

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 18, 1955

The third statutory meeting of the Federal Advisory Council for 1955 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on September 18, 1955, at 2:10 P.M., the President, Mr. Brown, in the Chair.

Present:

William D. Ireland	District No. 1
Henry C. Alexander	District No. 2
William R. K. Mitchell	District No. 3
Frank R. Denton	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

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on May 15, 16 and 17, 1955, copies of which had been sent previously to the members of the Council, were approved.

The Secretary, Herbert V. Prochnow, tendered his resignation as Secretary, effective October 1, 1955. Mr. Prochnow has accepted an appointment, for a limited period, to the position of Deputy Under Secretary of State for Economic Affairs. The Council accepted the resignation with regret.

Mr. William J. Korsvik was elected Acting Secretary, with an annual salary at the rate of \$1,800.

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 22 and 23 of these minutes.

The meeting adjourned at 5:20 P.M.

HERBERT V. PROCHNOW
Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 19, 1955

At 10 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C.

Present: Mr. Edward E. Brown, President; Messrs. William D. Ireland, Henry C. Alexander, William R. K. Mitchell, Frank R. Denton, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Charles J. Chandler, George G. Matkin, John M. Wallace, and Herbert V. Prochnow, Secretary.

Absent: Mr. Joseph F. Ringland.

The Council reviewed its conclusions of the previous day regarding the items on the agenda and sent to the Secretary of the Board of Governors the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on 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 19, 1955.

The meeting adjourned at 11:40 A.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 SEPTEMBER 20, 1955

1. What are the views of the Council with respect to the prospective business situation during the remainder of this year and the first three months of next year and the probable changes that will take place in the volume of bank loans in each of these periods? Do the members of the Council see any significant changes in the composition of bank loans in the present period of high level economic activity?

The Council expects a high level of business activity during the remainder of this year and through the first three months of next year. It expects that the rate of increase in business activity will probably be less than that experienced in the first three quarters of 1955.

The members of the Council believe that the volume of bank loans will increase more than seasonally in the last three months of this year. In the first quarter of 1956, the Council anticipates a seasonal decline in loans, but less than usual. There is a distinct possibility that no decline may occur due to a probable further increase in the volume of outstanding consumer credit represented both by direct loans and by loans to finance companies and to commercial concerns carrying a materially larger amount of consumer paper. Likewise, the volume of real estate loans may experience an expansion in the first quarter of next year. Insurance companies and other financial institutions are committed to take real estate mortgages presently in an amount in excess of their receipt of funds from savings and maturing investments. Some banks have substantial outstanding commitments to warehouse these loans temporarily.

There may also be an increase in real estate loans because of agreements made directly by banks with contractors and mortgage bankers whose borrowings are to be liquidated later under commitments for permanent financing made by insurance companies or other institutions.

Although arrangements for new real estate financing are being curtailed, the financing of present commitments will probably necessitate additional credit during the first quarter of 1956.

Apart from the greater importance of loans based directly and indirectly on consumer credit and for real estate financing, the Council sees no important change in the composition of bank loans in the present period of high level economic activity.

2. The Board would appreciate the views of the members of the Council with respect to the System's current credit policies and what, if any, changes might be called for during the remainder of this year.

At the May meeting, the Council responded to a similar question of the Board of Governors as follows:

"The effects of System credit policies since the last meeting of the Council have been good. The Council believes that a policy of mild credit restriction should be continued for the near term if business continues to be buoyant.

Government financing for new money in substantial volume is inevitable in the last half of the calendar year. If, as seems probable, the banks must provide a considerable part of the new money required, and if business continues at a high level with an increasing demand for bank loans, the System must be prepared through open market operations or a reduction in reserve requirements, or both, to put more reserves into the banks. In view of the increasing activity of business and of the probability of an increase in loans in the months immediately ahead, it may become necessary to consider raising the rediscount rate. The use of the discount window by member banks should not be restricted or discouraged, as credit for good borrowers should continue to be available at reasonable rates."

The Council believes that the System's credit policies since its last meeting have been well conceived and carried out. It believes that the objective of restraining the further development of the present boom was and is correct. The System's policies are having desirable effects which should become increasingly apparent.

The conditions which the Council at the time of the May meeting thought might develop have now come about. In view of the imminence of heavy Treasury financing and with the increasing seasonal need for loans, the Council believes that the time has come when more reserves must be put into the banking system. The Council believes that this can be better accomplished through open market operations than through a reduction in reserve requirements.

There is a growing concern among bankers that the use of the discount window may be restricted or severely discouraged. Unless the banks feel assurance that the discount window will be readily available, even though the cost of their borrowing may be higher, it is apt to create a panicky feeling which might lead to widespread liquidation of government bonds and undue restriction of credit to the banks' customers. It would be very unfortunate if such a feeling of apprehension among bankers, as developed in the first half of 1953, should again occur.

3. Is there any legislation that the members of the Council feel the Board should support or sponsor in the forthcoming session of the Congress?

The Council does not at this time have any suggestions as to legislation that the Board might support or sponsor in the forthcoming session of the Congress. If the Board has any questions about legislation now pending or suggested, the members of the Council will be pleased to discuss them.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 19, 1955

At 2:15 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. William D. Ireland, Henry C. Alexander, William R. K. Mitchell, Frank R. Denton, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Charles J. Chandler, George G. Matkin, John M. Wallace, and Herbert V. Prochnow, Secretary.

Absent: Mr. Joseph F. Ringland.

Dr. Winfield W. Riefler, Assistant to the Chairman of the Board of Governors of the Federal Reserve System, discussed the subject of "Monetary Developments Since the War". Dr. Woodlief Thomas, Economic Adviser to the Board of Governors, and Dr. Ralph A. Young, Director, Division of Research and Statistics of the Board, were present to answer questions. A copy of the charts used by Dr. Riefler was sent to the members of the Council.

