

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 13, 1953

The third statutory meeting of the Federal Advisory Council for 1953 was convened in Room 1032 of the Mayflower Hotel, Washington, D. C., on September 13, 1953, at 2:20 P.M., the President, Mr. Brown, in the Chair.

Present:

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
Herbert V. Prochnow	Secretary

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on May 17, 18 and 19, 1953, 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 and 23 of these minutes.

The meeting adjourned at 5:05 P.M.

HERBERT V. PROCHNOW
Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 14, 1953

At 10:00 A.M., the Federal Advisory Council reconvened in Room 1032 of the Mayflower Hotel, Washington, D.C.

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 Assistant Secretary of the Board of Governors the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 22 and 23, listing the agenda items with conclusions reached by the Council. The *Memorandum* was delivered to the Assistant Secretary of the Board of Governors at 12 noon on September 14, 1953.

The meeting adjourned at 11:45 A.M.

HERBERT V. PROCHNOW
Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL
ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR
THE JOINT MEETING ON SEPTEMBER 15, 1953

1. What are the views of the Council with respect to the prospective business situation during the next 3 to 6 months and the probable changes in the volume and purposes of bank loans in that period?

Business activity in the last few months has held at high levels. Consumer income and spending have been maintained. Unemployment has remained very low. Industrial production has been high. Disposable personal income has been large. The number of nonfarm housing starts has been substantial. Retail sales have compared favorably with those of 1952. However, impressive as the factors are which now support the economy, some significant weaknesses have become apparent. For example large farm surpluses are already creating serious problems, which will increase in the next few months. Farm prices and farm income have fallen, accompanied by a very severe decline in the sale of farm machinery. Steel production has begun to turn downward, and indications are that it will decline considerably by the end of the year. Production of household appliances and automobiles is outrunning demand. Business inventories in many lines have accumulated beyond desirable levels.

The Council believes that the peak of the boom has passed and that in the next three to six months the course of business will be moderately downward.

This Fall the banking system will experience the usual seasonal demand for credit, but the Council believes the increase in the total volume of bank loans will not be as great as it was in 1952. Should business activity decline in the next few months, as the Council anticipates, the time necessary for the liquidation of excess inventories will tend to maintain temporarily the volume of bank loans.

2. What comments does the Council have to make with respect to the System's recent and current credit policies, and what modifications of those policies does the Council believe might be desirable during the balance of the year?

The Council thinks the Board's actions in the last few months in giving relief to the money market, both by open market operations and by the reduction in reserve requirements, were highly constructive. The Board's policy helped stabilize the economy at a time when the money market had become unduly tight, and materially helped the Treasury in its financing.

As stated in the answer to the first item of the agenda, the Council believes that the peak of the boom has passed and that a moderate downward trend in business will continue for a time. In view of this belief, the money market should not be kept so tight as to accelerate the decline in business, but should be eased in the direction of moderating the decline. On the other hand, money should not be made so easy as to create the danger of further inflation. If the decline in business activity is not too severe, the Council believes that open market operations would be adequate to meet the situation. If, contrary to the expectations of the Council, the rate of business decline threatens to accelerate substantially, the Council believes the Board should again reduce reserve requirements.

3. What, if any, suggestions does the Council have as to legislation that the Board might support or sponsor in the forthcoming session of the Congress?

A similar item appeared on the agenda at the meeting of the Board and the Council in February. At that time, the Council stated that it would favor legislation (subsequently passed) 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 also stated that it would 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.

The Council does not know what legislation the Board may wish to support or sponsor in the forthcoming session of the Congress. If the Board will advise the Council as to what legislation it contemplates proposing, the Council will be pleased to express its views regarding the legislation at the meeting with the Board in November.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 14, 1953

At 2:20 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. 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, 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 the "Changing Debt Structure". Each member of the Council was given a copy of the report.

The meeting adjourned at 3:35 P.M.

HERBERT V. PROCHNOW
Secretary

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

September 15, 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. 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.

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 and 23 of these minutes. A brief discussion followed.

