MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

1954

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of the

FEDERAL ADVISORY COUNCIL

February 14-16, 1954

May 16-18, 1954

September 19-21, 1954

November 14-16, 1954

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1954

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:

William D. Ireland	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
Wallace M. Davis	District No. 6
Edward E. Brown	District No. 7
W. W. Campbell	District No. 8
Joseph F. Ringland	District No. 9
Charles J. Chandler	District No. 10
George G. Matkin	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 14, 1954

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1954

The first and organizational meeting of the Federal Advisory Council for the year 1954 was convened in Room 1028 of the Mayflower Hotel, Washington, D.C., on February 14, 1954, at 2:17 P.M.

Present:

William D. Ireland	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
Wallace M. Davis	District No. 6
Edward E. Brown	District No. 7
W. W. Campbell	District No. 8
Joseph F. Ringland	District No. 9
Charles J. Chandler	District No. 10
George G. Matkin	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 1954.

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 1953, which had been audited by Mr. Irving E. Carlson, 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 15, 16, 17, 1953; May 17, 18, 19, 1953; September 13, 14, 15, 1953; November 15, 16, 17, 1953; and the mimeographed notes of the meeting held November 15, 16, 17, 1953, 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 $450.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1954, and to draw upon it for that purpose.

President Brown stated that the Council has been drawing upon each Federal Reserve bank for $350.00 annually since 1934, but because of increasing costs it was difficult for the Council to operate within this limited budget. He added that the matter of increasing the amount to $450.00 would be presented to the Board at the forthcoming joint meeting with the Council.

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 5:42 P.M.

HERBERT V. PROCHNOW
Secretary

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1953

Balance on hand, December 31, 1952	$ 7,389.61	Salaries	$3,000.00
		Conference Expense	750.78
		Printing and Stationery	436.00
Assessments— 12 Federal Reserve Banks	4,200.00	Postage, Telegrams and Telephone	4.56
		Balance on hand, December 31, 1953	7,398.27
	$11,589.61		$11,589.61

Chicago, Illinois
February 1, 1954

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, 1953, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO
(Signed) Irving E. Carlson
Assistant Auditor

February 15, 1954

At 10 A.M., the Federal Advisory Council reconvened in Room 1028 of the Mayflower Hotel, Washington, D.C., with the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. William D. Ireland, Henry C. Alexander, Geoffrey S. Smith, George Gund, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, 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 12:30 P.M. on February 15, 1954.

The meeting adjourned at 12:10 P.M.

HERBERT V. PROCHNOW
Secretary

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON FEBRUARY 16, 1954

1. The Board would like to have the comments of the members of the Council on the prospective business and economic situation during the next six months and the probable volume of bank loans during the period. What are the principal reasons for the large reduction in bank loans since the turn of the year?

There are some differences in the prospective business and economic situation in the various Federal Reserve districts, but the major economic trends are essentially similar.

The rapid rate of inventory accumulation in the first half of 1953 came to an end in the final quarter of the year. Virtually all categories of goods are now in full supply, and most businesses are endeavoring to reduce inventories. A leveling off of the present economic downtrend, or any upturn in over-all business activity, will depend largely upon when the present liquidation of inventories ends.

The increase in unemployment, especially in manufacturing, is reflecting itself in lower payrolls, Carloadings are down considerably, which results in the postponement of purchases of equipment and of other capital expenditures by the railroads. A generally expected lower automobile production is an additional factor emphasizing the probable continuance of the present downturn through the first half of 1954. Retail sales recently have shown some decline, but generally they have held up well. Should the demand for goods, especially as expressed in consumer buying, markedly decline, the rate of business downturn would accelerate. Over-all new construction, despite some decline in residential building, has held up well, and is a strong factor in sustaining business.

The members of the Council expect business activity to continue to decline in the first half of 1954. There is at present no significant evidence either of a leveling off in the rate of the present downtrend, or of the rate of decline increasing sharply or spiraling.

The large reduction in loans since the turn of the year is the outgrowth of a number of economic forces in addition to those which normally result in a seasonal decline in bank credit. A year ago, inventories were being substantially increased, whereas they are now being reduced. Early last year, business also was more active and required more bank credit. Lower agricultural and livestock prices, compared to a year ago, have likewise lessened the demand for loans. Present low interest rates are causing some large borrowers to refund short-term bank credit into long-term loans.

A minor factor in the reduction of bank loans has been the termination of the excess profits tax. Some business concerns borrowed more freely than normally to increase their tax base. This incentive no longer exists.

In view of the probable continuance of the downtrend in business activity in the first half of 1954, members of the Council anticipate a further decrease in the volume of bank credit for commercial, industrial and agricultural purposes, and no increase in total of other types of loans.