The meeting adjourned at 3:15 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 20, 1955

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:

Vice Chairman C. Canby Balderston; Governors M. S. Szymczak, A. L. Mills, Jr., J. L. Robertson and Chas. N. Shepardson; also 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, William R. K. Mitchell, Frank R. Denton, 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 Secretary of the Council, Mr. Herbert V. Prochnow, has accepted, for a limited period, the position of Deputy Under Secretary of State for Economic Affairs. The Department of State has suggested that Mr. Prochnow might attend Council meetings.

Vice Chairman Balderston and Governor Robertson said they could see no objection to Mr. Prochnow's attendance, but would inform the Council definitely later.

President Brown reported that Mr. William J. Korsvik has been appointed Acting Secretary of the Council effective October 1, 1955.

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 pages 22 and 23 of these minutes. A discussion followed in which members of the Board and the Council participated.

President Brown read the second item on the agenda, and the conclusions reached by the Council, as expressed in the *Confidential Memorandum*, previously mentioned. President Brown added that there is a danger of creating a panicky condition, if bankers become apprehensive about the possibility of using the discount window. An extended discussion followed.

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

Vice Chairman Balderston stated that the Board has no legislation in contemplation.

The meeting adjourned at 12:55 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.

The Secretary's notes of the meeting of the Federal Advisory Council on September 18, 1955 at 2:10 P.M. in Room 932 of the Mayflower Hotel, Washington, D.C. All members of the Council were present.

The Council approved the Secretary's notes for the meeting of the Council on May 15, 16, 17, 1955.

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The Secretary, Herbert V. Prochnow, tendered his resignation as Secretary, to become effective October 1, 1955. The Department of State has asked Mr. Prochnow to consider an appointment to the position of Deputy Under Secretary of State for Economic Affairs, and he has indicated that he would accept the position, for a limited period, subject to the final clearance. The Board accepted the resignation with regret, and with appreciation for his noteworthy services as Secretary for the past ten years, and with best wishes for his success in his new position.

Mr. William J. Korsvik was elected Acting Secretary, with an annual salary at the rate of \$1,800.

ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROSPECTIVE BUSINESS SITUATION DURING THE REMAINDER OF THIS YEAR AND THE FIRST THREE MONTHS OF NEXT YEAR AND THE PROBABLE CHANGES THAT WILL TAKE PLACE IN THE VOLUME OF BANK LOANS IN EACH OF THESE PERIODS? DO THE MEMBERS OF THE COUNCIL SEE ANY SIGNIFICANT CHANGES IN THE COMPOSITION OF BANK LOANS IN THE PRESENT PERIOD OF HIGH LEVEL ECONOMIC ACTIVITY?

BROWN reads Item I and asks the members of the Council for comments. He suggests that the members of the Council may wish to comment principally on whether the business boom will continue for the next six months and on the volume of bank loans and their composition. He believes everyone will agree that business activity is at a high level now.

IRELAND. The flood losses in his district were large, with the utilities, railroads and municipalities the greatest losers. However, the recovery has been rapid, and Ireland does not believe the floods will have a major effect. The boom has been a little less in New England than it has in the country as a whole. Ireland expects some increase in business over the next six months, but not as great as the increase was in recent months. Bank loans are higher and he expects they will go higher in the period immediately ahead, but the increase will not be as great as was experienced in the earlier part of the year. The seasonal increase has, in part, been anticipated. There is some concern over consumer credit terms. Borrowings at the Federal Reserve are high. He believes loans will follow the

seasonal trend with a moderate increase up to December and a seasonal decline in the first quarter of 1956.

ALEXANDER. Business in the district is booming, similar to the rest of the country, but economic conditions are not quite as good as they are over the country as a whole. Alexander does not see anything which will give the economy a real upsurge from now on, but he also does not see anything to cause a major decline. In the first eight months last year, loans in New York City declined \$1½ billion. This year in the same period, loans are up \$1.9 billions. New York City banks are tight and they are running at a net deficit in their reserve position in the Federal Reserve System. Alexander believes that bank loans will increase more than seasonally in New York City because of:

(1) warehousing of mortgages; (2) the accumulation of inventories and; (3) the fact that industry will need more money. Loans would probably go even higher this Fall, except that money is tight. The banks are sold out of short governments and the bond portfolios are in the red. This situation will put some brake on loans. However, loans will probably rise more than seasonally. (Off-the-record comments on warehousing loans). Warehousing loans in New York City banks are up from \$58 million a year ago to over \$300 million now. Consumer credit will probably continue to increase because of high wages and full employment. (Off-the-record comments on automobile installment paper in 1956). Alexander expects some seasonal run-off of loans after the first of the year.

MITCHELL. Business is booming, but in the district it is still a little behind the country as a whole. There is no evidence of serious inventory accumulation. Department store sales and auto registrations are at a high. Increasingly good business is anticipated in the next six months. Bank loans are up, including consumer, real estate, business, and industrial loans. There is some evidence that the lengthening of terms on consumer credit has stopped. Mitchell thinks bank loans will increase over the next six months unless the tight money policy has an adverse effect. (Off-the-record comments on the use of the discount window). After the first of the year Mitchell believes business and industrial loans may follow a more seasonal pattern than they did a year ago. (Off-the-record comments on loan commitments).

ALEXANDER. (Off-the-record comments on the use of the discount window).

