MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 13, 1955

The fourth statutory meeting of the Federal Advisory Council for 1955 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on November 13, 1955, at 2:12 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
William J. Korsvik	Acting Secretary
Absent: John M. Wallace	District No. 12

On motion duly made and seconded, the mimeographed notes of the meeting held on September 18, 19 and 20, 1955, copies of which had been sent previously to the members of the Council, were approved.

President Brown stated that he has asked the Board of Directors of the Federal Reserve Bank of Chicago not to reelect him to the Council next year.

Mr. Fleming said he wished to express the appreciation of the Council to President Brown for his long service to the Council. He suggested that this be noted in a resolution to be spread in the permanent minutes of the Council and that a copy, appropriately embossed, be presented to President Brown.

The suggestion was approved unanimously by the other members of the Council and a resolution subsequently prepared. It appears on page 27 of these minutes. A copy was embossed for presentation to President Brown.

A complete list of the items on the agenda 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 29 and 30.

The meeting adjourned at 5:22 P.M.

WILLIAM J. KORSVIK
Acting Secretary

At its meeting on November 13, 1955, the Federal Advisory Council learned with profound regret that its distinguished and venerated President, Edward Eagle Brown, had asked the Board of Directors of the Federal Reserve Bank of Chicago not to reelect him to serve on the Council.

Throughout the twenty years Edward Eagle Brown was a member of the Council—a period longer than that of any other member in its history—he made a unique and magnificent contribution to its deliberations. Year after year from 1940 through 1955, the Council named him to act as its President. His unfailing vision, wise counsel and unerring judgment, against the background of his long and brilliant career as a successful banker and his masterful grasp of the manifold complexities of credit and monetary policies, made him always the outstanding member of the Council. Invariably, moreover, he endeared himself to his associates on the Council through the qualities of his heart and character. His modest bearing, his constant thoughtfulness and courtesy, and the charm of his warm personality won their close friendship and deep affection.

The Council will sorely miss and long remember Edward Eagle Brown, and in testimony to its high regard for him has ordered this resolution to be spread upon its permanent minutes and a copy of it, suitably embossed, to be presented to him.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 14, 1955

At 10:05 A.M., the Federal Advisory Council reconvened in Room 932 at the Mayflower Hotel, Washington, D.C.

Present: Mr. Edward E. Brown, President; Messrs. William D. Ireland, William R. K. Mitchell, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, and William J. Korsvik, Acting Secretary.

Absent: Henry C. Alexander, Frank R. Denton, and John M. Wallace.

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 29 and 30, listing the agenda items with conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 11:50 A.M. on November 14, 1955.

The meeting adjourned at 11:30 A.M.

WILLIAM J. KORSVIK
Acting Secretary

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON NOVEMBER 15, 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 six months of 1956? Information and views as to the position of farmers would be particularly significant at this time.

Business activity is continuing at an unusually high level. The Council believes that during the remainder of this year and the first six months of 1956 business will continue exceptionally good and will increase, although at a lesser rate than so far in 1955. The dollar volume will increase more than the volume of physical output.

Farmers generally have not shared with other segments of the economy in the prosperity of the last year. The situation of particular groups of farmers in the United States varies greatly, but the share of the agricultural industry as a whole in national income has decreased. Farming is becoming more mechanized, and there is a trend toward larger and larger farm units. Where weather conditions have been favorable, the income of the farmer with considerable land and equipment has not decreased significantly. In sectors affected by drought conditions, all classes of farmers have suffered. In most sections of the country, small farmers with little land or equipment have suffered severely, and many are leaving their farms and seeking employment elsewhere. The tremendous farm surpluses held by the Government are a continuing threat to the entire agricultural industry and ultimately to the whole economy.

2. What are the probable changes in the volume and purposes of bank loans (a) during the remainder of 1955, (b) during the first six months of 1956? Without limiting in any way the scope of this question, it is hoped that the members of the Council will report fully on developments and prospects in the field of real estate credit.

The Council believes there will be a moderate increase in bank loans between now and the end of the year. A seasonal reduction in loans should occur after the first of the year, but the Council anticipates that the reduction will be less than usual.

However, by mid-year of 1956, there probably will be an increase in the total volume of bank loans now outstanding. With the present and anticipated production of automobiles and other durable goods, it is inevitable that the amount of bank loans required to carry consumer credit will increase.

Almost all of the large amount of outstanding commitments for new residential construction will be used. These commitments, even though made by nonbanking institutions, will have to be financed by the banks until the final holders of the mortgages—mostly insurance companies, mutual savings banks and Savings and Loan Associations—have the funds to provide the permanent financing. New commitments for financing residential construction are being reduced. Banks are screening requests for construction loans of all kinds carefully. However, the existing volume of arrangements of various types for financing and carrying real estate credit probably will result in an increase in the total of loans for this purpose over the next six months, after which the total should decline.