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. At Chairman Martin's suggestion, a discussion followed on the relative merits of using reserve requirements compared to open market operations as instruments of control.

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

Chairman Martin stated that the Board does not have any legislative proposals at present, but it will be pleased to discuss any contemplated legislation with the Council when the proposals are ready.

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

The meeting adjourned at 12:18 P.M.

HERBERT V. PROCHNOW
Secretary

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

H. V. P.

The Secretary's notes on the meeting of the Federal Advisory Council on September 13-15, 1953, at 2:20 P. M. in Room 1032 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

The Council approved the Secretary's notes for the meeting of May 17-19, 1953.

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ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROSPECTIVE BUSINESS SITUATION DURING THE NEXT 3 TO 6 MONTHS AND THE PROBABLE CHANGES IN THE VOLUME AND PURPOSES OF BANK LOANS IN THAT PERIOD?

Brown reads the three items on the agenda and asks Clayton, representing District 1, to comment on Item I of the agenda.

Clayton. Business in New England continues at a high level after the usual summer slowdown, but there are no significant indications of any higher level being reached. Opinion is divided regarding a decline before the year end or a continuance on a high plateau. Some who see no decline this year are looking for one in the first quarter of 1954. Concern over automobile sales is general; new car sales in Massachusetts in August were 50 per cent ahead of 1952, about 25 per cent ahead of 1951, but only 2 per cent ahead of 1950. Dealers are having to work harder to dispose of used cars, and many believe that this is the bellwether to a business decline. Business loans declined very slightly in recent weeks, but are still 11 per cent ahead of a year ago. Loans to finance companies are contributing materially to the high loan level. No real runoff is expected soon. The collection of receivables has slowed. Inventories are high, but not dangerously high in relation to sales to date. Some believe that a quick turn could come with surpluses developing almost over-night. If some borrowers decide to get out of debt while the getting is good, the idea is apt to spread like wildfire.

H. Alexander. Business continues good in the Second District. Employment is high. Defense industries are down slightly. Retail sales have been good, but department store sales are showing a moderate decline. Many employers expect good business this fall. Total construction volume is holding steady. Farmers have had lower prices but larger crops, and farm income is quite good. There has been some buildup of inventories of manufacturers. Cotton textile business is improved, but the rayon industry is down. The New York Federal Reserve describes the situation

as no longer one of a balance between inflation and stability, but one of a contest now between stability and deflation. The aggregate demand for goods has not expanded in relation to production. There will probably be less demand for bank credit this fall than a year ago. Consumer credit will probably be smaller than in 1952. The limit on credit expansion this fall will be the demand, instead of the supply of credit as it has been in the immediate past. Alexander believes that business activity will tend to decline in the next few months. The steel situation is easing now. Stocks of durable goods are increasing.

Smith. Conditions in District Three are similar to those in the Second District. Business as a whole is good. The used car market is slow. Inventories are high and loans at banks are high. Smith states that, in general, business conditions in the Third and Second Districts are about the same.

Gund. The outlook in the Fourth District is for moderately lower business activity in the next few months. There has been a decline in government orders. New plant and equipment expenditures will probably decline; private home starts are down. Gund states that he endorses the Federal Reserve policy of buying short term obligations to ease credit, if necessary.

Fleming. Business in the Fifth District is good, except the agriculture industry has some problems. Construction activity continues about the same, but houses in the higher priced brackets are not moving readily. The textile industry is good. In the city of Washington there has been a reduction of about 18,000 persons in government personnel and department store sales are down as a result. Telephone installations in Washington are also lower. The Fifth District, as a whole, has no unemployment. Bank loans are up.

Davis. Business is generally good. Employment is high. The construction industry continues strong. Telephone installations are high. Retail sales continue at good levels. The demand for credit will probably not exceed the normal seasonal demand this fall. There is some pessimism about 1954.

V. Alexander. In the Eighth District, the situation is not too different from the national picture. Consumer income and spending have been maintained, and employment is good. Only construction is off and this not too greatly when the government atomic energy spending is eliminated from the base period (last year). So far this year consumer spending at department stores has been maintained at a slightly higher level than during 1952. Sales slackened in July. Modest gains for the remainder of the year are anticipated by most department store executives. Sales for 1953 are expected to total slightly larger than in 1952.