DENTON. On a seasonally-adjusted basis, business activity, both generally and in the Fourth District is almost certain to continue rising during the remainder of this year and probably will show a further rise in the first quarter of next year. These increases, however, are likely to be more moderate than those registered in the first half of 1955. Residential construction appears to have topped out and a further rise in automobile manufacturing above the 1954-5 level seems unthinkable. The stimulus to the automobile business of last year's substantial changes in models and credit relaxation is not likely to be repeated this year. The main forces behind a further rise in business are likely to be increases in business expenditures for new plant and equipment (particularly in the utility and merchandising field), a continuation of the uptrend in public construction, and a further rise in the rate of inventory accumulation. Defense spending has leveled out and probably will not be a factor on either the upside or the downside in the near future. Bank loans are likely to continue rising during most of the remainder of 1955, and then level off in the first quarter

of 1956 (instead of showing the seasonal decline that is normal in a first quarter). Total loans in the Fourth District continue to rise but at a lesser rate than in the first five months of 1955. The rise during the past three months has been principally in real estate loans, brokers' loans and consumer loans. The increase in brokers' loans reflects the "farming out" of loans of this character from certain New York banks to some of their correspondents in the Fourth District. Total commercial, industrial and agricultural loans have changed relatively little since the end of May. At this time last year they were declining. The classes of industries showing the most pronounced changes from early May to early September this year in comparison with the same period last year are (a) metals and metal products, (b) petroleum, coal, chemicals and rubber, and (c) sales finance companies; all in the direction of a rising volume of loans. Compared to a year ago total loans in the District are up materially; direct consumer loans are up 23 per cent; and direct real estate loans have increased 21 per cent. Commercial industrial and agricultural loans are up 12 per cent over a year ago.

FLEMING. Business is booming, except in the cigarette industry. Hurricanes have injured tobacco and cotton to some extent. Coal production is up because of exports. The textile industry is down somewhat and is concerned about imports. Bank loans are higher. There is some evidence of a damping down of construction activity. The warehousing of loans continues in large volume, but the banks probably are exercising greater caution now. Fleming expects loans to increase in the last three months of this year and believes there will be a little seasonal decline after the first of the year. He does not expect the seasonal dip to be large. Loans may be even higher in the spring.

DAVIS. Business is very active. Loans are high, partly because of the accumulation of inventories and the slowness of receivables. Davis doubts if the banks in the Southeast will acquire much paper of the Commodity Credit Corporation this year. He expects an increase in loan totals in the last quarter of the year and some seasonal decline in the first quarter. Davis believes some banks will call a halt on the warehousing of loans.

BROWN. Business is booming and most persons expect a high level of business for the next six months. If the tightness of money continues, Brown is not so certain business may not decline in the first three months of next year. He thinks loans will increase more than seasonally until the end of the year and that there will be some seasonal decline after the end of the year. The greatest increase in bank loans is due to consumer credit financing. Some of the large companies are carrying more consumer paper. Because of the greater cost of long-term financing, the utilities and railroads would like to borrow at the banks for two or three years. Brown believes loans will increase more than seasonally up to the end of the year and that there will be a seasonal decline in the first quarter of 1956.

CAMPBELL. Business conditions in the district are much better than they were a few months ago. Industrial output is up. Bank loans are rising. The pressure on the reserve position of banks is increasing. Loans will probably be up more than seasonally in the next three months. Business also may be more active in the last quarter. With good rains, crops will be better than they were in 1954. Conditions generally are much better. The expansion of consumer credit is similar to conditions in the rest of the country. Private housing construction is tending to decline. Loan demands will continue strong. There may be no increase in loans in the first quarter but it is possible there may also be no real decline in loan volume.

RINGLAND. There is a strong demand for loans. Banks in his district no longer know exactly what "seasonal" means. Borrowing at the Federal Reserve bank is heavy. Crops are excellent with a little spottiness. There are acute freight car shortages. There is a strong demand for loans in almost every category. Ringland expects business to be good in the next six months with no slackening in loan demand.

CHANDLER. Business is good and follows the national pattern. There has been a considerable drop in bank deposits and this probably will continue. Money is tight. Chandler thinks the Federal Reserve policy is taking hold. There is some evidence of a reduction in construction. Chandler expects business activity and loans to be up in the next three months but he anticipates a seasonal reduction in loans in the first quarter of 1956.

MATKIN. Business is very good, as it is in the other districts. Department store sales are up. Construction activity shows some decline. The cotton crop is only 8 per cent under a year ago. Matkin expects business activity to be greater in the next six months, but he does not expect the rate of advance to be as great as it has been. The demand for credit, except for construction, will probably be heavy. The first quarter of 1956 may show some gain in loan volume but not as much as a year ago.

WALLACE. Construction in his district is 22 per cent of the total national, and it is especially heavy in Los Angeles. Housing starts declined sharply in July compared to June. The effects of the shutdown in copper are not yet fully evident. Loans are at a peak but are expected to increase in the last quarter of this year. There is a large volume of loans now to carry real estate. By the end of the year, much of the ability of the consumer to borrow may be gone. Wallace expects that the loan demand may level off in the early part of next year.

BROWN. The Council may say that it anticipates business activity to continue at a high level for the balance of 1955 and during the first three months of 1956. The rate of increase in business activity may be less than it was in the first three quarters of 1955. The Council also believes the volume of bank loans may increase more than seasonally in the last three months of this year. There may be some seasonal decline in loans in the first quarter of 1956, but considerably less than usual, and there may actually be no decline. There may be a further increase in the volume of outstanding consumer credit, represented both by direct loans and by loans to finance companies and to commercial concerns carrying a materially larger volume of consumer paper. The volume of real estate loans may also expand. Insurance companies and other financial institutions are committed to take real estate mortgages presently in an amount in excess of their receipt of funds from savings and maturing investments. Some banks have substantial outstanding commitments to warehouse these loans temporarily.

There may also be an increase in real estate loans because of agreements made directly by banks with contractors and mortgage bankers whose borrowings are to be liquidated later under commitments for permanent financing made by insurance companies or other institutions.

ITEM II

THE BOARD WOULD APPRECIATE THE VIEWS OF THE MEMBERS OF THE COUNCIL WITH RESPECT TO THE SYSTEM'S CURRENT CREDIT POLICIES AND WHAT, IF ANY, CHANGES MIGHT BE CALLED FOR DURING THE REMAINDER OF THIS YEAR.

BROWN. System credit policies have been generally good as some brake on the business boom is necessary. The real question is what should be done during the rest of 1955. The Government is faced with refinancing and with raising a substantial amount of new money.

FLEMING. With large tax receipts, it is estimated about \$2½ billion of new money will be necessary in October and about \$1½ to \$2 billion of new money later in the year. In addition, there is the roll-over of maturing debt.

