notes. This would save present costs in shipping Notes.

The Council does not know what legislation the Board may contemplate proposing at the present session of the Congress. The Council would be pleased to discuss with the Board any legislation it is considering proposing.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 16, 1953

At 2:20 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, Henry C. Alexander, Geoffrey S. Smith, George Gund, Robert V. Fleming, Paul M. Davis, V.J. Alexander, Joseph F. Ringland, Charles J. Chandler, De Witt Ray, John M. Wallace, and Herbert V. Prochnow, Secretary.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors of the Federal Reserve System, spoke to the Council on the subject, "Current Money Market Developments".

The meeting adjourned at 3:45 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 17, 1953

At 10:30 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

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

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

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Ernest Clayton, Henry C. Alexander, Geoffrey S. Smith, George Gund, Robert V. Fleming, Paul M. Davis, V. J. Alexander, Joseph F. Ringland, Charles J. Chandler, De Witt Ray, John M. Wallace, and Herbert V. Prochnow, Secretary.

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 stated that the Board will be pleased to discuss the matter with the Bureau of Internal Revenue at the request of the Bureau.

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. President Brown added that since the Board receives statistics from over the United States, its information must necessarily be more complete than that of the members of the Council. However, the members of the Council do receive first-hand information in their respective districts, and receive it before the Board compiles the statistics. A brief discussion on this item, participated in by members of the Council and the Board, followed.

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.

President Brown then read the fourth item on the agenda and the conclusions of the Council as stated in the *Confidential Memorandum*, and asked whether the Board had any controversial legislation it would like to discuss with the Council.

Chairman Martin replied that he believed increasing the branch facilities of the Federal Reserve System was the most urgent item of legislation. He also added that the Board would send to the Council in advance copies of any legislation the Board may present to Congress.

The meeting adjourned at 12:48 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 15, 1953, at 2:18 P.M., in Room 1032 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

George Gund 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 1953.

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
Henry C. Alexander, 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 1952 which had been audited by Mr. Walter A. Grau, 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.

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 1953.

The Council approved the Secretary's notes for the meeting of November 16, 17 and 18, 1952. The printed minutes for all the 1952 meetings of the Council, copies of which had been sent previously to members of the Council, also were approved.

ITEM I

CONSIDERATION OF A MODIFICATION OF THE UNITED STATES BUREAU OF INTERNAL REVENUE REGULATION HAVING FOR ITS PURPOSE AN INCREASE IN THE PERMITTED LOSS RESERVES IN COMMERCIAL BANKS TO AN AMOUNT MORE REALISTIC WITH POSSIBLE POTENTIAL LOSS SHOULD A SERIOUS BUSINESS DEPRESSION OCCUR.

Brown is inclined to believe that this item is probably one which should be considered by the Treasury instead of the Board of Governors.

Fleming believes that the subject is somewhat related to the Excess Profits Tax. (At this point there was an off-the-record discussion of the Excess Profits Tax).

Wallace. There is a competitive situation with the savings and loan associations which makes this subject especially important. The present permissible additions to loss reserves, which can be deducted from the taxable income of the banks, are far too low. The higher the savings and loan associations are permitted to build their reserves, the more they can argue that they are justified in paying higher rates.

Ray reports that a committee of the American Bankers Association is working on the matter and has a formula that would permit building up loss reserves at the rate of one-half of one per cent annually for ten years, to a total of 5 per cent.

Fleming does not think that legislation is required to change the present formula.

Ray states that legislation is not required.

Brown. (The Excess Profits Tax is discussed off-the-record). The question of permitting larger loss reserves is one of obtaining a new regulation from the Bureau of Internal Revenue. The present formula was fair when it was first adopted, and it operated satisfactorily for several years. However, the period of heavy losses in 1929 and the early 1930's cannot be given consideration under the present formula, and most banks have had no large losses in recent years. Consequently, under the present formula the banks are not permitted to deduct for income tax purposes adequate additions to reserves. The Council can state that the formula should be revised and that it hopes the Board of Governors will lend its good offices to work out a more satisfactory formula with the Bureau of Internal Revenue.

Wallace. The depositors are entitled to a more realistic basis for determining bank loss reserves.