In the first eight months, employment remained at substantially higher levels than a year earlier in the District's metropolitan areas. However, in July and August, slackening of demand in some areas narrowed the rate of increase over last year. Construction activity has been at a lower level than last year because of partial completion of a number of major projects and work stoppages. The value of total construction contracts awarded in the District in the first seven months of this year was 14 per cent lower than in the same period last year. Residential

building awards were down 18 per cent, while other awards were down 14 per cent. Manufacturing productivity has been well ahead of a year ago when the nation-wide strike caused some disruption. Two continuing weak spots in the District's nondefense industries have been whisky and coal. These industries have been in a period of declining production for some time. Distillers became badly overstocked as they built up inventories anticipating cutbacks during the Korean war. These inventories are still far above normal and even though only from one-fourth to one-half of the distilleries have been operating in Kentucky, prices have continued to be depressed. Coal has suffered from increasing substitution of other fuels. Mine output has been running about one-sixth less than a year ago. During June, July, and August the demand for credit at Eighth District member banks by businesses and consumers was fairly strong. Business loans, usually down at this time, rose \$10 million at weekly reporting banks in the District. Sales finance companies made sizable net repayments, reflecting in part financing in the capital market. "Other" (largely consumer) loans were up for the three months but the growth was less than for the corresponding three months in 1952, which immediately followed the lifting of Regulation W. Total deposits rose from the end of May through August at District member banks. Most of the increase was in deposits of the United States government; however, savings accounts also rose substantially.

Fleming. (Off-the-record discussion)

Ringland. Conditions in the Ninth District are generally good. Crop prospects are excellent, although the wheat crop is off somewhat; storage space is tight. Bank deposits are holding up. Farm income is down. Correspondent bank deposits are off somewhat. Retail sales for the year are up, but there has been some decline recently, partly due to very hot weather. If retail sales continue slow, the stores will probably curtail buying. Inventories have accumulated. The economy of the District depends in a large measure on agriculture. Some automobile dealers have very large stocks and are making little money; some actually have losses. Bank loans are above a year ago. The increase in bank loans this fall will probably be only seasonal. Despite soft spots, business generally looks good.

Chandler. Farm income over the country is off about 6 per cent. Retail sales in the Tenth District are below the national average. The machinery business is very slow. Consumer credit has shown a small decrease in recent weeks. Moisture conditions are somewhat better. Residential starts are down. Employment is good. Crude oil stocks are up considerably. As a whole, the District is in good shape, considering the amount of moisture.

Ray. Business is good notwithstanding the drought. Department store sales are above a year ago. There is no unemployment. Housing starts are lower, especially in high priced houses. The cattle industry has had problems, but the big cattle farmer was not seriously hurt. The "drug store" cowboys, those who had a half-dozen cattle as a hobby, have been shaken out. Oil production and drilling are down. Bank deposits are about 7 per cent higher than a year ago and loans are 4 per cent higher than last year. The increase in bank loans this fall will probably not be as great as last year. The automobile business is off substantially. New cars, except Cadillacs, are available at a discount.

Air-conditioned cars will be in strong demand in the South in the future. Although we seem to be headed for a moderate decline in business generally, the merchants think department store sales for Christmas may be better than a year ago. In general the District is in good shape. If the cotton crop goes into the government loan, bank loans may actually decline.

Wallace. The overall situation in the district appears to be strong, and gains in industrial activity have been above the national average. There has been weakness in the lumber industry. There have been some cut-backs in Federal jobs as the West has been the supply point for United States activities in the Orient. There has also been some slowdown on the part of labor. Business for the rest of 1953 will probably be quite good. In the early part of 1954, the profit margin will probably narrow. The outlook for foreign trade from the Pacific Coast is not good. The country is long on steel, coal, agricultural production and other products, and in the coming year we could face some serious problems.