Bank credit for industrial construction should not increase materially. Although the volume of industrial construction is large and may increase, a larger portion of it than formerly is presently being financed by longer-term borrowings, either through insurance companies or in the open market, and less by borrowings from banks.

3. Is there any concern about the proportion of new car installment paper acquired by banks that has less than standard down payments and very long terms?

The Council does not believe that the proportion of new car installment paper, so far acquired by banks, which has less than standard down payments and very long terms, threatens serious losses to banks except in isolated and unusual cases. The Council is concerned with the effect on the over-all economy of loans, made either by banks or finance companies, with smaller down payments and on longer terms, because they tend to accentuate the present boom and the intensity of any subsequent recession.

4. What are 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 by developments during the balance of this calendar year or during the first three months of 1956?

The Council feels that the System's credit policies since the last meeting have been excellent and that the present tightness of money is desirable under existing business conditions. The Council does not believe that the present policies should be changed during the balance of this calendar year or during the first three months of 1956 unless some unexpected development occurs in the economy. In short, the Council does not favor making money either tighter or easier at present.

Banks should have access to the discount window and such access should not be restricted or discouraged, as credit for productive uses must be available at some reasonable rate. Every member of the Council feels strongly on this point. Any indication that use of the discount window might be restricted or severely discouraged would result in a feeling of panic among bankers. The Council is not disturbed by the recent increase in member bank borrowings. If the legitimate credit demands of business are to be met, and if business continues at its present level or increases, borrowings from the Federal Reserve banks must be allowed to increase, or some relief must be provided by open market operations or through a reduction in reserve requirements (which the Council believes undesirable at the present time) or both, to bring about a moderate increase in the reserves of the member banks.

The Council feels that any small increase in the rediscount rate at present would not appreciably discourage borrowings and would have an adverse and undesirable effect on the government bond market.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 14, 1955

At 2:18 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. William D. Ireland, Henry C. Alexander, William R. K. Mitchell, Robert V. Fleming, Wallace M. Davis, W. W. Campbell, Joseph F. Ringland, Charles J. Chandler, George G. Matkin, and William J. Korsvik, Acting Secretary.

Absent: Messrs. Frank R. Denton and John M. Wallace.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors commented on the economic situation in the Scandinavian countries. Dr. Thomas also spoke briefly on the business situation in the United States.

The meeting adjourned at 3:50 P.M.

WILLIAM J. KORSVIK
Acting Secretary

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

November 15, 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:

Chairman William McC. Martin, Jr.; Vice Chairman C. Canby Balderston, Governors M. S. Szymczak, James K. Vardaman, Jr., A. L. Mills, Jr., J. L. Robertson, and Chas. N. Shepardson; 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, 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, and William J. Korsvik, Acting Secretary.

Absent: Mr. John M. Wallace.

President Brown 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 29 and 30 of these minutes. A discussion of this item followed, in which members of the Council and the Board participated.

President Brown then read the second agenda item and the conclusions of the Council as given in the *Confidential Memorandum* mentioned above. A brief discussion followed.

The third item on the agenda, together with the Council's conclusion as noted in the *Confidential Memorandum* previously mentioned, then was read by President Brown.

President Brown read the fourth item on the agenda and the conclusions of the Council as expressed in the *Confidential Memorandum* cited above. He added that every member of the Council feels that the Board should continue to keep money tight. Banks borrowing funds from the Federal Reserve are under continuous pressure from their own volition to avoid debt by selling bonds or by discouraging borrowing. President Brown warned, however, that any threat that the use of the discount window might be restricted, might cause a widespread selling of government bonds by banks as a result of a panicky feeling. An extended discussion followed.

In response to a query from President Brown as to the Board's attitude on the discount window, Chairman Martin stated that he concurred with the position expressed by his colleagues at the September meeting, i.e., that the discount window is not to be restricted. He added that the Board's attitude had not changed.

President Brown stated that in accordance with the Board's suggestion the Council reviewed Bill H. R. 569. President Brown said that the Council wishes to state that it is opposed unanimously to all three provisions of the Bill, and that the Board is at liberty to state this fact and may do so in writing.

The meeting adjourned at 1:05 P.M.

* * * * *

Chairman Brown stated that a number of those present will not be members of the Council next year. He reported that this concludes his twentieth year on the Council and that he had asked the Federal Reserve Bank of Chicago not to name him to the Council next year. However, there will be some continuity as he understands Mr. Fleming will again represent the Richmond district. Mr. Brown stated that it is with real regret that he leaves the Council as he has enjoyed his contact with the Board of Governors.