Brown. The banks should have a new formula for the protection of their depositors and also for the benefit of the Federal Deposit Insurance Corporation. (There was a further long off-the-record discussion on the Excess Profits Tax.) The Council may also inform the Board that the American Bankers Association has developed a formula permitting reserves up to one-half of one per cent annually of the average amount of loans outstanding. The formula would apply for ten years, permitting maximum reserves up to 5 per cent.

ITEM II

WHAT ARE THE VIEWS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT SIX MONTHS AND THE PROBABLE CHANGES IN THE VOLUME OF BANK LOANS DURING THAT PERIOD? WHAT PROBLEMS, IF ANY, DOES THE COUNCIL FORESEE IN THE SUBSTANTIAL GROWTH OF CONSUMER AND REAL ESTATE CREDIT THAT HAS TAKEN PLACE?

Brown asks for the opinion of each of the members of the Council.

Clayton. There was an upsurge of business in his district in the last quarter of 1952, and this business activity will probably continue at least through the first half of 1953. Loans are somewhat higher than they were a year ago. Other than seasonal fluctuations, no important increases or decreases in loans are expected.

Smith. Business activity is at a high level. Savings are large. Profits are somewhat lower for some businesses. Although most persons continue to feel optimistic regarding the immediate economic outlook, there is some pessimism about the outlook for 1954. Except for seasonal fluctuations, loans will probably continue at a fairly high level with consumer credit increasing.

Gund. Business activity is at a high level in his district. Retail sales are good. Manufacturing is very active. Employment is at peak levels. There are some indications of a levelling off of business, and there is some evidence that steel operations may slacken a little. Loans declined somewhat more in January than for the same period a year ago. Any further rapid rise in mortgage debt would be a cause for concern. There has been a large increase in consumer credit compared to last year.

Fleming. Business is continuing at a good rate and should be good for the first six months of 1953 or longer. Loans are higher than a year ago, but are tapering off. Many persons believe there may be some decline in 1954. There has been a rather marked tapering off in real estate credit in medium to higher-priced housing. The probabilities are that consumer credit will continue to rise.

Vance Alexander. There is a good demand for houses in his district and building activity is up. Retail sales are a little above last year. Sales of the whiskey industry are off considerably. The cotton crop was good but prices fell. Less cotton has been moved than is usual at this time of the year. Consumer credit is increasing. Employment is at high levels. There is still some government spending in his district, primarily in Paducah. Business activity is high and is expected to continue until fall. Loans have held up and are above last year.

Ringland. Loans are higher in his district than last year. Drought conditions are still bad in the district. Business should continue good for the first six months of 1953. A continuance of good business after the middle of the year will depend on moisture conditions and some relief from the present drought condition. Savings are going up. There has been an active demand for houses, except for higher-priced residences.

Chandler. A continuance of good business in his district depends largely on agriculture which has suffered from drought conditions. A big winter wheat acreage has been planted but the chances of a good crop this year are problematical. The commercial loan volume increased in the district much less than the national average. Farm land prices have declined only in exceptional cases where the land was very high priced. Business in the Tenth district for 1953 may be less active.

Ray. One of the problems in his district is the lack of rain. The moisture is much less than normal. Business is good. Department store sales are up. The oil industry is very active. Lower-priced houses are moving well. The cotton carry-over is not large. At the end of January, loans were at peak levels. Loans will probably not decline if there is an increase in oil prices.

Wallace. The power shortage in the Northwest has adversely affected industry in that section, especially aluminum, but there have been rains lately. California has had rains; business is active and the state is gaining 40,000 a year in population. Arizona has thrived because of vacation traffic. Idaho has also gained, except for mining, in which case, falling metal prices have been adverse. There have been new oil and gas discoveries in his district. Deposits and loans are at peak levels. If Korea should end in the next year or so, there may be a decline in business, especially in the West through which much of the traffic to Korea now goes.

Brown. In the Seventh district business is good. Most business men and bankers expect good business to continue during the next six months and many expect it to continue longer. Loans, especially those based on commodities, are down from the end of the year. Large chain stores and mail order houses are borrowing to extend consumer credit. Brown expects loans to continue at about their present levels, except for seasonal fluctuations.