Brown. Business now is generally good. The peak of the boom is past. The automobile business is down. Farm machinery sales are off. Production in the household appliance industry has outrun demand. Crops are generally good. The retail trade is good, but there is some apprehension about the future. Most persons expect a modest decline this year, but some business men think the decline may be more serious next year. Steel production by the end of 1953 may be running at 75 per cent to 80 per cent of capacity. Bank loans should increase seasonally, but the increase will probably not be as great as it was in 1952. The rate of increase in consumer loans has slackened. Public utility construction is heavy. If business declines, industry generally will probably be more reluctant to make capital expenditures. The Council may say to the Board that business is generally good, but that the peak of the boom is past. In the next six months the course of business will probably be moderately downward. Business loans this fall may show an increase less than the increase last year. Employment has continued good.

Wallace. The breakeven point is much higher than it was in the past.

Brown. The peak of the boom is past. A moderate downturn in business is probable during the next three to six months. However, at present the decline does not threaten to be serious. Bank loans will have a seasonal increase, but the increase will probably not be as great as it was a year ago.

ITEM II

WHAT COMMENTS DOES THE COUNCIL HAVE TO MAKE WITH RESPECT TO THE SYSTEM'S RECENT AND CURRENT CREDIT POLICIES, AND WHAT MODIFICATIONS OF THOSE POLICIES DOES THE COUNCIL BELIEVE MIGHT BE DESIRABLE DURING THE BALANCE OF THE YEAR?

Brown. Federal Reserve policy in recent months has been good. If the Council agrees that the peak of the boom has passed and that a moderate decline in business is probable, then the Council may say to the Board that the money market should not be kept so tight as to accelerate the decline. Neither should money be made too cheap, so that the economy is again threatened with inflation.

Fleming. No further reduction in reserve requirements is desirable at present. The government market is better. The last issue went well with small attrition. The government may need some new money in October or November, depending on Commodity Credit Corporation loans.

Brown. (Off-the-record comments on possible new Treasury borrowing)

H. Alexander states that he has no quarrel with the Federal Reserve at present. He thinks the Federal Reserve acted wisely in recent months. (Off-the-record comments on Treasury borrowing)

Fleming thinks the Board should have a pat on the back for its action in the open market and in the reduction in reserve requirements.

H. Alexander. If the deflationary forces should accelerate, then the Board may find it necessary to reduce reserve requirements further, but at present Alexander has no quarrel with Board policy.

Brown. Both the open market operations and the reduction in reserve requirements were good. The Board helped the Treasury with its financing and helped to stabilize the economy when the money market was too tight. As stated in the answer to the first question, Brown believes the peak of the boom has passed and that a moderate downtrend will continue for the balance of the year. Consequently, the Council may state it believes the Board should not keep the money market so tight as to accelerate the decline. On the other hand, the Board should not cheapen money and run the risk of further inflation. At the present time, the Council believes that open market operations are adequate to meet current business trends. If, contrary to the expectations of the Council, the rate of business decline should accelerate, the Council believes the Board should be ready to reduce reserve requirements further.

Fleming. (Off-the-record comments)

Brown. (Off-the-record comments)

ITEM III

WHAT, IF ANY, SUGGESTIONS DOES THE COUNCIL HAVE AS TO LEGISLATION THAT THE BOARD MIGHT SUPPORT OR SPONSOR IN THE FORTHCOMING SESSION OF THE CONGRESS?

Brown states that he does not know what, if any, legislation the Board may have in mind. He then asks the members of the Council for comments.

Ringland. The Council may state that it does not know what proposed legislation the Board has in mind, but the Council will be glad to express its views on any legislative measures the Board may wish to discuss.

Brown. The Council may say it does not know what legislation the Board may wish to propose, but the Council will be pleased to discuss with the Board any legislation which the Board may be considering.

Fleming. The Council may state that a similar question was asked by the Board in February. At that time, the Council stated it would favor legislation (subsequently passed) 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 also stated that it would 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.

The Council does not know what legislation the Board may wish to support or sponsor in the forthcoming session of the Congress. If the Board will advise the Council as to what legislation it contemplates proposing, the Council will be pleased to express its views regarding the legislation at the meeting with the Board in November.