2. What are the views of the Council with respect to the System's credit policy since the preceding meeting of the Council? Does the Council have any suggestions as to what the System's policies should be in the months immediately ahead? Does the Council foresee a situation in the near future which would call for a reduction in the discount rate or a further reduction in reserve requirements?

The members of the Council believe that the Open Market operations of the System since the preceding meeting of the Council and through the greater part of January were helpful to the economy. The Council appreciates the difficulties which confronted the Open Market Committee in January as a result of the exceptionally heavy flow of currency to the banks, the unusually large contraction in loans, and the substantial increase in float because of weather conditions. However, since the latter part of January, Open Market operations seem to the members of the Council not to have been timed as effectively, nor to have produced results as satisfactory, as on other occasions in recent months.

At a time when bank loans are decreasing, the Council is of the opinion that it would be proper policy to sell bills to an amount approximately offsetting the decline in loans. The action of the Open Market Committee in the latter part of January seemed to be in accord with this viewpoint. The policy later of accumulating bills despite the decline in loans was the principal factor in the bill rate going to yields which the Council believes represent undesirable cheap money. The Council would like to reiterate the views it expressed in November that the danger of disturbing the economy by making money unduly and artificially cheap is as great as the danger of restricting business by too high interest rates, and a consequent reduction in the use of credit.

The members of the Council believe that with business continuing to decline, an easy money policy making credit readily available to desirable borrowers at reasonable rates is advisable. However, we reiterate that the economy should not be disturbed by making money unduly and artificially cheap.

The Council is sharply divided in its opinion as to whether the recent reduction in the discount rate was desirable. However, the Council is of the belief that there is no situation foreseeable in the near future which would call for a further reduction in the discount rate. The large majority of the Council does not foresee a situation in the near future which would call for a further reduction in reserve requirements.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 15, 1954

At 2:15 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. William D. Ireland, Henry C. Alexander, Geoffrey S. Smith, George Gund, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, John M. Wallace, and Herbert V. Prochnow, Secretary.

Dr. Arthur Marget, Director of the Division of International Finance of the Board of Governors of the Federal Reserve System, and members of his staff discussed International Conditions. A summary of the comments was sent to the members of the Council by Dr. Marget.

The meeting adjourned at 3:35 P.M.

HERBERT V. PROCHNOW
Secretary

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

February 16, 1954

At 10:33 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. William D. Ireland, Henry C. Alexander, Geoffrey S. Smith, George Gund, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, John M. Wallace and Herbert V. Prochnow, Secretary.

President Brown stated that the Council had adopted a resolution authorizing the Secretary to ask each Federal Reserve Bank to contribute $450.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1954 and to draw upon it for that purpose. He added that this represents an increase of $100.00 annually over recent years, but that the Council has felt the increase necessary in view of rising costs. President Brown suggested that the Secretary of the Board advise the Secretary of the Council of the Board's views on the suggested increase.

Chairman Martin replied that the Board will advise the Council of its views. (Each of the twelve Federal Reserve banks later reported approval of the $450.00 contribution of each bank for the secretarial and incidental expenses of the Federal Advisory Council for the year 1954.)

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.

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 he knew of no probable business expansion or development that was being held back because of tight money. An extended discussion on this item, participated in by members of the Council and the Board, followed.

Chairman Martin stated that the meeting had been very helpful to the Board.

The meeting adjourned at 1:10 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 February 14, 1954, at 2:17 P.M., in Room 1028 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 1954.

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 1953 which had been audited by Mr. Irving E. Carlson, 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 motion was adopted authorizing the Secretary to increase the amount to be drawn upon each Federal Reserve Bank from $350 to $450 for the secretarial and incidental expenses of the Federal Advisory Council for the year 1954. The amount of $350 was fixed in 1934, and because of increasing costs it is difficult for the Council to operate within this limited budget. President Brown stated that he would present the matter to the Board at the joint meeting with the Council.

The Council approved the Secretary's notes for the meeting of November 15-17, 1953. The printed minutes for all the 1953 meetings of the Council, copies of which had been sent previously to members of the Council, also were approved.

ITEM I

THE BOARD WOULD LIKE TO HAVE THE COMMENTS OF THE MEMBERS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT SIX MONTHS AND THE PROBABLE VOLUME OF BANK LOANS DURING THE PERIOD. WHAT ARE THE PRINCIPAL REASONS FOR THE LARGE REDUCTION IN BANK LOANS SINCE THE TURN OF THE YEAR?

Brown reads Item I and asks each member of the Council for his views. Brown says that perhaps Ireland, as a new member, may prefer to have members who have previously served on the Council comment first.