Davis is not quite as optimistic as the other members of the Council regarding the business outlook. There has been some slowness in collections. The coal business is considerably demoralized. Loans are off since December and no important increase in loans is expected. Loans may actually decline. There is some concern in Florida about automobile sales. There are reports that more changes may be made in dealer franchises this year than ever before.

Brown. The farm machinery business is not good, and there is probably some slackening in building new industrial plants. The Council may state to the Board that its members feel that business will continue at high levels for the next six months. In spite of spottiness in certain industries, businessmen are generally optimistic regarding the economic outlook for the next six months. In some districts, primarily agricultural, a continuance of good business depends on weather and relief from drought conditions. Except for seasonal fluctuations, the volume of bank loans will probably show little change. The demands on banks for consumer credit, whether by finance companies, department stores, mail order concerns or directly by consumers, show no sign of abatement.

H. Alexander agrees with the conclusions Brown has expressed as those of the Council.

Brown. The growth of real estate credit is due in a large part to liberal guaranties of government agencies and to the failure to have more realistic appraisals both for government-guaranteed loans and for those made by savings and loan associations. It would be highly desirable if these government agencies and the officials supervising savings and loan associations would initiate a policy of stricter and more realistic appraisals. Brown asks the opinion of the members of the Council regarding consumer credit.

Davis states that he is worried about the ability of the payer to meet his obligations in a period of depression.

Smith. We are entering a period of ^{an}oversupply of goods, and so there will be more pressure for easier terms.

Brown. Every new house needs various appliances. Brown asks whether the danger of an increase in consumer credit is so great that the Council should approve the principle of Regulation W.

Fleming believes it would be best to defer a decision regarding Regulation W at least until the May meeting. He believes that moving families to the suburbs has substantially increased consumer credit. Families who purchase individual homes in suburbs need cars and electrical appliances of various types. Any decline in housing construction would bring a decline in the demand for consumer credit to finance these appliances and automobiles.

Brown. The Council may state that the majority of the Council does not believe present conditions justify reimposing Regulation W or Regulation X. A policy of stricter and more realistic appraisals is required on government-guaranteed loans and the real estate loans of savings and loan associations. All members of the Council are concerned with the growth of consumer credit. The next few months will give a clearer picture of the trend in consumer credit, as well as of developments in the economy. The majority of the Council would like the opportunity at a later date to review the question of whether Regulation W should be reimposed. After a show of hands, Brown reports that a strong minority of the Council feels that Regulation W should be reimposed now. A majority of the Council is opposed to such legislation now, but favors reviewing the matter at a later date when developments in the economy should make clearer what steps, if any, should be taken in connection with consumer credit.

H. Alexander states that he favors legislation which would permit reimposing Regulation W now.

Brown reports that five members of the Council have indicated by a show of hands that they favor legislation permitting the reimposition of Regulation W now.

ITEM III

DOES THE COUNCIL HAVE ANY COMMENTS OR SUGGESTIONS TO MAKE WITH RESPECT TO SYSTEM CREDIT POLICIES DURING THE RECENT PERIOD AND WHAT THESE POLICIES SHOULD BE IN THE MONTHS AHEAD?

Brown. (There is an off-the-record discussion on the rediscount rate.) Brown believes that the increase in the rediscount rate had little effect.

Wallace. The Council may state that it approves System credit policies during the recent period.

Brown. The Council may state it approves recent credit policies of the System. In view of the fact that loans increased more than seasonally at the end of 1952, and did not decline substantially early in 1953, the raise in the rediscount rate was justified. Other than sentimentally, the change in the rediscount rate had no important effect except possibly in the government bond market, as some members of the Council have indicated in their informal comments. Unless there is an important change in the economic outlook, the Council does not believe there should be any change in reserve requirements or in the rediscount rate. If it becomes desirable to restrict credit, the Council suggests the Board use Open Market operations.

Fleming. (There is an off-the-record discussion on System credit policies and government fiscal policies.)