The meeting adjourned at 5:05 P. M.

THE COUNCIL CONVENED AT 10 A. M. ON
SEPTEMBER 14, 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 the Board on September 15, 1953. The Memorandum was delivered to the Assistant Secretary of the Board of Governors at 12 noon on September 14, 1953. It will be noted that each item of the agenda is listed together with the comments of the Council.

The meeting adjourned at 11:45 A. M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON SEPTEMBER 15, 1953

1. What are the views of the Council with respect to the prospective business situation during the next 3 to 6 months and the probable changes in the volume and purposes of bank loans in that period?

Business activity in the last few months has held at high levels. Consumer income and spending have been maintained. Unemployment has remained very low. Industrial production has been high. Disposable personal income has been large. The number of nonfarm housing starts has been substantial. Retail sales have compared favorably with those of 1952. However, impressive as the factors are which now support the economy, some significant weaknesses have become apparent. For example, large farm surpluses are already creating serious problems, which will increase in the next few months. Farm prices and farm income have fallen, accompanied by a very severe decline in the sale of farm machinery. Steel production has begun to turn downward, and indications are that it will decline considerably by the end of the year. Production of household appliances and automobiles is outrunning demand. Business inventories in many lines have accumulated beyond desirable levels.

The Council believes that the peak of the boom has passed and that in the next three to six months the course of business will be moderately downward.

This Fall the banking system will experience the usual seasonal demand for credit, but the Council believes the increase in the total volume of bank loans will not be as great as it was in 1952. Should business activity decline in the next few months, as the Council anticipates, the time necessary for the liquidation of excess inventories will tend to maintain temporarily the volume of bank loans.

2. What comments does the Council have to make with respect to the System's recent and current credit policies, and what modifications of those policies does the Council believe might be desirable during the balance of the year?

The Council thinks the Board's actions in the last few months in giving relief to the money market, both by open market operations and by the reduction in reserve requirements, were highly constructive. The Board's policy helped stabilize the economy at a time when the money market had become unduly tight, and materially helped the Treasury in its financing.

As stated in the answer to the first item of the agenda, the Council believes that the peak of the boom has passed and that a moderate downward trend in business will continue for a time. In view of this belief, the money market should not be kept so tight as to accelerate the decline in business, but should be eased in the direction of moderating the decline. On the other hand, money should not be made so easy as to create the danger of further inflation. If the decline in business activity is not too severe, the Council believes that open market operations would be adequate to meet the situation. If, contrary to the expectations of the Council, the rate of business decline threatens to accelerate substantially, the Council believes the Board should again reduce reserve requirements.

3. What, if any, suggestions does the Council have as to legislation that the Board might support or sponsor in the forthcoming session of the Congress?

A similar item appeared on the agenda at the meeting of the Board and the Council in February. At that time, the Council stated that it would favor legislation (subsequently passed) 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 also stated that it would 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.

The Council does not know what legislation the Board may wish to support or sponsor in the forthcoming session of the Congress. If the Board will advise the Council as to what legislation it contemplates proposing, the Council will be pleased to express its views regarding the legislation at the meeting with the Board in November.

THE COUNCIL CONVENED IN THE BOARD ROOM
OF THE FEDERAL RESERVE BUILDING AT 2:20 P.M.
ON SEPTEMBER 14, 1953. ALL MEMBERS OF THE
FEDERAL ADVISORY COUNCIL WERE PRESENT.

Dr. Woodlief Thomas, Economic Adviser to the Board and Dr. Ralph A. Young, Director of the Division of Research and Statistics, together with other members of the Board Staff, presented a visual-audio report on the "Changing Debt Structure". Copies of the report were distributed to members of the Council.

The meeting adjourned at 3:35 P.M.

The Council discussed the report on the "Changing Debt Structure" and the implications of the report on the monetary policy of the Board. The Council members expressed their interest in the report and the implications of the report on the monetary policy of the Board. The Council members also discussed the implications of the report on the monetary policy of the Board.