Alexander. Business is down in the Second District. Unemployment has been increasing, and there has been a significant increase in the claims for unemployment insurance. A number of lines of business are declining, including textiles, furniture, and the women's garment industry. Alexander believes that the business downturn is accelerating somewhat. Commercial building, public utility, and school construction are up. Residential construction is down. In January, over-all construction was up. Bank loans are down, and in New York City commercial loans of banks dropped sharply after the first of the year, because of decreased business activity. Banks are also feeling the competition of other lenders. The volume of commercial paper outstanding is near an all-time high. Some short-term bank loans are being refunded on a long-term basis because of attractive interest rates. The termination of the excess profits tax has probably also lead to some decline in loans. Alexander feels somewhat more pessimistic than he felt at the November meeting of the Council and even more pessimistic also than he felt at the first of this year. With steel operating at a rate of 74 per cent, it indicates that some companies are running above that figure, but it also means that some are below that figure. There may be some pickup in business in the Spring, but no major economic force seems to be in evidence which would keep business from declining further or give it a turn upward.

Brown asks whether commercial paper is going into the hands of non-bank buyers.

Alexander replies that non-bank buyers are purchasing commercial paper and they include, among others, large corporations, endowment funds and pension funds.

Smith. Business continues to decline in the Third District. Employment is down about 3 per cent. Department stores sales are up slightly. Retailers expect good sales this Spring because of the late Easter. Commercial and industrial construction is expected to be up in the district compared to a possible decline over the country. The trend in the district will depend in a large measure on public psychology and the willingness of the consumer to spend. Bank loans are down somewhat, largely because of the decline in the latter part of last year. Since January, loans have held up fairly well. Smith expects loans will tend to decline in the months ahead.

Gund. There may be some seasonal pickup in loans in the Spring, but loans over-all will probably tend to decline. Inventories are coming down. Gund reports that his bank has experienced a gain of $58 million in savings since they increased the savings rate from one per cent to 2 per cent. The raise in rates has been very helpful. Savings certificates have not worked out very well for those banks which tried them. The clothing industry has not been good, but seems to be experiencing some recovery. The coal industry has difficult problems. The downward drift in business will probably continue at least until July and may be concentrated mostly in durables. The automobile output cannot very well reach the 1953 level of production until the dealer stocks are worked down. The demand for steel does not look too good. Construction generally appears quite favorable. There will be less demand for bank loans to build inventories, and loans will probably continue to decline.

Fleming. There is a general downward trend in bank loans, which have declined more than they did a year ago. However, total bank loans are still above a year ago. The cotton textile industry continues to decline. Demand deposits are down slightly, but savings deposits are up. Department store sales have generally decreased, but very recently they have gone up somewhat above a year ago. Automobile sales are down, and farm income is lower. There is very little unemployment. Bank loans will continue to decrease in volume, but there may be some seasonal pickup in the Spring.

Davis states that his district is probably better than the worst, but perhaps not as good as the best district. The tobacco crop produced less income, cotton more, and rice and peanuts about the same. The psychology in country towns is better than it was a year ago, and it has improved in recent months. It is not too easy for farmers to switch from cotton to other crops. There is little unemployment in his district. Construction continues high. There is not much shrinkage in the total volume of bank loans. Most of the large banks showed an increase in loans at the end of the year, compared to a year ago. Off-shore oil development should show considerable activity this year. Davis believes that most banks in the district will be able to lend about as much as they wish to this year.

Campbell. Business activity, generally, is down in the Eighth District. Industrial production has declined. Department store sales have decreased. Unemployment rose in January. There has been a severe drought, but moisture conditions have improved somewhat, except in some areas. The volume of bank loans has declined more than seasonally. The demand for loans in the Memphis area is good, reflecting the demand for cotton loans. It will be difficult for farmers to switch from cotton to other crops. Deposits are up over the district. Campbell expects a good demand for loans, but not as strong as last year.

Ringland. Business activity in the Ninth District has been relatively good. Agricultural loans are off some but not seriously. Agricultural prices have shown improvement. The hope is that agriculture has seen the worst of it. The milling people who are well diversified are getting along quite well. The construction industry looks good. The outlook for residential housing is fair, but commercial and public construction should be comparatively good. Department store sales are up. The labor market is easier. Bank deposits will probably decline some. Loans are about even with a year ago because banks have obtained Commodity Credit paper. Installment loans are down. Savings deposits have increased. Loan volume will probably decline.

Chandler. The Tenth District is an agricultural district. The winter wheat crop is better than it was a year ago. If there is sufficient moisture, the crop should be reasonably good. The cattle situation has been quite unusual, and it is remarkable that there were not more distressed situations. Unemployment is not serious. Oil production is down in some areas but up in others. Residential construction is off, but commercial construction is up. Department store sales are down since the first of the year. Bank loans have not declined as much recently as in other districts, because this district had a decrease in loans earlier. Deposits are off. If moisture conditions are satisfactory, there should not be a serious decline in loans.