ITEM IV

THE BOARD HAS NOT YET FINALLY FORMULATED ITS VIEWS AS TO DEFINITE RECOMMENDATIONS WITH RESPECT TO LEGISLATION DURING THE PRESENT SESSION OF THE CONGRESS AND WOULD LIKE TO HAVE THE COMMENTS OF THE COUNCIL AS TO THE PROPOSALS THAT MIGHT BE MADE.

Fleming believes the Board has no present intention of asking the Congress to raise the present limitations on reserve requirements. The Board would like \$15 or \$20 million to expand its branch facilities. The present authorization for \$10 million is largely exhausted.

Brown. The Council may state that it understands the System has exhausted its authorization for expanding its branch facilities, and that the Council would favor legislation giving the Board \$15 to \$20 million to expand these facilities now. The Council would also favor legislation permitting the re-issuance, without penalty, of all Federal Reserve notes by any of the Federal Reserve banks, regardless of which bank originally issued the notes. The present cost of shipping the notes would be substantially reduced. The Council may also ask the Board what legislation it intends to introduce.

H. Alexander thinks the Mills Plan should be repealed. It is not good for the banks, the Treasury, or the country.

Brown states the Council in the past has always been reluctant to take up general tax questions because they concern the Treasury and because of the possible implications involved. This matter is largely one with which the Treasury would have to deal.

The meeting adjourned at 5:35 P.M.

THE COUNCIL CONVENED AT 10:05 A.M. ON FEBRUARY 16, 1953, IN ROOM 1032 OF THE MAYFLOWER HOTEL, WASHINGTON, D.C. ALL MEMBERS OF THE FEDERAL ADVISORY COUNCIL WERE PRESENT.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and Board on February 17, 1953. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors at 12 noon on February 16, 1953. 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 17, 1953

1. Consideration of a modification of the United States Bureau of Internal Revenue regulation having for its purpose an increase in the permitted loss reserves in commercial banks to an amount more realistic with possible potential loss should a serious business depression occur.

The Bureau of Internal Revenue formula, which fixes the maximum permissible additions to loss reserves that can be deducted from the taxable income of commercial banks, was fair when it was first adopted, and it operated satisfactorily for several years. However, the heavy losses of 1929 and the early 1930's cannot be taken into consideration under the present formula, and few banks have had any considerable losses in recent years. The volume of loans is at an all-time high level, but the present formula does not permit banks to deduct for income tax purposes additions to reserves in an amount bearing a sound relationship to probable losses, based on past experience.

Tax policy should encourage additions to loss reserves at this time in order to strengthen the banking system and protect bank depositors. The Council would appreciate any assistance which the Board might find it possible to give in working out a formula with the Bureau of Internal Revenue which would meet present conditions. A committee of the American Bankers Association has suggested a formula which the Board of Governors might find helpful in its consideration of this problem.

2. What are the views of the Council on the prospective business and economic situation during the next six months and the probable changes in the volume of bank loans during that period? What problems, if any, does the Council foresee in the substantial growth of consumer and real estate credit that has taken place?

Business is operating at a high level, and industrial production, wages and personal income are setting peacetime records. Unemployment is low. Retail sales over the country as a whole are good. Despite spottiness in certain industries, businessmen are generally optimistic regarding the economic outlook for the next six months. The Council believes this optimism is justified. In some sections of the country in which agriculture is of major importance, and where drouth conditions now threaten, the continuance of the present high rate of business activity will depend on the weather. For months there has been a gradual decline in the prices of

various basic commodities, especially farm products. These price declines will result in a decrease in farm purchasing power and will affect some industries adversely. However, these price declines may serve a constructive purpose if they temper excessive business optimism and restrain increases in other prices.

The Council believes that the present volume of bank loans, except for normal seasonal fluctuations, will show little change in the next six months. All members of the Council are concerned with the growth of consumer credit. The demands on banks for this type of credit, whether by finance and small loan companies, retail stores, mail order concerns, or directly by consumers, show no immediate sign of abatement. A strong minority of the Council believes that legislation should now be adopted permitting the reimposition of Regulation W. A majority of the Council is opposed to such legislation now, but favors reviewing the matter at a later date when developments in the economy should make clearer whether any legislation is desirable.