Mr. Fleming expressed regret on behalf of the Council as President Brown's long service and constructive contributions have been of great value. Mr. Fleming added that he knew of no man of comparable intellectual attainments, yet President Brown always has shown great consideration for the opinions of the other members of the Council.

Chairman Martin remarked that this is his fifth year with the Federal Reserve System. He added that the association with the President and members of the Council has been one of his pleasantest experiences. The Council, the Chairman said, has been of great assistance to the Board. Chairman Martin stated that it has been a source of great confidence to him to know that he had the support of "Ned" Brown for his solidarity of character assured Martin that he could count on him in difficult times.

The other members of the Board of Governors concurred with the Chairman's statement.

President Brown thanked the Board for their kind words.

WILLIAM J. KORSVIK
Acting 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.

W. J. K.

The Secretary's notes of the meeting of the Federal Advisory Council on November 13, 1955, at 2:12 P.M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present except Mr. Wallace of District 12, who was out of the country.

The Secretary's notes for September 19-20, 1955, were approved.

Brown stated that this was the last Council meeting he would attend. While he does not approve of the three year rotation plan Mr. Eccles introduced, he does feel that twenty years is a sufficiently long period to warrant his leaving the Council.

Fleming said that he wished to express the appreciation of the Council to Mr. Brown for his long service to the Council. He suggested that this be noted in a resolution to be spread in the permanent minutes of the Council and that a copy appropriately embossed be presented to President Brown. (It was subsequently decided that Mr. Fleming and Mr. Alexander would prepare the resolution).

Brown suggests that since Mr. Alexander would be unable to attend the entire session the Council first consider Item IV, the most important on the agenda. Brown reads Item IV and asks Ireland to comment.

ITEM IV

WHAT ARE 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 BY DEVELOPMENTS DURING THE BALANCE OF THIS CALENDAR YEAR OR DURING THE FIRST THREE MONTHS OF 1956?

Ireland wishes to defer to Mr. Alexander of District No. 2.

Alexander. (Off-the-record comments). Alexander feels that the President's illness caused some diminution of business confidence and, as a consequence, that loan demand isn't quite as pressing as it was. Some New York banks feel the same way. He doesn't believe in a crack-down and sharp tightening of the money market nor does he believe in easy money. Although the atmosphere is now one of excessive confidence, at the moment, Alexander wouldn't tighten credit any more. (Off-the-record comments on the discount window). The course of Federal policy has been wise. Alexander feels that the seasonal decline after the first of the year may be offset some by consumer credit demands, business investment expansion and warehousing commitments. Therefore, the tightness is warranted, and should be continued. However, he thinks money is about as tight as it should be. Banks have a net deficit reserve position and bond portfolios are in the red and, as a consequence, the tight money policy is working every day. He is not sure whether the crest of the boom is just past or just ahead. He believes the prime rate and the discount rate are probably high enough.

Fleming. With a rise in loans and with corporations buying bills, the market will tighten.

Ireland. If there were an increase in loans, would you put in more reserves?

Alexander. Yes. With borrowings of $1 billion, bond portfolios in the red and free reserves a minus $500 million, money is tight enough.

Fleming. There has been some selling of governments by banks for tax purposes.

Denton. Banks, however, have been replacing them with other issues.

Brown. Do you think the rediscount rate should go to 2½%, which, incidentally, would have an effect on short-term governments?

Alexander replies the Fed should leave it where it is.

Ringland. (Off-the-record comments).

Chandler would like to hear Mr. Brown's comments on Item IV.

Brown. The boom is continuing unabated. The first effect of the President's illness affected the stock market and caused people to hesitate and ponder. Business confidence, however, has recovered. People are continuing to spend for housing, plant expansion plans are going forward, and consumer credit is increasing. The most serious aspect of the present situation is whether the American people are spending more on capital goods, housing, appliances, and automobiles than they are saving. To finance capital expansion by bank borrowings is dangerous. The Board has acted wisely and courageously in keeping money tight. Brown sees no excuse for loosening the present degree of tightness. Money should be kept tight until the outlook changes considerably. The discount window, however, must be kept open, and he doesn't care if the rate is 2¼ percent or 2½ percent. Such an increase will make little difference in borrowing, for it is not the cost of borrowing that deters banks but rather their dislike of being in debt to the Federal Reserve. (Off-the-record comments).

Mitchell would rather tighten credit than loosen it. He feels the inflationary pressures are heavy and that until new production facilities come into being, loosening the money market will increase the inflationary pressures in the economy.