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ON SEPTEMBER 15, 1953 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. SHERMAN, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS, WAS ALSO PRESENT.

ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROSPECTIVE BUSINESS SITUATION DURING THE NEXT 3 TO 6 MONTHS AND THE PROBABLE CHANGES IN THE VOLUME AND PURPOSES OF BANK LOANS IN THAT PERIOD?

Brown reads Item 1 of the agenda and the conclusion of the Council, as expressed in the Confidential Memorandum to the Board attached. The Board receives excellent economic analyses from its staff, but there is always the possibility that the statistics may be a month or two late. The members of the Council receive views currently regarding the business situation from their customers. Household appliances are accumulating in inventories. Steel production has turned downward, and many steel people believe the decline may continue. There may be some seasonal increase in bank loans this Fall, but the increase will probably not be as great as it was in 1952. There is also some evidence that consumer credit may level off.

Martin asks what course the Council anticipates plant and equipment expenditures will take in the fourth quarter of 1953.

Brown states there probably will be no decline in expenditures by utilities, but if business activity declines, corporations may be reluctant to expand plant facilities. The oil industry may be expected to continue its exploration, but may not expand plant so rapidly. Plant expansion already committed will be completed, but except for utilities, there probably will be some hesitation in making commitments for new industrial plant expansion if the present decline in business continues.

H. Alexander believes that Brown's summary is correct. He states that the New York Federal Reserve Bank believes the situation is no longer one of a balance between inflation and stability, but is now a problem of a balance between stability and deflation. Alexander believes the situation leans a little more to deflation. Business is still generally good. Automobile dealers are having more difficulty moving cars. The rayon business of the textile industry is poor. There is a large volume of construction for public utilities and public buildings.

Martin asks for comments on the business situation on the West Coast, now that he has heard a statement of conditions on the East Coast.

Wallace believes the volume on the Pacific Coast is above last year, but there are some weaknesses. Foreign trade of the West Coast is off.

There are some strikes now and more are anticipated. Business cannot give further wage increases in some lines without difficulty. Business for the rest of the year looks good, but some readjustments will probably be necessary by the first of the year. It is probable that the adjustments will come first in raw material areas.

Davis. There is practically no unemployment in his District. There is considerable building of new plants. Florida and Georgia have had their best tobacco crop at good prices. The farm situation generally however does not look too good. There will be a large surplus of cotton. Utilities are behind with telephone installations. However, notwithstanding the utility expansion, there is considerable pessimism. Coke prices are lower. Loans seasonally will probably be up this Fall, but may not increase as much as they did in the Fall of 1952. Davis does not at present look for a serious decline in business. Loans in his bank are down.

Szymczak asks whether the earnings of Davis' bank are decreasing.

Davis replies that earnings are not down, but taxes and higher costs are real problems.

Martin asks about the cattle and drought situation.

Ray. There has been considerable moisture in his District. If there is no early frost, the District will have adequate cattle food. He believes most of the squeeze is out of the cattle industry. Small cattle owners are out, and the big operators have not been too seriously hurt. The level of cattle prices seems fairly well stabilized. There is a large cotton crop. If most of the cotton crop goes into government loan, the bank loans may not be as large as last year. Business is good, but business men are cautious. Automobile sales are off and new cars are being sold at a discount. The mortgage market is tight. Low-priced, air conditioned houses are selling, but high-priced houses are not moving readily.

Vardaman. Does the 1953 cotton crop have any large carry-over costs against it?

V. Alexander states that there are no large carry-over costs in his District. Alexander believes that the banks should be allowed to carry the cotton loans.

Vardaman comments that he asked his question because he wondered if the cotton crop would result in a substantial amount of loose cash in the cotton districts which would be used for consumer spending.

V. Alexander does not believe there will be so much free cash around this Fall.

Fleming thinks that if the banks were given a satisfactory rate they would carry the cotton and other agricultural paper and make unnecessary a large drain on the Commodity Credit Corporation, which reflects itself in government borrowing.

Robertson asks to hear from the Tenth District.