The Council does not believe present conditions justify reimposing Regulation X. There is some evidence that housing construction is showing a tendency to level off. A policy of stricter and more realistic appraisals, not only by those approving Government-guaranteed loans, but also by officials supervising the savings and loan associations, is highly desirable and should be helpful in restricting the growth in the volume of unsound real estate credit.

3. Does the Council have any comments or suggestions to make with respect to System credit policies during the recent period and what these policies should be in the months ahead?

In view of the fact that bank loans increased more than seasonally in the last few weeks of 1952, the Council believes that the recent increase in the rediscount rate from 1-3/4 per cent to 2 per cent was justified. The 2 per cent rediscount rate is also more nearly in accord with present money market rates. Other than its psychological influence, the increase in the rediscount rate had little effect. The Council believes that no increases should be made in present reserve requirements, and that unless there is an important change in the economic outlook the present rediscount rate should be continued. If conditions in the next few months should make tighter money desirable, the Council suggests the use of open market operations for that purpose.

4. The Board has not yet finally formulated its views as to definite recommendations with respect to legislation during the present session of the Congress and would like to have the comments of the Council as to the proposals that might be made.

The Council understands the Federal Reserve System has exhausted its authorization for expanding and modernizing the facilities of its

branches. The Council would favor legislation giving the System \$15 million to \$20 million with which to expand its branch facilities to handle the increasing volume of business of the System.

The Council would also favor legislation permitting the reissuance without penalty of all Federal Reserve Notes by any of the Federal Reserve Banks, regardless of which Bank issued the Notes. This would save present costs in shipping Notes.

The Council does not know what legislation the Board may contemplate proposing at the present session of the Congress. The Council would be pleased to discuss with the Board any legislation it is considering proposing.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:20 P.M. ON FEBRUARY 16, 1953. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

Dr. Woodlief Thomas, Economic Adviser to the Board of Governors of the Federal Reserve System, spoke on the subject of "Current Money Market Developments". A confidential summary of the remarks of Dr. Thomas was distributed to members of the Council at the meeting.

The meeting adjourned at 3:45 P.M.

ON FEBRUARY 17, 1953, AT 10:30 A.M. THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN; GOVERNORS SZYMCAK, EVANS VARDAMAN, MILLS AND ROBERTSON. MR. CARPENTER, SECRETARY, AND MR. SHERMAN, ASSISTANT SECRETARY, OF THE BOARD OF GOVERNORS, WERE ALSO PRESENT.

ITEM I

CONSIDERATION OF A MODIFICATION OF THE UNITED STATES BUREAU OF INTERNAL REVENUE REGULATION HAVING FOR ITS PURPOSE AN INCREASE IN THE PERMITTED LOSS RESERVES IN COMMERCIAL BANKS TO AN AMOUNT MORE REALISTIC WITH POSSIBLE POTENTIAL LOSS SHOULD A SERIOUS BUSINESS DEPRESSION OCCUR.

Brown introduces the new members of the Council and informs the Board of the names of the officers of the Council and the names of the members of the Executive Committee of the Council for 1953. Brown reads Item One and the answer of the Council as expressed in the Memorandum to the Board found earlier in these notes. He states that he assumes the Board is familiar with the present formula under which banks may set up loss reserves. He believes this formula was set up by Mr. Wiggins as Undersecretary of the Treasury. The formula worked well at the time. The question is not one of tax relief but is primarily a matter of further strengthening the banking system. Brown calls attention to the formula which the American Bankers Association has developed.

Martin. The Board is pleased that the Council raised the question. The Board is inclined to feel that the Board should not raise the question with the Bureau of Internal Revenue. The Board does not wish to be in the position of advocating measures which it is the responsibility of the bankers associations such as ^{the} American Bankers Association to advocate. The Board will be pleased to discuss the matter with the Bureau of Internal Revenue at the request of that Bureau. Martin repeats that the Board is pleased to have the suggestion and any suggestions the Council has from time to time.

Ray. In view of the fact that there have been some changes in the Congressional Committee dealing with these matters, the American Bankers Association has filed a statement giving the historical background of this subject and other information to the Committee. The formula of the American Bankers Association permits loss reserves up to one-half of one per cent annually for ten years, to a total of 5 per cent.