Matkin. The business adjustment is continuing in the Eleventh District. Except for agriculture, most of the adjustment is in inventory. Prices have been reasonably stable. Reduction in inventories has been making good progress. Business activity is at a relatively high level, but the economic forces in operation are somewhat deflationary. Agriculture seems to be more stable, with some improvement in prices. Some further adjustments may take place in the economy, but there is at present no conclusive evidence that the downward trend will accelerate. There will probably be a full seasonal decline in loans, or perhaps a little more than that in the first six months of 1954.

Wallace. California employs twice as many non-agricultural workers as there are in the other six states in that district. The primary metals, paper, shipbuilding, ordnance, lumber and plywood, are among the fields of business which are declining. There has been considerable strength in residential construction. Department store sales are down. Consumer credit is off. Demand deposits are lower, but time deposits are up. The steel plants in the district expect to operate at near capacity this year. The cattle situation is somewhat better. The wool industry is having problems because of competition with synthetics. There will be some major reductions in mining wages. Loans will probably decrease. Agriculture, mining, and manufacturing may be moving close to the bottom. The downward business trend does not seem at present to be accelerating.

Ireland. New England offers no exception to the general decline in business over the country. However, the decline in the First District started earlier than it did in other parts of the United States. This district has had a downward trend for some months and much of it may be over for them. There were more cotton spindle hours in 1953 than in 1952. From the standpoint of employment, durables now balance non-durables, and exceed them in dollars. Commitments for construction are heavy. Department store sales are up. New car registrations established a record in 1953, and December 1953 car registrations were ahead of any December in four years. There was very little decline in loans in January, although loans had declined in the previous months. Ireland does not expect a serious decline in loans in the months immediately ahead.

Brown. The situation in the Seventh District is about the same as in the rest of the country. Business activity has decreased for six months, but there are no conclusive indications that the decline is seriously accelerating or that it may be a spiral decline. However, the down-trend is continuing, and there is no evidence that it is levelling off. Car loadings are down considerably so that railroads will not order new cars. The auto industry is suffering from overproduction. Retail sales have held up well. New housing construction is down over the district. Brown expects some decrease in the volume of bank loans. Mail order sales are off, primarily in durables. Mail order time credit paper is down. The reason for the principal decline in loans is the reduction in inventories. Most categories of goods are in ample supply. The end of the excess profits tax has probably resulted in some loan reduction. Loans are down and would have decreased even further if the banks did not have the Commodity Credit paper. Brown thinks the effect of the Mills Plan on loans will not be large.

The Council may state to the Board that there are some variations in the prospective business and economic outlook from district to district, but the principal economic trends are similar. Business activity will probably decline in the next six months. The decrease in business has been fairly constant in the last six months. There is no evidence either of a levelling off in the downward trend, or of a sharp increase in the rate of decline. One of the principal questions is whether the reduction in inventories will shortly come to an end and be followed by a renewal of buying. At the present time, almost all categories of goods are in full supply, and the tendency is to reduce inventories. A year ago, inventories were being substantially increased. Long-term financing is now possible, with more favorable rates than were offered a year ago and this accounts for some reduction in short-term loans. Lower prices for agricultural commodities have reduced loan volume. A minor factor in the loan reduction has been the termination of the excess profits tax. Some companies probably borrowed more freely than normal to increase their tax base, and there is no similar incentive this year. Brown states that the agricultural surplus problem is one of the most serious confronting the economy. The members of the Council may wish to discuss this problem with the Board.

ITEM II

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE SYSTEM'S CREDIT POLICY SINCE THE PRECEDING MEETING OF THE COUNCIL? DOES THE COUNCIL HAVE ANY SUGGESTIONS AS TO WHAT THE SYSTEM'S POLICIES SHOULD BE IN THE MONTHS IMMEDIATELY AHEAD? DOES THE COUNCIL FORESEE A SITUATION IN THE NEAR FUTURE WHICH WOULD CALL FOR A REDUCTION IN THE DISCOUNT RATE OR A FURTHER REDUCTION IN RESERVE REQUIREMENTS?

Brown reads Item II and asks the members of the Council to express their views.

Fleming traces the developments in the money market since last September.

Brown. The System has been buying on balance rather than selling in connection with its Open Market operations. Brown thinks the Open Market Committee should have sold securities.