Chandler. Bank loans in the last sixty days have not increased as much as they did a year ago. Consumer credit has actually declined. Business is slow in the agricultural areas, but is better in the cities. Denver has a boom. Loans on cattle are off. Housing starts are off. The District has had about half its normal rainfall.

Ringland. The Ninth District has had good moisture conditions. There is a record corn crop. Business generally is good. Total farm income should be reasonably satisfactory. People are somewhat cautious. Retail sales are a little above a year ago, but in the last thirty days retail sales have been off, possibly because of hot weather. There is an accumulation of farm machinery in the hands of dealers. In general, the situation in this District is about the same as it is in the other Districts.

Robertson states that as he understands the views expressed, there is a moderate business decline which is not altogether unhealthy, provided declines do not come in all lines at the same time and do not go too far.

Brown. If the declines do not come too fast in all lines, and do not go too far, they may help to correct some unhealthy situations. However, the Council has commented in the second item of the agenda on keeping the business decline under control.

ITEM II

WHAT COMMENTS DOES THE COUNCIL HAVE TO MAKE WITH RESPECT TO THE SYSTEM'S RECENT AND CURRENT CREDIT POLICIES, AND WHAT MODIFICATIONS OF THOSE POLICIES DOES THE COUNCIL BELIEVE MIGHT BE DESIRABLE DURING THE BALANCE OF THE YEAR?

Brown reads Item 2 of the agenda and the conclusions of the Council, as expressed in the attached Confidential Memorandum to the Board. The Council believes that with inventories accumulating, and with some evidences of weakness in the economy, the policy of the System should be to moderate the business decline so that it does not become too serious. On the other hand, the Council believes the policy should not be to rush in and ease the money market too much. There will be political pressure to ease the market more than is necessary, but the Council believes it would not be advisable to yield to such pressure.

Mills. Is there any general feeling that the Board will not give relief to banks for seasonal needs?

Brown. Up to July 1 there was some feeling of this kind. The local Federal Reserve Banks were asking many questions when banks sought to rediscount. Brown states that he does not know the extent to which the attitude of the Reserve Banks reflected policy in Washington. At present, however, the feeling that the Board would not give relief does not exist as it did prior to July 1.

Robertson. Is there any fear that the Board will put too much money into the market, that is, ease the market too much?

Brown. There is no fear that the Board will ease the market too much, but there is some talk that political pressure might bring about excessive easing of the market.

Martin asks the members of the Council if they would care to express their opinions regarding the relative merits of using reserve requirements compared to open market operations.

Fleming believes that the use of a particular instrument of control depends in part upon what the market needs. Several months ago the money market was very tight, and it was necessary to use both instruments of control, reserve requirements and open market operations. The Mills Plan has undoubtedly also been a factor in holding bank deposits down.

Martin. It is extremely difficult to tell exactly when the Board should go from open market operations to reserve requirements, as the Council has suggested. The Council has stated that if the rate of business decline threatens to accelerate too rapidly, the Board should again reduce reserve requirements. It is not an easy matter to determine exactly when to change from open market activities to a reduction in reserve requirements.

Evans. Is the threat of making money too cheap a serious problem?

Brown. Excessively cheap money would tend to make public bodies wasteful. If business activity declines in the next few months, bank loans will nevertheless tend to hold up temporarily during the period required to liquidate inventories. If the public felt that the Board and the Administration were determined to have a tight money policy, corporations would probably be somewhat reluctant to make long-term capital expenditures. Brown agrees that it is difficult to tell exactly when to take steps to stop a decline in business. The revival of the Keynes theory that cheap money will stop a decline might also result in a loss of confidence in the soundness of the dollar.

Evans asks whether the Board should now pursue an easy money policy.

Brown. The Council debated the idea of a neutral policy, and the Council thought that the time for a neutral policy had passed. The threat of a business decline is here, and the Council felt the Board should work in the direction of easing the money market.