Martin states that he is sure the Council appreciates the view of the Board, which is that the request to discuss the matter should not go from the Board to the Bureau of Internal Revenue, but rather come from the Bureau to the Board.

Wallace points out the advantages which the savings and loan associations have in this respect. Savings and loan associations are taking over more and more of the savings deposits of the country. The banks should be able to build up loss reserves equal, at least comparatively, to those of the savings and loan associations.

Smith states that his bank has set up loss reserves in excess of the formula. Stockholders may offer objections. If losses become heavier, the additional loss reserves are a proper tax-free charge against earnings.

ITEM II

WHAT ARE THE VIEWS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT SIX MONTHS AND THE PROBABLE CHANGES IN THE VOLUME OF BANK LOANS DURING THAT PERIOD? WHAT PROBLEMS, IF ANY, DOES THE COUNCIL FORESEE IN THE SUBSTANTIAL GROWTH OF CONSUMER AND REAL ESTATE CREDIT THAT HAS TAKEN PLACE?

Brown reads Item II and the conclusions of the Council as expressed in the Memorandum to the Board. He states that the Board receives statistics from over the United States, and its statistical information must necessarily be more complete than the members of the Council receive. However, the members of the Council do receive first-hand information in their respective districts and receive it before the Board compiles its statistics. In various districts such as Minneapolis, Dallas, and Kansas City, there has been a severe drought. The members from those districts feel that business activity is dependent, in part, on moisture conditions. In connection with bank loans, no important change in volume other than seasonal is expected in the next six months. Brown points out that borrowings to take care of installment sales of some of the mail order houses and retail stores are included in their regular borrowings and these installment sales do not show up as installment credit. Brown reports that the number of members in the Council favoring legislation permitting the reimposition of Regulation W has increased. Brown reports also that the majority of the Council is opposed to such legislation now and favors reviewing the matter at a little later date. He also believes that a majority of the majority of the Council is opposed to Regulation "W" on principle, as they believe that the remedy is worse than the disease. As for real estate credits, more realistic appraisals are necessary in connection with government guaranteed loans and with the loans of savings and loan associations.

Martin states he would like to hear from someone who is in the minority on Regulation W.

H. Alexander states he is a member of the minority. The Board has jurisdiction over many forms of credit. This is a form of credit. This type of credit comes on top of a boom. Millions of people are involved. Consumer credit tends to make a depression worse. With more goods to be available, consumer credit threatens to increase as terms become easier. Alexander says that he understands it is very difficult to police hundreds of thousands of businesses, but he nevertheless believes that Regulation W is desirable now. Consumer credit exaggerates both booms and depressions.

Martin. How do you distinguish between Regulation W and Regulation X?

H. Alexander. Regulation X deals with fewer groups and a relatively limited area, and in many cases is not so directly connected with bank credit.

Robertson. Would the real estate credit problem be solved if government guarantees were removed?

H. Alexander believes the appraisals would be more realistic.

V. Alexander states that no one has lost money on Title One.

Vardaman. In considering the reimposition of Regulation W, would you forget Regulation X, the voluntary credit restraint program, and reserve requirements as instruments for the control of credit. Vardaman understands that the banks have one-half of the installment credit and the Board could therefore reach this installment credit through a voluntary credit restraint program and in other ways.

H. Alexander does not believe a voluntary credit restraint program would be needed now.

Vardaman says that he does not know what proportion of installment credit is the right amount or what proportion is too much or too little. He points out that installment credit is actually a smaller percentage of disposable income now than it has been in the past. Vardaman also asks what percentage of consumer credit is an addition to the credit structure, and what percentage is simply a different use of the same credit structure.

H. Alexander believes the Board can use other instruments to control the remainder of the credit structure.

Wallace reports that Fleming's ideas of the reasons for the increase in consumer credit were very valuable.

Brown reports that Fleming has been delayed for a few minutes because he is attending the presentation of a gold medal to President Eisenhower. Fleming is very much opposed to reimposing Regulation W. He believes the increase in consumer credit is tied up with the large volume of housing starts. Persons who move to individual homes in suburbs need an automobile, furniture, washing machines and many other appliances, which they buy on an installment basis. Moreover, if it is necessary to use domestic help to obtain our present volume of national production, the absence of easily obtainable domestic help tends to increase the sale of appliances such as washing machines.