Fleming. If our predictions as to the increase in loans are correct, then additional reserves must be created.

Brown. It is not necessary that the reserves be increased if we can continue to borrow.

Mitchell. (Off-the-record comments).

Ringland. (Off-the-record comments).

Denton. The System has been following appropriate credit policies. It was able to keep money tighter during the Treasury's October financing than many had expected. Because of the possibility that loan demand may be somewhat less insistent than had previously seemed likely, the System has probably followed a wise course in deferring any further rise in the discount rate. In the near future the System's policies will have to be tailored to permit the Treasury to refund its big December 15 maturities (of which $6.5 billion are held outside Federal Reserve Banks and U. S. Government investment accounts) and raise about $1 billion cash. Except for such stabilizing action as may be called for by this financing, the System should continue about the same degree of restraint as during October, to a considerable extent for the purpose of discouraging a rate of new orders which could lead to an excessive build-up of inventories later. The effects of the tightening that has already been accomplished have not yet been fully felt, and this should make the System cautious about undertaking still further tightening in the near future. An exception might be to raise margin requirements if the stock market should continue its recent rapid rise and absorb additional credit in the process. In the first quarter of next year the System should be alert for signs of a downturn in business in the second half and if such signs appear (as I rather think they will) begin to follow a less restrictive policy.

Denton. (Off-the-record comments on discount window).

Alexander. Most New York banks are borrowing continously.

Brown. (Off-the-record comments). Money should be kept tight. He has no objection to an increase in the rediscount rate but the window should be kept open. However, he would not urge an increase in the rediscount rate.

Denton does not favor a rate increase.

Fleming does not favor a rate increase.

Alexander asks Mr. Brown if he would favor tightening credit further.

Brown. If loans went up, he would not put in reserves. In that sense, he would favor a further tightening.

Ringland suggests that the Council emphasize the necessity for keeping the discount window open.

Fleming feels that money is tight enough, but thinks the Fed would have to put in a "trickle" to keep things as tight if bank loans were going up. He would not favor an increase in the rediscount rate because of its effect on the bond market. Fleming reports that at the Business Advisory Council, the opinion was uniformly optimistic. He suggests that consumer credit is the handmaiden of the building boom and that the shortage of domestic help forces the continuation of the buying of consumer goods. With 1,300,000 housing starts, consumer credit is going to rise. An increase in GNP would generate more credit and, therefore, Fleming feels the Fed must put in a "trickle" or money would become considerably tighter.

Davis agrees with the opinions previously expressed. However, he would put emphasis on the statement that the Federal Reserve's present program of restriction has gone far enough. He suggests that after the first of the year the full effects of the credit restraint program will be felt. Consequently, he feels it would be a great mistake to tighten money further. In the Atlanta district, the needs are not being fully met because of the tightness of money. Some borrowers are not getting what they should, though this is not true in New Orleans. Davis feels some businesses are being crowded or discouraged and we are approaching the point where "hurt" could come if it were tightened further.

Campbell. The banks in the four large cities in his district are conscious of the tightness of money and are screening loans. In Memphis more money is going to be needed to move the cotton crop. Cotton is going into loans. Correspondents must aid banks financing the cotton or borrowings will go up. In other words, local requirements exceed the local supply of funds.

Denton. No one expects local funds to be sufficient to care for such a seasonal demand.

Campbell. If the discount windows of New York or Chicago should be closed, havoc would result.

Ringland. Money in his district is tight. Despite lower prices, larger crops have resulted in high agricultural income. Banks in his district are borrowing heavily and they are not getting the usual seasonal bulge in deposits. As a consequence, borrowings are essential and the discount window must be kept open.

Chandler does not believe the full effect of the tight money has been felt. He suggests that the Council take an unequivocal stand on the rediscount window, as legitimate credit needs must be met.

Matkin. Money in his district is as tight as it can be and it can't be any tighter. However, he approves of this policy. He also emphasized the necessity for keeping the discount window open.

Ireland believes that the effect of the Fed's policy has been delayed and not yet fully felt.

Brown. The Council may state that it feels the System's credit policies since the last meeting have been excellent and the tightness of money is desirable under present business conditions. The Council does not believe that present policies should be changed during the balance of this current year, or during the first three months of 1956, unless some unexpected development occurs in the economy. The Council does not favor making money either tighter or easier at present. The Council is convinced that banks should have access to the discount window and such access should not be restricted or severely discouraged , as credit for production uses must be available at some reasonable rate. Every member of the Council feels strongly on this point. Any indication that the use of the discount window might be restricted or severely discouraged would result in a feeling of panic among bankers. The Council is not disturbed by the recent increase in member bank borrowings. If the legitimate credit demands of business are to be met, and if business continues at its present level or increases, borrowings from the Federal Reserve bank must be allowed to increase. If borrowings do not increase, some relief must be provided by open market operations or reduction in reserve requirements, or both. The Council, however, feels that a reduction in reserve requirements would be undesirable at this time.