BROWN. The maturing debt plus the need for new money and the increase in bank loans combine to present a considerable problem to the Federal Reserve System. Brown doubts whether the banks can expect any decrease in their reserve requirements. He believes the Council should emphasize the necessity of keeping the discount window open; otherwise, the market may become too tight.

CAMPBELL. Most of the nation's banks are country banks. If there is a fear by country banks that money is not available, it would be even more serious than the fear in big city banks close to the Federal Reserve System.

MITCHELL believes the tight money policy is having a cumulative effect now. The Federal Reserve System must be prepared to ease money, as well as to tighten it.

FLEMING thinks the Federal Reserve System must watch the situation and ease the market carefully through open market operations. He believes System credit policies generally have been good. On balance, open market operations have taken money out of the market. He thinks the Board should be cautioned on the present situation and that the market should be eased a little.

BROWN. It would be unfortunate to have the word spread that the discount window is closed.

IRELAND. (Off-the-record comments on the rates for some longer-term loans).

BROWN asks how far the idea is abroad that the discount window is not readily available.

DENTON. (Off-the-record comments on his own bank's loans and the use of the discount window).

RINGLAND reports that there is no evidence of a restriction of the discount window.

FLEMING reports there is no evidence of a restriction of the discount window.

BROWN. (Off-the-record comments on the use of the discount window).

CHANDLER. (Off-the-record comments on the use of the discount window).

ALEXANDER thinks that the Federal Reserve people may not have been aware of the amount of loans being warehoused. This development came suddenly.

DENTON thinks these loans could run off rapidly.

BROWN. The loans could run off rapidly, if new commitments were not continually being made.

ALEXANDER. (Off-the-record comments on the restriction of the discount window).

WALLACE. (Off-the-record comments on the restriction of the discount window).

RINGLAND. Believes the tightness of money may lead banks to rediscount paper.

ALEXANDER reports there are two schools of thought on present trends in business. One of these groups believes in a sharp rise in the rediscount rate to curb business. The Council may say it approves the Board's policy of restraint. The Council may also suggest that this policy be continued but with appropriate easing due to seasonal needs.

BROWN. In view of the expected increase in the seasonal demand for loans and the needs of the Treasury, it seems inevitable that the System will need to supply additional reserves to the banks. The use of the discount window should not be restricted for banks which have legitimate demands from their customers, or have commitments outstanding which they must meet.

FLEMING suggests that the Council repeat the conclusions expressed at the last meeting.

BROWN. The Council may say this question was asked in May and quote the Council's answer at that time. The Council believes that the conditions it thought might occur, have since come about. The time has now come to put reserves in the bank, and this should be done through open market operations, rather than through a reduction in reserve requirements. The discount window should continue to be available even at somewhat higher rates. There is a growing concern among banks that the discount window may not be open to meet their legitimate needs. It is possible that we could have a repetition of the fear of 1953. Banks should not be permitted to believe that the discount window will not be open to their legitimate demands, even at somewhat higher rates.

ITEM III.

IS THERE ANY LEGISLATION THAT THE MEMBERS OF THE COUNCIL FEEL THE BOARD SHOULD SUPPORT OR SPONSOR IN THE FORTHCOMING SESSION OF THE CONGRESS?

Brown does not favor a new Regulation W.

Alexander is inclined to favor it.

Campbell is also inclined to favor it.

Fleming. Congress would not pass such legislation in an election year.

Brown believes it is better to cover this question in a discussion with the Board. The Council may use the same language it used in answering a similar question a year ago.

The meeting adjourned at 5:20 P.M.

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THE FEDERAL ADVISORY COUNCIL CONVENED AT 10 A.M. ON SEPTEMBER 19, 1955, IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D.C. ALL MEMBERS OF THE COUNCIL WERE PRESENT, EXCEPT MR. RINGLAND.

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 20, 1955. The Memorandum was delivered to Mr. Sherman, Assistant Secretary of the Board of Governors, at 12 o'clock noon on September 19, 1955. It will be noted that each item of the Agenda is listed together with the comments of the Council.

The meeting adjourned at 11:40 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON SEPTEMBER 20, 1955

1. What are the views of the Council with respect to the prospective business situation during the remainder of this year and the first three months of next year and the probable changes that will take place in the volume of bank loans in each of these periods? Do the members of the Council see any significant changes in the composition of bank loans in the present period of high level economic activity?

The Council expects a high level of business activity during the remainder of this year and through the first three months of next year. It expects that the rate of increase in business activity will probably be less than that experienced in the first three quarters of 1955.

The members of the Council believe that the volume of bank loans will increase more than seasonally in the last three months of this year. In the first quarter of 1956, the Council anticipates a seasonal decline in loans, but less than usual. There is a distinct possibility that no decline may occur due to a probable further increase in the volume of outstanding consumer credit represented both by direct loans and by loans to finance companies and to commercial concerns carrying a materially larger amount of consumer paper. Likewise, the volume of real estate loans may experience an expansion in the first quarter of next year. Insurance companies and other financial institutions are committed to take real estate mortgages presently in an amount in excess of their receipt of funds from savings and maturing investments. Some banks have substantial outstanding commitments to warehouse these loans temporarily.

There may also be an increase in real estate loans because of agreements made directly by banks with contractors and mortgage bankers whose borrowings are to be liquidated later under commitments for permanent financing made by insurance companies or other institutions.

Although arrangements for new real estate financing are being curtailed, the financing of present commitments will probably necessitate additional credit during the first quarter of 1956.

Apart from the greater importance of loans based directly and indirectly on consumer credit and for real estate financing, the Council sees no important change in the composition of bank loans in the present period of high level economic activity.

2. The Board would appreciate the views of the members of the Council with respect to the System's current credit policies and what, if any, changes might be called for during the remainder of this year.

At the May meeting, the Council responded to a similar question of the Board of Governors as follows:

"The effects of System credit policies since the last meeting of the Council have been good. The Council believes that a policy of mild credit restriction should be continued for the near term if business continues to be buoyant.