H. Alexander states that he has little about which to quarrel with the Board now. He believes the Board's action in June was highly constructive, and he does not think he could make a case at present for a reduction in reserve requirements. However, if the Council is right in believing that a business decline is under way, it is possible that a continuance of the decline might make it desirable to have the Board reduce reserves a month or six weeks from now. At any rate, it is advisable not to wait too long if the situation develops.

Martin. Assuming that X amount of money is to be put in the market, what are the relative merits of open market operations compared to a reduction in reserve requirements?

H. Alexander. A reduction in reserve requirements is more dramatic and indicates that the Board is doing something about the matter.

Martin. If we assume that this is a healthy decline in business, would the community say, with a reduction in reserve requirements, that there must be something wrong with the economy which the public does not see and about which the Board knows?

H. Alexander thinks a moderate reduction in reserves would not indicate that the Board felt that we were in for rough weather.

Ringland. The public does not follow open market operations very carefully.

Davis does not believe the public follows reserve reductions closely.

Ringland feels that they follow reductions in reserves more carefully.

Evans. People understand reserve requirements better. However, with the fall movement of crops the public would naturally think that the reduction in reserves was made to take care of crop loans.

Fleming. The public does not follow open market activities.

Gund believes it would be a mistake to rush into a reduction in reserve requirements too soon.

Smith thinks Alexander is right in that a case could not be made now for a reduction in reserve requirements.

Vardaman. It is necessary, if possible, to act before the public believes it should be done.

Wallace believes it might be a logical time to ease the market in the fall during the harvesting season.

H. Alexander. If the Board takes the attitude that reducing reserve requirements would produce fear, then the Board would never reduce reserve requirements when it should.

Martin. Monetary policy alone cannot change an economic trend. The Board really has only two instruments at present--open market operations and reserve requirements.

ITEM III

WHAT, IF ANY, SUGGESTIONS DOES THE COUNCIL HAVE AS TO LEGISLATION THAT THE BOARD MIGHT SUPPORT OR SPONSOR IN THE FORTHCOMING SESSION OF THE CONGRESS?

Brown reads Item III of the agenda and the conclusions of the Council, as expressed in the Confidential Memorandum to the Board attached. Brown asks whether the Board had any special matter in mind in connection with this question.

Martin replies this was a catch-all question for any legislation the Council might think desirable. Martin states the Board does not have any legislative proposals at present, but it will be pleased to discuss any contemplated legislation with the Council when the proposals are ready. Martin believes that the salaries of the Board should be increased, as the Board has been down-graded relative to other agencies and branches of the Federal government.

Fleming. The Council is completely sympathetic to increasing the salaries of the Board. Fleming outlines some of the steps the Council

has taken in the past to be helpful in the matter of increasing the Board's salaries.

Brown. If the Board wishes to propose legislation which it thinks has a chance of passage, it will be appreciated if the proposed legislation is sent to the Council some time before a meeting with the Council, rather than to submit it at the time the Council meets. Submitting any proposed legislation in advance of the meeting will enable the members of the Council to give it more thoughtful consideration.

Martin states that the Board has been discussing present reserve requirements under the law, and a possible alternative to the present law. The Board has not been able to come to any agreement regarding an alternative basis for determining reserves.

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Brown thanks the Board for its invitation to use the Board's facilities during the ABA convention. He also expresses appreciation to the Board for the comprehensive presentation which the Staff presented on the "Changing Debt Structure".

Fleming also commends the Staff for its thoughtful and complete presentation on the subject of the "Changing Debt Structure".

Martin replies that he has not heard the Staff's analysis of the subject, but that the Staff has been encouraged to express its opinions freely. Martin also commends the Council on the helpful advice it has given to the Board from time to time. He states that the advice has been of great assistance to the Board, and the Council's views are given careful consideration.

Vardaman comments that he has been on the Board for six years, and he states that in the last eighteen months, particularly, the advice of the Council has been greatly helpful to the Board. He thanks the members of the Council for their valuable counsel and advice.

Brown expresses the appreciation of the members of the Council for Martin's and Vardaman's comments.

The meeting adjourned at 12:18 P.M.

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The next meeting of the Council will be held on November 15, 16 and 17, 1953.