Fleming suggests that the Council next consider Item III.

ITEM III

IS THERE ANY CONCERN ABOUT THE PROPORTION OF NEW CAR INSTALMENT PAPER ACQUIRED BY BANKS THAT HAS LESS THAN STANDARD DOWN PAYMENTS AND VERY LONG TERMS?

Brown reads Item III and asks Alexander to comment.

Alexander. (Off-the-record comments). He feels that consumer credit to finance automobiles will increase. The large finance companies "are preaching the gospel" on down payments and length of terms.

Brown. They don't practice it.

Alexander. The large finance companies argue that they must meet competition.

Denton says that terms are tightening in his district.

Brown says the intent of the question is not clear to him. Is the Board concerned with the effect on banks or on the economy of the country in general. He does not believe that banks will have serious losses, as a result of the proportion of such new car paper which they have acquired. The real objection to consumer credit is that it tends to accentuate booms and depressions.

Denton believes the Board had reference to bank holdings.

Matkin agrees.

Brown. Terms over the country as a whole are lengthening out. Finance companies will meet the competition. Brown is not concerned about possible bank losses but he is concerned about the effect of the volume of consumer credit on the economy of the country.

Ireland presents statistics on a Federal Reserve survey of fourteen banks in his district. The survey indicates that terms have been lengthened and that down payments have been reduced. Of more significance, however, are the extremes in the individual bank's holdings of paper with long maturities, which the survey revealed. (Off-the-record comments). Ireland adds that the survey indicated the most liberal terms were being offered by substantial city banks.

Campbell reports that the terms of country banks in his district are eighteen to twenty months.

Brown. (Off-the-record comments). The large finance companies are determined to keep their share of the business and, as a consequence, will meet the competition.

Chandler asks Alexander about his views of Regulation W.

Alexander believes the Board should have the power to regulate consumer credit.

Fleming reports that at a recent meeting which he attended Szymczak said the Board was not considering asking for the power.

Brown. (Off-the-record comments).

Ringland suggests that there are more abuses by the finance companies charging higher rates than in extending liberal terms.

Brown. The Council does not feel the proportion of new car installment paper so far acquired by banks, which has less than standard down payment or very long terms, threatens the solvency of banks. There are, however, isolated and unusual cases in which the proportion of such paper acquired by banks is very high. The Council is concerned with the effect on the economy of loans made with small down payments and on long terms, either by banks or finance companies, because the extension of credit on such terms tends to accentuate booms and would accentuate any subsequent recession.

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 SIX MONTHS OF 1956? INFORMATION AND VIEWS AS TO THE POSITION OF FARMERS WOULD BE PARTICULARLY SIGNIFICANT AT THIS TIME.

Brown reads Item I and adds that he is somewhat disturbed because businessmen, without exception, are optimistic. There is every indication that business will stay at a high level. It may be that by next summer some slow-down may develop because of the threat of change in the administration.

Fleming reports that business activity in the fifth district is at an extremely high level, if not at an all-time record. Unemployment is down, agricultural prices have improved.

Brown asks if any member of the Council disagrees with the optimistic outlook of business.

Mitchell is concerned with the possibilities of a price inflation.

Denton suggests that perhaps we are moving up at a slower pace, and that the Council, therefore, should moderate its comments to the Board.

Fleming agrees with this suggestion.

Alexander. Business indicators point to an equally large dollar increase in the last half of the year. Output in physical units, however, may be more moderate.

Brown. Business is operating at a high level and it is likely that the dollar increase may be greater than the increase in physical output. In other words, the increase in physical production will be less than the rate that has prevailed in the first nine months of the year.

Campbell. Farm production is too high in relation to demand. A revolution is taking place in the cotton area. Cotton farmers must mechanize to stay in business. People are leaving farms and seeking employment in other areas. Non-employment on farms is a real problem. With the spread of mechanization on farms, farming is becoming big business. The government is in the business of holding cotton, wheat and corn. The supply of cattle and hogs appears to be excessive. In short, the picture is black.

Fleming asks what is the solution to the problem?

Campbell. No one has an answer.

Fleming. The decline in agricultural income eventually is going to effect the whole economy as agricultural purchasing power declines.

Brown agrees that the problem may have an effect on the economy and asks Ringland to comment on the situation in his district.