Government financing for new money in substantial volume is inevitable in the last half of the calendar year. If, as seems probable, the banks must provide a considerable part of the new money required, and if business continues at a high level with an increasing demand for bank loans, the System must be prepared through open market operations or a reduction in reserve requirements, or both, to put more reserves into the banks. In view of the increasing activity of business and of the probability of an increase in loans in the months immediately ahead, it may become necessary to consider raising the rediscount rate. The use of the discount window by member banks should not be restricted or discouraged, as credit for good borrowers should continue to be available at reasonable rates."

The Council believes that the System's credit policies since its last meeting have been well conceived and carried out. It believes that the objective of restraining the further development of the present boom was and is correct. The System's policies are having desirable effects which should become increasingly apparent.

The conditions which the Council at the time of the May meeting thought might develop have now come about. In view of the imminence of heavy Treasury financing and with the increasing seasonal need for loans, the Council believes that the time has come when more reserves must be put into the banking system. The Council believes that this can be better accomplished through open market operations than through a reduction in reserve requirements.

There is a growing concern among bankers that the use of the discount window may be restricted or severely discouraged. Unless the banks feel assurance that the discount window will be readily available, even though the cost of their borrowing may be higher, it is apt to create a panicky feeling which might lead to widespread liquidation of government bonds and undue restriction of credit to the banks' customers.

It would be very unfortunate if such a feeling of apprehension among bankers, as developed in the first half of 1953, should again occur.

3. Is there any legislation that the members of the Council feel the Board should support or sponsor in the forthcoming session of the Congress?

The Council does not at this time have any suggestions as to legislation that the Board might support or sponsor in the forthcoming session of the Congress. If the Board has any questions about legislation now pending or suggested, the members of the Council will be pleased to discuss them.

THE FEDERAL ADVISORY COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C. AT 2:15 P.M. ON SEPTEMBER 19, 1955. ALL MEMBERS OF THE COUNCIL WERE PRESENT, EXCEPT MR. RINGLAND.

Dr. Winfield W. Riefler, Assistant to the Chairman of the Board of Governors of the Federal Reserve System, discussed the subject of "Monetary Developments Since the War". Dr. Woodlief Thomas, Economic Adviser to the Board of Governors, and Dr. Ralph A. Young, Director of the Division of Research and Statistics of the Board, were present to answer questions. A copy of the charts used by Dr. Riefler is being sent to the members of the Council.

The meeting adjourned at 3:15 P.M.

The Chairman, Secretary and Secretary Emeritus with their staff are on vacation to Washington's Arlington and will join the Council in Washington later.

From reports that William J. Foy's has been appointed Acting Secretary of the Council.

MEMO

MEMO FOR THE RECORD OF THE COUNCIL AND SUBJECT TO THE MEMORANDUM DURING THE PERIOD OF THIS YEAR AND THE FIRST THREE MONTHS OF NEXT YEAR AND THE RECENT DEVELOPMENTS THAT HAVE TAKEN PLACE IN THE COURSE OF THIS YEAR IN ONE OF THESE MATTERS IS THE WORKING OF THE COUNCIL UNDER THE CHAIRMANSHIP OF DR. RIEFLER. THE REPORTS OF THIS BOARD IN THE PERIOD OF THIS YEAR WILL BE:

1. The level of economic activity in the United States and the contribution of the Council to the growth of the economy. The level of economic activity in the United States is high for the immediate future. However, growth is expected to slow down in the second half of the year. The level of economic activity in the United States will decline. The level of economic activity in the United States will decline. There are also other factors which will contribute to the decline in economic activity. There are also other factors which will contribute to the decline in economic activity. There are also other factors which will contribute to the decline in economic activity.

ON SEPTEMBER 20, 1955, AT 10:30 A.M., THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C.

ALL MEMBERS OF THE COUNCIL WERE PRESENT. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: VICE CHAIRMAN BALDERSTON, GOVERNORS SZYM CZAK, MILLS, ROBERTSON AND SHEPARDSON. CHAIRMAN MARTIN AND GOVERNOR VARDAMAN WERE ABSENT. MR. MERRITT SHERMAN, ASSISTANT SECRETARY OF THE BOARD WAS ALSO PRESENT.

Brown states that the Secretary of the Council, Mr. Prochnow, has been offered the position of Deputy Under Secretary of State for Economic Affairs, and has informed the Department of State that he would accept the position for a limited period. The Department of State has suggested that Mr. Prochnow might attend Council meetings without having the title of Secretary and without remuneration. He would be available to assist in the preparation of the Council's memorandums and the minutes. The Council would like to have the Board's permission for his attendance as suggested.

Vice Chairman Balderston and Governor Robertson said they could see no objection to Prochnow's attendance but would inform the Council definitely later.

Brown reports that William J. Korsvik has been appointed Acting Secretary of the Council.

ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROSPECTIVE BUSINESS SITUATION DURING THE REMAINDER OF THIS YEAR AND THE FIRST THREE MONTHS OF NEXT YEAR AND THE PROBABLE CHANGES THAT WILL TAKE PLACE IN THE VOLUME OF BANK LOANS IN EACH OF THESE PERIODS? DO THE MEMBERS OF THE COUNCIL SEE ANY SIGNIFICANT CHANGES IN THE COMPOSITION OF BANK LOANS IN THE PRESENT PERIOD OF HIGH LEVEL ECONOMIC ACTIVITY?

Brown reads Item I and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. The level of economic activity is high and looks high for the immediate future. Consumer credit, both direct and indirect, has been one of the factors responsible for expanding bank credit. Unless automobile production declines substantially, there is no evidence that consumer credit will decline. The other major increase in bank credit is represented by real estate loans. There are also outstanding substantial commitments by banks to take up such loans. Some financing for new real estate construction is now being declined. There has been some checking and curtailment of new real estate projects. There is no present evidence of a substantial increase in loans for inventory.

Balderston asks whether tightness in the money market has been more

evident in New York and Chicago than it has been in the country generally.