Alexander believes that business may be declining a little more than it was earlier this year, although it is not in a spiral. Whatever monetary tools the Board has should be used. However, Alexander thinks the Federal's use of its instruments of control has been sloppy. He thinks the Federal should be able to manage the market more closely in relation to the needs of the market. The general idea of having an easy money policy is good, but the execution has been poor. The Federal was correct in reducing the rediscount rate and in indicating that it was following a policy of easy money. The rediscount rate is now more in line with the bill rate. The bill rate is too low. Rates other than the prime rate have been easy. Banks are looking for loans. Alexander believes the prime rate should be reduced, and he thinks it will be. The competition of other lenders and the refinancing of short-term loans into longer-term loans, because of attractive rates, make a reduction in the prime rate desirable. With a declining economy, the prime rate should be reduced. Alexander also believes that consideration should be given to the possibility of reducing bank reserves.

Fleming asks whether a reduction in bank reserves would not result in further pressure on the prime rate.

Alexander agrees that it might put further pressure on the prime rate, but it would also give the banks more money to loan.

Matkin. Is the prime rate being cut in some places without an announcement of a reduction?

Alexander states that he has heard these rumors, but his bank has not cut the rate.

Brown. (Off-the-record comments on the prime rate).

Ireland. He believes that a move in the direction of easier money is desirable. He thinks a $3\frac{1}{4}$ per cent prime rate cannot be held. Even a 3 per cent rate does not compete with the commercial paper rate.

Brown comments that he can see no excuse for a bill rate of .90.

Fleming. (Off-the-record comments). He would not favor a reduction in reserve requirements in the immediate future.

Smith agrees with the easy money policy, but he thinks the bill rate is too low. He could see no good reason for reducing the rediscount rate. He believes the banks have a supply-demand situation with loans declining, and the result will be that the prime rate will decline. Smith doubts whether a reduction in reserve requirements would be desirable.

Gund states that he would not favor a reduction in reserves in the near future. Gund asks what will be done if there is a tightening of money on March 15. Will the Board again ease the money market?

Ringland believes the fluctuation in rates has been too great.

Fleming. (Off-the-record comments).

Alexander. (Off-the-record comments).

Chandler. The recent rediscount rate reduction is an accomplished fact, but no further reduction in this rate and no reduction in reserve requirements are desirable at present.

Ireland believes loans in his district will hold about where they are.

Fleming thinks any Spring increase will be temporary.

Matkin is against a reduction in reserve requirements and in the rediscount rate now. He believes the bill rate of .90 is too low.

Davis. Where did the idea originate that a cheap rate is necessary to economic recovery? We have had high rates of interest in periods of economic growth. He believes the bill rate is too low and the Federal should not do any more to cheapen money. The costs of operating banks are high, and bank earnings are not adequate to build the desired reserves.

Fleming. Money has been too easy since Christmas. Money should be available to all borrowers at reasonable rates. At present there is no further need for a reduction in the rediscount rate or for a reduction in bank reserves.

Brown. The Council may state it believes the Board's handling of Open Market operations from the November meeting to the end of the year was effective and satisfactory. The operations since the latter part of January seem to the Council to have been poorly timed and to have produced undesirable results. At a time when loans were still decreasing, the Council feels the Board's policy should have been to continue to sell bills to an amount approximately offsetting the decline in loans. The Board's action in the early part of January seemed to be in accord with this view. Later, the Open Market Committee began buying bills again, despite the continuing decline in loans, with the result that the bill rate went below one per cent, which the Council believes represents undesirably cheap money. The Council wishes to reiterate the views it expressed in November that the danger of disturbing the economy by making money unduly and artificially cheap is as great as the danger of restricting business by too high interest rates, and a consequent reduction in the use of credit. The Council believes business is declining, and a policy of easy money is generally desirable. The money market should be made easy, but it should not be made so easy that money becomes unduly and artificially cheap.

The Council is divided in its opinion as to whether the recent reduction in the rediscount rate was desirable. The Council is of the belief that there is no situation foreseeable in the near future which would call for a further reduction in the rediscount rate. The large majority of the Council does not foresee a situation in the near future which would call for a further reduction in reserve requirements. The Council further believes that Open Market operations should be handled so as to avoid such low rates as now prevail in the bill market.

The meeting adjourned at 5:42 P. M.

THE COUNCIL CONVENED AT 10:00 A.M. ON FEBRUARY 15, 1954, IN ROOM 1028 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 February 16, 1954. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors at 12:30 P.M. on February 15, 1954. It will be noted that each item of the agenda is listed together with the comments of the Council.

The meeting adjourned at 12:10 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 16, 1954

1. The Board would like to have the comments of the members of the Council on the prospective business and economic situation during the next six months and the probable volume of bank loans during the period. What are the principal reasons for the large reduction in bank loans since the turn of the year?

There are some differences in the prospective business and economic situation in the various Federal Reserve districts, but the major economic trends are essentially similar.