Ringland. Despite lower prices, farm income this year is likely to be as good as it was in 1954 because of increased yields. The agricultural situation is more a problem of the Republican Party then the Federal Reserve Board. The crop in his district is slow in moving, as elevators and terminals are "plugged". As a consequence, the crop is slow in being converted into cash, which apparently explains why deposits are down. Ringland does not feel that the agricultural problem is economically significant. The farm equipment and appliance manufacturers are concerned because the farmer now must sell a greater quantity in order to enjoy the same income.

Fleming asks Ringland to comment on the report that the Canadians are blaming the United States for their wheat crisis.

Ringland. The Canadian government apparently is going to aid their wheat farmers. In the past, the Canadian farmer has not been able to borrow until he had his crop in storage. As warehouse facilities are "plugged" and most of the 1954 and 1955 crop is still on the farm, the Canadian wheat farmer has been having a difficult time of it.

Chandler. The farmer prospered in the war years and reduced his debt though some distress cases still exist. Interbank deposits in his district are down 15 per cent reflecting the decline in agricultural income. However, cattle, which is the area's biggest income producer, is up 19 per cent. Chandler does not think a crisis exists in agriculture in his district, though farmers are complaining.

Matkin. Small farms are being consolidated and more machines are being used. Better rains have enabled farmers in the "dry farm" areas to pay off their debts. As farmers reduce their acreage, they tend to increase their yield by farming more intensively. Matkin agrees, however, that farmers are not very happy.

Fleming reports that farm values in his district are up and that the mortgage situation is excellent.

Davis states that the situation in the sixth district is similar to that prevailing elsewhere. The mechanized farmer, employing scientific methods is doing well. Davis feels that the movement of families from farm areas into the city may have a serious political, economic and social effect.

Chandler reports that the price of farm acreage in his area has risen.

Ireland commenting on the agricultural situation in the first district, reports that the value of poultry production exceeds the income from any other source.

Mitchell states that agriculture has had a pretty good year, although tomato and tobacco farmers have had some problems. Farm income in the district, however, is better than the national average.

Denton feels that the decline in the parity ratio has not affected the economy. The farmer, however, compares his situation with the labor union member and is unhappy.

Brown. In the seventh district there has been a decline in the general farm situation. The farms have tended to become larger and have been mechanized. Income has not declined very much. Land prices are up about 5 per cent over a year ago. The most dissatisfied are the dairy farmers who have found it difficult to sell butter in competition with oleo.

Ringland feels that the agricultural situation should not be of concern to the Federal Reserve System.

Fleming says that despite a moderate weakness in cotton prices, he has observed no particular distress or unhappiness in the fifth district.

Brown. The farmers generally have not shared with other segments of the economy the prosperity of the last year or two, although the situation of the individual farmer varies greatly. As a whole, the share of the agricultural industry in national income has decreased. Farming is becoming more mechanized and there is a trend to larger and larger farm units. Where weather conditions have been favorable, the income of the farmer with considerable land and equipment has not decreased significantly. In sectors affected by drought conditions, all classes of farmers have suffered. In most sections of the country, small farms with little equipment have suffered severely. Many are leaving their farms and seeking employment elsewhere. The tremendous agricultural farm surpluses held by the government are a continuing threat to the agricultural industry.

ITEM II

WHAT ARE THE PROBABLE CHANGES IN THE VOLUME AND PURPOSES OF BANK LOANS (a) DURING THE REMAINDER OF 1955, (b) DURING THE FIRST SIX MONTHS OF 1956? WITHOUT LIMITING IN ANY WAY THE SCOPE OF THIS QUESTION, IT IS HOPED THAT THE MEMBERS OF THE COUNCIL WILL REPORT FULLY ON DEVELOPMENTS AND PROSPECTS IN THE FIELD OF REAL ESTATE CREDIT.

Brown reads Item II and suggests that most of the members of the Council have already expressed themselves on this item in commenting on the previous three items of the agenda. Brown suggests that the Council may tell the Board that it believes there may be some moderate increase in loans between now and the end of the year. A seasonal reduction in loans is anticipated in the first part of the year, but the Council anticipates that this reduction will be less than usual. However, by the middle of 1956 there probably will be an increase in the total volume of bank loans. With the present and anticipated production of automobiles and other durable goods, it is inevitable that the amount of bank loans required to carry consumer credit will increase. Commitments by insurance companies, mortgage bankers, and builders for new residential construction, almost all of which will go forward, will have to be temporarily financed by the banks. This credit will be outstanding until the final holders of the mortgages, mostly insurance companies, mutual savings banks and savings and loan associations, are in possession of funds to provide the permanent financing. New commitments for real estate construction are being reduced substantially. Banks are screening requests for construction loans carefully. Despite this, the existing volume of arrangements of various kinds for financing and carrying real estate credit probably will result in an increase in the total of loans for this purpose over the next six months. After this, the total may be reduced. Bank credit for industrial construction should not increase materially. Although the volume of industrial construction is large and may increase, a larger proportion of it than formerly is presently being financed by longer-term borrowings either through insurance companies or in the open market and less by borrowings from banks.