Ireland. Borrowings at the Federal Reserve Bank of Boston have recently reached a peak. However, the district has had a smaller increase in loans this year than the rest of the country. Money is tight.

Mitchell. Money is tight in Philadelphia. Borrowings are heavy. The banks are tending to up-grade their loans. There is a shortage of funds.

Denton does not believe money is as tight in his district as it may be in others. Consumer credit and real estate loans especially are higher. Deposits are up. Forty per cent of the loans in the district are direct loans to consumers or for financing real estate.

Brown believes that the statistics of the Federal Reserve Board would be better, if they did not put finance company and other indirect consumer paper in the business loan figures.

Denton. Loans to finance companies in his district increased about eight per cent last year and thirty-one per cent this year.

Fleming. Money is relatively tight in his district. Building permits are down somewhat. Coal production is up. Department store and furniture sales are higher. His bank has declined some finance company loans.

Chandler. Money is relatively tight.

Ringland. Money is relatively tight and it is expected it will become tighter. Crops are good and the demand for funds is strong.

Matkin believes the Dallas district is as tight as the New York district. Some banks are short of bills, and banks having a red figure in their bond accounts are slow to move these securities.

Davis. The picture in his district is mixed. In general, money is tight, although money is not as tight in New Orleans. The New Orleans banks are not generally loaned up over thirty per cent. The cotton crop is starting to move, and more credit will be required.

Wallace. In the Pacific Coast states money is tight. The Los Angeles area is the largest of any area in the United States in terms of new construction.

Campbell. Loans are up. The crop movement is beginning and money will be needed for that purpose. Crops are good. The agricultural situation is better than it was a year ago.

Alexander. The premise is correct that New York is tight. Loans last year went down. This year they are higher. The New York banks are borrowing a good deal of the \$900 million being borrowed from the System. The New York banks are also adjusting their bond portfolios by selling. Foreign time deposits have declined substantially and have gone into U. S. government obligations. In addition to real estate loans, New York

banks have large commitments for warehousing mortgage loans. A survey of the real estate loans which are warehoused in New York City shows that they are up from \$58 million to over \$200 million. There are also commitments to warehouse such loans totaling \$600 million. Alexander expects total loans to rise, and the tightness in the money market to continue throughout the Fall.

Robertson assumes that the Council believes that the present high level of economic activity can be maintained. If so, to what extent does this activity depend on an expansion of consumer credit and real estate financing?

Brown states that the Council believes that the present rate of economic activity is too high to be maintained for as long as 18 months, and unless the boom is restrained, it could bust.

Fleming. If the census figures are correct, a high level of economic activity would be necessary to take care of the increase in population. There may even be a tightness in the labor market.

ITEM II

THE BOARD WOULD APPRECIATE THE VIEWS OF THE MEMBERS OF THE COUNCIL WITH RESPECT TO THE SYSTEM'S CURRENT CREDIT POLICIES AND WHAT, IF ANY, CHANGES MIGHT BE CALLED FOR DURING THE REMAINDER OF THIS YEAR.

Brown reads Item II and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. He states that each member of the Council feels some mild brake should be put on the boom, and the Council approves the policies the System has followed. The Government may need four or four and a half billion dollars in new money during the rest of the year. A seasonal increase in loans is anticipated in the last quarter, and banks must meet their line requirements. Most banks, in the large centers at least, would sell government obligations in order to meet the credit needs of their customers. Unless money is put in the market, a panicky feeling may develop. Every member of the Council believes that the most serious mistake that the System can make would be to discourage the discount window. Well run banks do not like to be in debt. There is a danger of creating a panicky condition, if banks become apprehensive about the possibility of using the discount window. Brown estimates that 90 per cent of the banks have a red figure in their bond accounts.

Fleming. The Government will need about \$2 1/2 billion of new money by October 15, and perhaps \$1 1/2 to \$2 billion more by the end of the year. In addition, there will be substantial refunds. It would be unfortunate if the banks became apprehensive about the use of the discount window.

Brown. Aside from the war-time economy, the present situation is one of the most difficult ones with which the Federal Reserve System has been confronted. It would be possible to initiate a bust.

Robertson. There is no intention to restrict the use of the rediscount window.

Alexander agrees with Brown. It is a difficult period and the Council would like to assist the Board. The general policy of restraining the boom is desirable, but no one wishes to bring on a serious decline. Consequently, it is necessary to walk a tight-rope. In the absence of selective credit controls, Alexander believes it is proper for a Federal Reserve bank to call up banks in its district and say that credit in some areas has gone too far. The interest rate on bank loans should rise. This is the mildest move that can be made. Federal Reserve banks can use their influence in proper directions to restrain the boom.

Szymczak. The rediscount rate isn't simply the rate on loans to banks. It also is reflected in a decline in bond accounts.

Alexander. The money market should be placed in a position where the banks do not have to sell. The banks can have red figures, but it is not so bad if they do not have to sell. Funds should be available at the discount window. Everyone might like to have credit easy and bond prices up, but that obviously cannot be done at present.

Szymczak. If the discount rate is to be raised, when would you do it?

Brown does not believe it should be done before October 15, when the Treasury will be raising new money. It might be done nearer to November 15.

Alexander does not favor the shock treatment of raising the discount rate to three per cent.

Mitchell. Any raise in the discount rate might better come a couple of weeks after the October 15 financing.

Balderston believes Szymczak's question is the fundamental one, as it deals with timing. If the rate is raised on November 1, will the markets have settled by the time of the December financing?

Fleming. The situation must be watched very carefully as it is a very difficult one.

Brown. Seasonal loans reach their peak in December and then ease. Maybe the rate should be raised when the situation eases. Brown believes reserves must be put into the banking system. He states the banks are apprehensive about the use of the discount window.

Balderston. The fact that the banks are borrowing from the System is the best evidence that the window is open. Balderston feels that the best way to conduct a central bank is in practice and not words.

Brown. It would not be advisable to issue a statement.

Szymczak. The use of the discount window is a relatively new development in recent years.

Mitchell. Are the bank examiners putting any pressure on banks to get out of debt?