The rapid rate of inventory accumulation in the first half of 1953 came to an end in the final quarter of the year. Virtually all categories of goods are now in full supply, and most businesses are endeavoring to reduce inventories. A leveling off of the present economic downtrend, or any upturn in over-all business activity, will depend largely upon when the present liquidation of inventories ends.

The increase in unemployment, especially in manufacturing, is reflecting itself in lower payrolls. Carloadings are down considerably, which results in the postponement of purchases of equipment and of other capital expenditures by the railroads. A generally expected lower automobile production is an additional factor emphasizing the probable continuance of the present downturn through the first half of 1954. Retail sales recently have shown some decline, but generally they have held up well. Should the demand for goods, especially as expressed in consumer buying, markedly decline, the rate of business downturn would accelerate. Over-all new construction, despite some decline in residential building, has held up well, and is a strong factor in sustaining business.

The members of the Council expect business activity to continue to decline in the first half of 1954. There is at present no significant evidence either of a leveling off in the rate of the present downtrend, or of the rate of decline increasing sharply or spiraling.

The large reduction in loans since the turn of the year is the outgrowth of a number of economic forces in addition to those which normally result in a seasonal decline in bank credit. A year ago, inventories were being substantially increased, whereas they are now being reduced. Early last year, business also was more active and required more bank credit. Lower agricultural and livestock prices, compared to a year ago, have likewise lessened the demand for loans. Present low interest rates are causing some large borrowers to refund short-term bank credit into long-term loans.

A minor factor in the reduction of bank loans has been the termination of the excess profits tax. Some business concerns borrowed more freely than normally to increase their tax base. This incentive no longer exists.

In view of the probable continuance of the downtrend in business activity in the first half of 1954, members of the Council anticipate a further decrease in the volume of bank credit for commercial, industrial and agricultural purposes, and no increase in total of other types of loans.

2. What are the views of the Council with respect to the System's credit policy since the preceding meeting of the Council? Does the Council have any suggestions as to what the System's policies should be in the months immediately ahead? Does the Council foresee a situation in the near future which would call for a reduction in the discount rate or a further reduction in reserve requirements?

The members of the Council believe that the Open Market operations of the System since the preceding meeting of the Council and through the greater part of January were helpful to the economy. The Council appreciates the difficulties which confronted the Open Market Committee in January as a result of the exceptionally heavy flow of currency to the banks, the unusually large contraction in loans, and the substantial increase in float because of weather conditions. However, since the latter part of January, Open Market operations seem to the members of the Council not to have been timed as effectively, nor to have produced results as satisfactory, as on other occasions in recent months.

At a time when bank loans are decreasing, the Council is of the opinion that it would be proper policy to sell bills to an amount approximately offsetting the decline in loans. The action of the Open Market Committee in the latter part of January seemed to be in accord with this viewpoint. The policy later of accumulating bills despite the decline in loans was the principal factor in the bill rate going to yields which the Council believes represent undesirably cheap money. The Council would like to reiterate the views it expressed in November that the danger of disturbing the economy by making money unduly and artificially cheap is as great as the danger of restricting business by too high interest rates, and a consequent reduction in the use of credit.

The members of the Council believe that with business continuing to decline, an easy money policy making credit readily available to desirable borrowers at reasonable rates is advisable. However, we reiterate that the economy should not be disturbed by making money unduly and artificially cheap.

The Council is sharply divided in its opinion as to whether the recent reduction in the discount rate was desirable. However, the Council is of the belief that there is no situation foreseeable in the near future which would call for a further reduction in the discount rate. The large majority of the Council does not foresee a situation in the near future which would call for a further reduction in reserve requirements.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C., AT 2:15 P.M. ON FEBRUARY 15, 1954. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

Dr. Arthur Marget, Director of the Division of International Finance of the Board of Governors, and his staff, discussed international conditions. A summary of these comments is being prepared by Dr. Marget and will be sent to the members of the Council as soon as it is prepared.

The meeting adjourned at 3:35 P.M.

ON FEBRAUARY 16, 1954, AT 10:33 A.M. THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C.

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

Brown informs the Board of the organization of the new Council, the names of the officers of the Council and the names of the members of the Executive Committee of the Council for 1954. Brown also brings up the matter of increasing the amount the Council draws on each Federal Reserve bank each year from $350 to $450. He explains that this amount has not been changed since 1934, and increasing costs make it difficult for the Council to hold its expenditures within this limited budget. Brown suggests that the Secretary of the Board advise the Secretary of the Council of the Board's views on the suggested increase.

Martin states that the Board will advise the Council of its views.