The meeting adjourned at 5:22 P.M.

THE COUNCIL CONVENED AT 10:05 A.M. ON NOVEMBER 14, 1955, IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D.C. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT HENRY ALEXANDER, FRANK DENTON AND JOHN WALLACE. MR. ALEXANDER HAD A DEATH IN HIS FAMILY, MR. DENTON HAD TO RETURN TO HIS BANK TO ATTEND A BOARD MEETING AND MR. WALLACE WAS OUT OF THE COUNTRY.

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 November 15, 1955. It will be noted that each item of the agenda is listed together with the comments of the Council.

Mr. Sam Carpenter, Secretary of the Board of Governors had delivered to the Council a copy of H. R. 569, introduced by Congressman Patman, together with a copy of a letter of transmittal addressed to Chairman Martin of the Board of Governors from Chairman Spence of the Committee on Banking and Currency. Chairman Spence requested a report on the bill from the Board of Governors. Mr. Carpenter indicated that Chairman Martin and the Board of Governors would appreciate the Council's opinion on the bill. The bill has three main provisions: (1) it would increase the number of members of the Board from seven to twelve; (2) it would reduce their term of office to five years, and (3) it would abolish the Open Market Committee and transfer its powers to the Board of Governors.

Brown read bill H.R. 569 to the members of the Council.

Fleming said that it is difficult enough to get seven competent men to serve on the Board, let alone increasing it to twelve, and that he would be opposed to it.

Brown. The Council may state orally to the Board at its meeting on Tuesday that it is unanimously opposed to all three provisions of the bill, and authorize the Board to so state to Chairman Spence, or any other interested parties, if the Board so desires.

The Confidential Memorandum mentioned above was delivered to Mr. Carpenter, Secretary of the Board of Governors at 11:50 A.M. November 14, 1955.

The meeting adjourned at 11:30 A.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON NOVEMBER 15, 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 six months of 1956? Information and views as to the position of farmers would be particularly significant at this time.

Business activity is continuing at an unusually high level. The Council believes that during the remainder of this year and the first six months of 1956 business will continue exceptionally good and will increase, although at a lesser rate than so far in 1955. The dollar volume will increase more than the volume of physical output.

Farmers generally have not shared with other segments of the economy in the prosperity of the last year. The situation of particular groups of farmers in the United States varies greatly, but the share of the agricultural industry as a whole in national income has decreased. Farming is becoming more mechanized, and there is a trend toward larger and larger farm units. Where weather conditions have been favorable, the income of the farmer with considerable land and equipment has not decreased significantly. In sectors affected by drought conditions, all classes of farmers have suffered. In most sections of the country, small farmers with little land or equipment have suffered severely, and many are leaving their farms and seeking employment elsewhere. The tremendous farm surpluses held by the Government are a continuing threat to the entire agricultural industry and ultimately to the whole economy.

2. What are the probable changes in the volume and purposes of bank loans (a) during the remainder of 1955, (b) during the first six months of 1956? Without limiting in any way the scope of this question, it is hoped that the members of the Council will report fully on developments and prospects in the field of real estate credit.

The Council believes there will be a moderate increase in bank loans between now and the end of the year. A seasonal reduction in loans should occur after the first of the year, but the Council anticipates that the reduction will be less than usual.

However, by mid-year of 1956, there probably will be an increase in the total volume of bank loans now outstanding. With the present and anticipated production of automobiles and other durable goods, it is inevitable that the amount of bank loans required to carry consumer credit will increase.

Almost all of the large amount of outstanding commitments for new residential construction will be used. These commitments, even though made by nonbanking institutions, will have to be financed by the banks until the final holders of the mortgages--mostly insurance companies, mutual savings banks and Savings and Loan Associations--have the funds to provide the permanent financing. New commitments for financing residential construction are being reduced. Banks are screening requests for construction loans of all kinds carefully. However, the existing volume of arrangements of various types for financing and carrying real estate credit probably will result in an increase in the total of loans for this purpose over the next six months, after which the total should decline.