Wallace. If the people are to get single type housing, then appliance sales and consumer credit follow.

Brown comments that some people believe a person has a right to go into debt and to go "bust" if he wishes.

Martin states that he agrees up to a point, but wonders what happens if enough people decide to go broke and then "bust" the economy. Martin believes in general credit controls, and he believes they are usually effective. If we are to have selective controls, then these selective credit controls must be separated from political controls. If Congress insists on giving the Board the various types of selective credit controls, the Board will not refuse to take them for the same reason that the owner of a house built of shingles would not decline fire-fighting equipment. With unsettled world conditions, the Board could not refuse to take this "fire-fighting equipment" if it is given to the Board by Congress. However, the Board is not asking for these selective credit controls.

Brown. (At this point, there were off-the-record comments.) Brown believes in Regulation W only in case of war or some serious emergency.

Fleming believes the tremendous migration from the cities to individual homes in the suburbs has been a very important factor in the growth of consumer credit. Purchases of automobiles and electrical appliances of all kinds

on an installment credit basis have followed. This trend will continue until the saturation level is reached. Houses in the upper price bracket are now moving less readily.

Ringland agrees with Brown. When you impose Regulation W in peacetime, you enter a dangerous social area.

Smith agrees with H. Alexander. Consumer credit is moving into new areas. It seems unwise to control the entire credit structure in order to reach one group.

Evans reports that he handled Regulation W for a long time. One of the large manufacturers of cars recently asked him how concerned the Board was about the increase in consumer credit. This particular businessman felt that people were pledging their credit too far into the future. The businessman told Evans that he had welcomed the entry of the banks into consumer credit financing, but he was inclined to feel that they had not had sufficient experience and were the ones who might now over-extend this type of credit. The businessman wanted the Board to inform the bankers of the dangers in this type of credit.

Fleming thinks that most bankers will not lend on a car older than a 1949 model.

V. Alexander. Banks in his section are living up to Regulation W. Many small auto dealers are springing up and are making liberal terms.

Davis thinks Regulation W should be reimposed.

Martin says that he thinks the discussion has been valuable.

Fleming asks whether there is a chance in Congress now for legislation to be passed on reimposing Regulation W.

Evans replies that Fleming knows the answer, which is that it is highly improbable.

Martin says this whole question is in politics now. Whether it is in peacetime or war, any regulation of consumer credit must be operated with a long-time view and not under pressures of various kinds.

Ringland asks whether most of the controls haven't actually come in the past after the harm has been done.

Martin believes that they probably have in many cases.

ITEM III

DOES THE COUNCIL HAVE ANY COMMENTS OR SUGGESTIONS TO MAKE WITH RESPECT TO SYSTEM CREDIT POLICIES DURING THE RECENT PERIOD AND WHAT THESE POLICIES SHOULD BE IN THE MONTHS AHEAD?

Brown reads Item III and the conclusions of the Council as expressed in the Memorandum to the Board attached. He comments that the effectiveness of Open Market activities has been demonstrated in recent months.

Martin asks how the Council feels about the present level of loans.

Brown. Loans have shown some seasonal decline. Speaking for himself, Brown does not believe that loans are too high.

Davis expects that loans will tend to go lower in his district.

H. Alexander believes bank loans are getting pretty high and that the whole credit structure may be too high. He thinks debt expansion should be curbed.

Robertson asks whether the Council believes that Federal Reserve System credit policy should be tighter.

H. Alexander believes it would be desirable to have credit policy tighter.

Chandler asks whether the seasonal decline in loans since January 1 has been as large as expected.

Martin. The seasonal decline has been about what he thought it would be.

Szymczak. Loans went up more than seasonally the last few weeks of 1952, and the decline therefore should be more than seasonal. Szymczak asks whether Regulation A should be made more restrictive.

V. Alexander states that cotton has not moved as rapidly as usual. Banks in the South are carrying a larger part of the crop, which may make bank credit and borrowings at the Federal Reserve Bank in the district larger than normal.