ITEM I

THE BOARD WOULD LIKE TO HAVE THE COMMENTS OF THE MEMBERS OF THE COUNCIL ON THE PROSPECTIVE BUSINESS AND ECONOMIC SITUATION DURING THE NEXT SIX MONTHS AND THE PROBABLE VOLUME OF BANK LOANS DURING THE PERIOD. WHAT ARE THE PRINCIPAL REASONS FOR THE LARGE REDUCTION IN BANK LOANS SINCE THE TURN OF THE YEAR?

Brown reads Item I and the conclusions of the Council as expressed in the Memorandum to the Board attached. Brown states that the first district believes that much of the decline in business in that area may be over, as the downward trend began there earlier than it did in other parts of the country. Alexander has no conclusive evidence that the decline is deepening, but he thinks there is some indication of it. The end of the decline will depend in part upon when inventory liquidation ends.

(Off-the-record comments on the excess profits tax).

Martin asks whether the members of the Council believe there will be a so-called Spring rise in business.

Brown reports that the members of the Council believe there will be little Spring rise in business. The decline in bank loans would have been much greater, if the banks had not received the Commodity Credit paper. Probably the greatest threat to the economy is in agricultural surpluses. Brown asks the Board if its members would care to express their opinion regarding the business outlook.

Martin states that he wishes the Board felt certain about the future trends of business. He asks what the Council thinks will be the trend in unemployment. Will unemployment rise sharply?

Brown thinks unemployment will rise. The members of the Council do not expect a rise in consumer credit. Residential mortgages will probably also show some decline. Loans to brokers may rise with cheap money. The Council expects a decline in the volume of bank credit for commercial, industrial and agricultural purposes, and no over-all increase in total of other types of loans.

Alexander comments that he is a little more pessimistic than he was at the last meeting of the Council. We must talk these problems out frankly among ourselves. One basis for his concern is rising unemployment. The rayon textile business is not good. Automobile sales are disappointing, and all major automobile producers have cut back their production. Alexander believes the problem at present is generally an inventory situation. Expenditures for new industrial plant will probably be good, but off somewhat. Over-all construction will probably be reasonably good, but also will probably be a little lower. There is no great forward expansive force in the economy which might arrest the decline in the near future and turn the business trend upward. Consumer spending is holding up well so far. There is some bad publicity regarding "ghost" towns and lessening business activity that aggravates the situation.

Martin requests Wallace to express his views regarding the Pacific Coast.

Wallace. The Coast has some special problems. It is a great raw material area. The non-ferrous metal business has experienced real difficulties. Payrolls in the copper industry are coming down. The immediate over-all situation on the Coast is relatively good. There is a lag before declining business trends in the East have their effects in the West. Deposits are off, except that savings are up. Wallace thinks the extractive industries need some assistance before the communities where these industries are prominent disintegrate. It would be better to give assistance now than to face the problem of building up these industries later at a higher cost.

Ireland. The decline in New England started earlier and that area is further along in the downward trend. There are some signs the down-trend may be leveling off in New England. Loans have not decreased since January 1. Cotton spindle hours were greater in 1953 than in 1952. However, New England trends do not necessarily indicate the decline is about to reverse.

Brown asks what the Staff of the Board thinks of the present business situation.

Martin replies that he doesn't think they have had a Staff review of the business outlook for the last two weeks. He does not see any evidence that the decline will spiral. There will be further elimination of waste and incompetence in the economy. He cites the case of a used car dealer who said he had not found an instance where he could not move a car, if he cut the price. There is an unwillingness to face problems and to make the adjustments needed to produce the highest efficiency. Personally, Martin is inclined to be optimistic for the longer pull.

(Off-the-record comments).

Fleming. A turn will come at some point when the economy will level off. However, it is impossible to fix the time. Department store sales look reasonably good.

Evans states that he is in disagreement with many of the previous comments. At the time of Korea, the Secretary of Agriculture asked for expanded production. If agriculture had not expanded, and if we had had a full-blown war, our economy would have had trouble. Farmers expanded their activities and increased production. Now the farmers are left with the surplus problem. Many persons felt that the government should take what it ordered in agriculture, just as it did in weapons. If the government took these agricultural surpluses off the market, the remaining problems of agriculture would not be too great. The risk of adverse weather and poor crops is always great in agriculture. Evans states he has not seen the people in his home area as concerned as they are now about the economic future.

(Off-the-record comments).

Wallace. What about butter?

Evans states that he was talking about the six basic crops - cotton, wheat, corn, tobacco, rice and peanuts. Butter is in a sense a by-product, and the dairy farmer may have to make a readjustment. Evans mentions the extremely small losses which have been experienced in the past in connection with similar agricultural problems.