Alexander believes the bank lending rate is too low and moves too slowly either up or down. He thinks the lending rate and not the discount rate is what the customer looks to, and he believes it should go up.

Szymczak. A high lending rate in a high level economy has little effect.

Ringland. The lending rate has some effect on warehousing.

Robertson. Has it affected consumer credit?

Brown believes it has had some effect on consumer credit, but he believes it has had more effect on real estate and certain municipal financing. It has caused the postponement of large real estate projects, such as, community centers and large apartment buildings.

Denton believes the effects of system policy are in the process of being felt. The building boom may have topped out. The New York banks are calling his bank and others to carry brokers' paper. Denton states that he is probably less sure than other Council members that the demand will be strong in the first quarter of next year.

Alexander. Housing construction may have topped off, but there are large commitments outstanding for real estate loans. System policy is having some effects, but they are not so evident yet in consumer credit.

Robertson. If a good customer needs funds for expanding consumer credit, will you not have to give it?

Brown. Practically, a bank would find it very difficult to turn down a good customer. Brown states that in all the discussions the Council has tried to make clear its views on the discount window.

Robertson replies that he is sure the Council has made its views clear.

Brown. We are all delighted to hear Governor Robertson's statement.

ITEM III

IS THERE ANY LEGISLATION THAT THE MEMBERS OF THE COUNCIL FEEL THE BOARD SHOULD SUPPORT OR SPONSOR IN THE FORTHCOMING SESSION OF THE CONGRESS?

Brown reads Item III and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. The Council continues to favor a raise in salaries for the members of the Board and Staff.

Fleming explains the salary situation. He hopes to be helpful in explaining the importance of the Board's functions and the desirability of paying higher salaries.

Brown discusses the Holding Company bill briefly.

Balderston. The Board has no legislation in contemplation.

Fleming believes that the idea of taking up with the Department of Justice for approval questions of mergers would be "unworkable".

Brown. The danger of delay in the Anti-Trust division might be very great.

Robertson. The testimony of the Chairman was not in favor of a fourth body, the Anti-Trust division, to pass upon mergers. The power of the Anti-Trust division would remain just where it is now. The testimony says that the Anti-Trust division could be asked for its opinion. The bill reported out is not one with which the Board would concur, and he thinks the bill is a dead issue.

Alexander does not believe the test of competition should be the sole test in a merger. It should be on a much broader basis.

The meeting adjourned at 12:55 P.M.

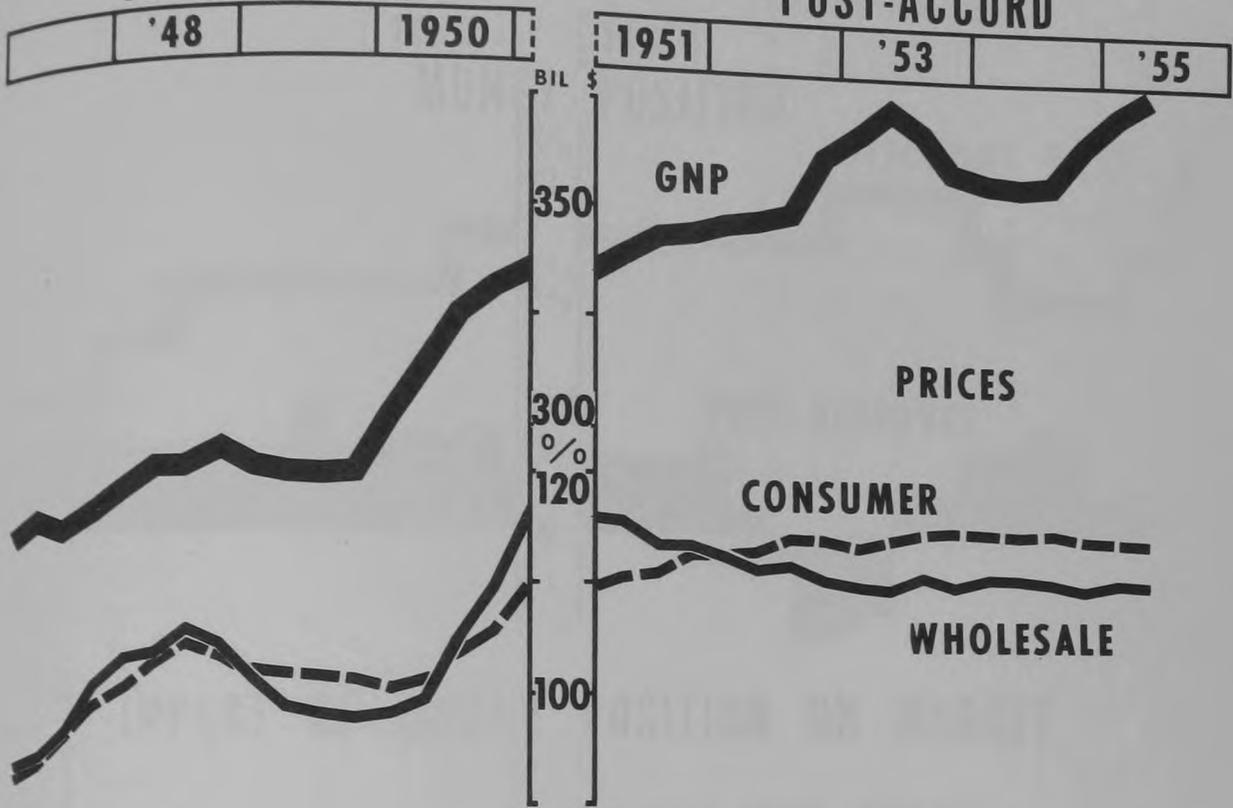
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The next meeting will be held November 13, 14 and 15, 1955.