Szymczak states that one of the advantages of the Federal Reserve System with its decentralization into twelve banks is that it can deal with conditions in each district better. However, he states that ^{only} borrowing from the Federal Reserve System is a privilege to be availed of / occasionally and for relatively short periods.

H. Alexander. The Federal Reserve System is here to take care of situations such as Vance Alexander describes.

V. Alexander states that he just wanted to be sure the position of the southern banks in the cotton area was understood.

Brown explains that in Chicago it is necessary for the banks to carry large amounts of bills to take care of the personal property tax situation on April 1. Many corporations expect to buy bills to carry them over the April 1 tax date. Consequently, the banks must have exceptionally large amounts invested in bills during this period. The Board will have to be careful not to repeat the action of the Board in 1928. It would seem to be best for the Board to tell the individual Federal Reserve banks to deal with the problem of borrowing in their respective districts.

Ray. The Eleventh district situation is somewhat like that in Vance Alexander's district. The banks have had to carry many livestock loans. Ray expects loans will probably hold at present levels.

Robertson. Are the banks borrowing because of the Excess Profits Tax?

V. Alexander reports that they are not borrowing in his district for that reason.

Davis understands there may be some borrowing in his district for that reason, but he does not know of it specifically.

Brown. No bank would admit that it would borrow because of the Excess Profits Tax, but there may be less reluctance to borrow because of this tax.

Martin. As the Council knows, the Board was asked by the Council to make another study on the Excess Profits Tax. He asks Mills to comment.

Mills mentions the Board's first study on the Excess Profits Tax. The Board therefore seemed to be a logical agency to make the second study. Mills reports that Roland Hughes stopped yesterday to discuss this matter. The American Bankers Association is prepared to support the questionnaire and to encourage the 1,300 banks who will receive it to answer it. The American Bankers Association was concerned with the question on Federal borrowing. The Association felt the 1,300 banks might feel that they were being placed in an unfortunate position compared to other banks if they reported on their Federal borrowings and a study was made of the possible relationship of the Federal borrowings to the Excess Profits Tax. In other words, these banks would not wish to feel that by answering the questionnaire they were constituting themselves a special group to be studied in connection with the Excess Profits Tax and Federal borrowings. The American Bankers Association felt that if the Board did anything on the Excess Profits Tax and borrowing from the System, the study should be a separate one. Mills expects the survey to be sent to the banks around March 5.

ITEM IV

THE BOARD HAS NOT YET FINALLY FORMULATED ITS VIEWS AS TO DEFINITE RECOMMENDATIONS WITH RESPECT TO LEGISLATION DURING THE PRESENT SESSION OF THE CONGRESS AND WOULD LIKE TO HAVE THE COMMENTS OF THE COUNCIL AS TO THE PROPOSALS THAT MIGHT BE MADE.

Brown reads Item IV and the conclusions of the Council as expressed in the Memorandum to the Board attached. Brown asks whether the Board has any controversial legislation which it would like to discuss with the Council.

Martin replies that he believes increasing the branch facilities is the most urgent item of legislation.

Fleming states that the Board might find it advisable to explain in its request for funds why it is necessary to ask for \$15 or \$20 million, compared to the \$10 million received at an earlier date. Fleming comments that costs have risen substantially.

Brown says that he understands the Board will not ask for legislation permitting them to reimpose Regulation W.

Martin. That is the Board's position.

Ray asks Martin's view about doing something with the Mills plan.

Martin replies that this is primarily a Treasury problem.

Ray states that it is also to a large extent the problem of the banks.

Brown. The Treasury's action in crediting checks of \$10,000 or more to the Treasury's account has helped to even out fluctuations. Brown thinks that standby legislation for a possible voluntary credit restraint program might be desirable.

Fleming agrees. He feels the voluntary credit restraint program was very helpful, but that it is not something you can operate year after year. Fleming asks whether the Board will send to the Council in advance copies of any legislation it may wish to present to the Congress.

Martin replies that the Board will send to the Council in advance copies of any legislation the Board may present to Congress, but the Board would not expect to send to the Council in advance any testimony it may make when it is asked to comment on some legislation.

The meeting adjourned at 12:48 P.M.

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THE NEXT MEETING

The next meeting of the Council will be held on May 17, 18, and 19, 1953.