ITEM II

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE SYSTEM'S CREDIT POLICY SINCE THE PRECEDING MEETING OF THE COUNCIL? DOES THE COUNCIL HAVE ANY SUGGESTIONS AS TO WHAT THE SYSTEM'S POLICIES SHOULD BE IN THE MONTHS IMMEDIATELY AHEAD? DOES THE COUNCIL FORESEE A SITUATION IN THE NEAR FUTURE WHICH WOULD CALL FOR A REDUCTION IN THE DISCOUNT RATE OR A FURTHER REDUCTION IN RESERVE REQUIREMENTS?

Brown reads Item II and the conclusions of the Council as expressed in the Memorandum to the Board attached. The Council realizes the flow of currency was exceptionally large and this movement probably could not have been foreseen. The Board also could probably not foresee the exceedingly large contraction in loans, but the Council believes that it would have been advisable to follow the policy of selling bills to an amount approximately offsetting the decline in loans. Brown knows of no probable business expansion or development that is being held back because of tight money. In the last half of January the money market was sloppy. Alexander may wish to comment later on reserve requirements. Brown thinks publication of a reduction in reserve requirements would be widely publicized and an unfortunate public reaction might follow.

Martin asks for more comments on the rediscount rate.

Brown does not think a rediscount rate of 1 3/4 per cent is a penalty rate.

Szymczak. It is a penalty compared to the bill rate.

Chandler. Was the change in the rediscount rate influenced by the bill rate.

Martin replies that as far as he was concerned, the bill rate was the only factor that determined his decision on the rediscount rate. Also, as far as he was concerned, he was not trying to influence the prime rate. Martin then traces the rediscount rate over a period of a year and a half. He agrees that the money market was sloppy, but he does not agree that it was Federal Reserve "policy" to make it sloppy. The Treasury overdraft was likewise one factor that had not been foreseen.

(Off-the-record comments).

Gund. (Off-the record comments).

Martin. (Off-the record comments).

Smith. All the large banks are beating the bushes for loans, and it is not certain that reducing the rediscount rate under those conditions accomplished anything, especially if it was an attempt to make the rediscount rate come down to a bill rate that is too low.

Martin mentions that Senator Flanders advocates more flexibility in Federal Reserve operations.

Ringland comments that the fluctuations in rates have certainly shown flexibility.

Martin agrees.

Davis thinks the situation calls for a little more stability rather than more flexibility. Money is readily available. For some time to come, until there is a little more stability in business, Davis doubts the wisdom of having too frequent changes.

Martin does not wish too much change.

Alexander believes the change in the rediscount rate was proper and was a good thing. However, he thinks the money market in January was messy. We are having some deflation, and that is the time to have an easy money policy. Allan Sproul has recently made a speech relative to reserve requirements and has commented that on this subject bankers only have a feeble and sporadic interest. Sproul says the whole reserve requirement program is outmoded. If reserve requirements are not to be reduced in a time of deflation, when are they to be reduced? It is better to have some change in reserve requirements rather than to depend solely on Open Market activities. If reserves are released in 7,000 banks, these banks will do a potent job in the market. Alexander does not believe in taking too many chances in the present decline. He leans in the direction of keeping money readily available, and he would be a little early rather than a little late in using the instruments of credit control. He believes that even in the foreseeable future some step may advisedly be taken to reduce reserves. The banks will take the securities to the extent that they can't place the funds in loans in the economy.

Fleming reviews the history of the money markets since last May when the markets were tight. He commends the Board on its action in reducing reserve requirements last year. However, ample credit is now available. If reserve requirements were now reduced, it would be headline news that the Board felt business was declining more than expected. It might even accelerate the decline. Fleming sees no useful purpose in reducing bank reserve requirements now.

Brown. (Off-the-record comments).

Gund agrees with Fleming.

Smith. It is dangerous to deal with these matters on a psychological basis. We now have easy money. It does not seem desirable to take further steps to make money easy when it is already easy. Smith could agree with Alexander only on a policy of reducing bank reserves as it relates to a long term basis.

Campbell. Money rates are too low. The Board should use its power in the future solely to make money available when it is needed. It isn't needed now.

Matkin agrees with Fleming, but can see also that Alexander has some merit in his comments. Money is not too easy in his district. He wishes the banks could earn interest on reserves. He does not favor a reduction in reserve requirements at present.

Chandler agrees with Fleming. Reducing reserve requirements has a greater effect publicly than reducing the rediscount rate.

Alexander. The psychological effect is what you want. If you don't reduce reserve requirements in a decline, when do you reduce them?

Szymczak. Isn't the problem inherent in the economy? We do not wish to reduce prices unless our costs go down first. In other words, in banking we do not wish to reduce interest rates unless our costs of operating banks are reduced first.

Martin states the meeting has been very helpful to the Board.

Brown replies that all of us are seeking the same objective, which is to stabilize business.

The meeting adjourned at 1:10 P.M.

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The next meeting of the Council will be held on May 16, 17, and 18, 1954.