OVER - ALL EXPERIENCE OF ECONOMY

PRE-ACCORD

POST-ACCORD



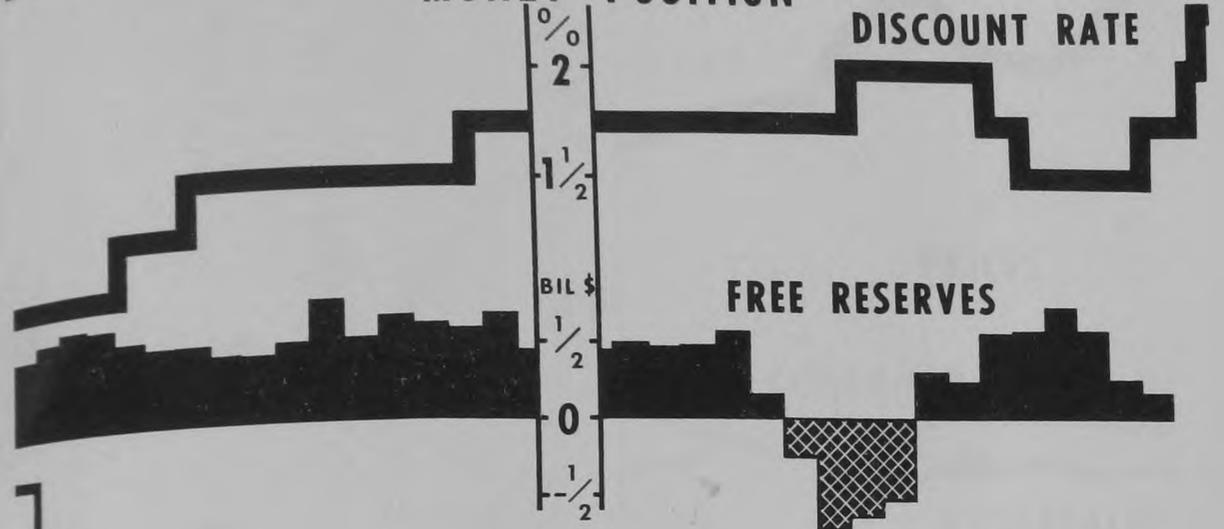
POSTWAR MONETARY DEVELOPMENTS

PRE-ACCORD

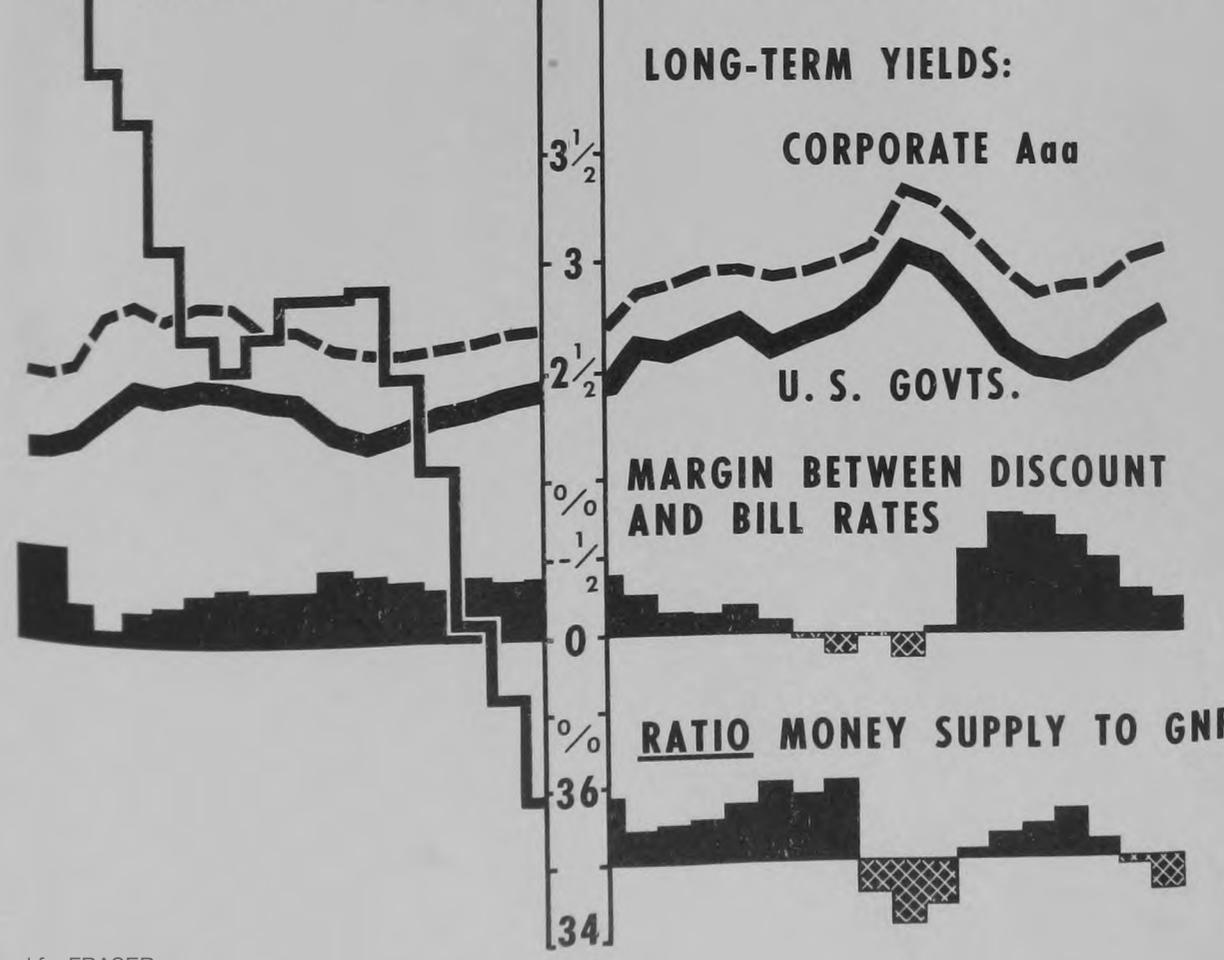
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MONEY POSITION



IMPACT OF MONEY POSITION ON MARKET



OVER - ALL EXPERIENCE OF ECONOMY