Bank credit for industrial construction should not increase materially. Although the volume of industrial construction is large and may increase, a larger portion of it than formerly is presently being financed by longer-term borrowings, either through insurance companies or in the open market, and less by borrowings from banks.

3. Is there any concern about the proportion of new car installment paper acquired by banks that has less than standard down payments and very long terms?

The Council does not believe that the proportion of new car installment paper, so far acquired by banks, which has less than standard down payments and very long terms, threatens serious losses to banks except in isolated and unusual cases. The Council is concerned with the effect on the over-all economy of loans, made either by banks or finance companies, with smaller down payments and on longer terms, because they tend to accentuate the present boom and the intensity of any subsequent recession.

4. What are 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 by developments during the balance of this calendar year or during the first three months of 1956?

The Council feels that the System's credit policies since the last meeting have been excellent and that the present tightness of money is desirable under existing business conditions. The Council does not believe that the present policies should be changed during the balance of this calendar year or during the first three months of 1956 unless some unexpected development occurs in the economy. In short, the Council does not favor making money either tighter or easier at present.

Banks should have access to the discount window and such access should not be restricted or discouraged, as credit for productive uses must be available at some reasonable rate. Every member of the Council feels strongly on this point. Any indication that use of the discount window might be restricted or severely discouraged would result in a feeling of panic among bankers. The Council is not disturbed by the recent increase in member bank borrowings. If the legitimate credit demands of business are to be met, and if business continues at its present level or increases, borrowings from the Federal Reserve banks must be allowed to increase, or some relief must be provided by open market operations or through a reduction in reserve requirements (which the Council believes undesirable at the present time) or both, to bring about a moderate increase in the reserves of the member banks.

The Council feels that any small increase in the rediscount rate at present would not appreciably discourage borrowings and would have an adverse and undesirable effect on the government bond market.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:18 P.M. ON NOVEMBER 14, 1955. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. DENTON AND MR. WALLACE.

Dr. Woodlief Thomas, Economic Adviser to the Board of Governors, commented on the economic situation in the Scandinavian countries including certain observations he had made during his recent trip abroad. Dr. Thomas also commented briefly on the business situation in the United States suggesting that today certain similar conditions characterize the economies of the United States and the Scandinavian countries. Dr. Thomas will furnish an outline of his remarks at a later date.

The meeting adjourned at 3:50 P.M.

ON NOVEMBER 15, 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 EXCEPT MR. WALLACE. THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS SZYMCZAK, VARDAMAN, MILLS, ROBERTSON AND SHEPARDSON. MR. CARPENTER, SECRETARY, AND MR. SHERMAN, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS, WERE ALSO PRESENT.

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 SIX MONTHS OF 1956? INFORMATION AND VIEWS AS TO THE POSITION OF FARMERS WOULD BE PARTICULARLY SIGNIFICANT AT THIS TIME.

Brown reads Item I and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Each member of the Council has reported that the sentiment of everybody seems to be uniformly optimistic, and this fact makes every member of the Council skeptical as to the soundness of the boom. Since the last meeting, business confidence in the future was shaken for a period of two or three weeks, following the President's illness. This has disappeared and the boom psychology has returned. The Council feels that the increase in output will not be as great as dollar figures may appear, because of increases in prices. Prices of metals have increased and there is a continuing pressure for a further price raise. Increases in wages are likely to be demanded, and because of the level of earnings these will be difficult to resist. It is difficult to generalize about the United States agricultural situation. The price of farm land in the hog and corn area is up about five per cent. Such an increase would not take place if people were despondent about the outlook. Where the Southwest has been hit by droughts, agricultural income has been reduced. The dairy farmer has also had his income reduced. In the South the small farmer who has not been able to mechanize has had a difficult time, and there is a tendency for them to leave their farms. In other areas, poultry farmers who do a large operation on a small area have been doing well. Brown suggests that the Board ask Messrs. Ringland, Campbell, Davis, and others to comment in detail.

Martin. The Board would welcome comments from Messrs. Campbell, Davis, Ringland, and others.

Campbell. The small family farm, which has been so important in the past, is fast disappearing. The farmer wants a truck, car, and conveniences in the home for his family, and the farm economy has not been able to provide him with this unless some member of the family has been able to find employment in a factory. If he has been in an area where such employment is not available, he has been obliged to leave in order to find such employment. Farms have been getting larger and more mechanized. It costs from $45 to $60 to pick a bale of of cotton by hand. When done by machine, the cost is reduced to about $30 per bale. Large operations require capital, machinery and business judgment. Campbell thinks the large surpluses will result in lower prices, yet the price of machinery and other equipment the farmer must buy is going up. In short, the outlook isn't too bright. The cotton, corn, bean and rice crops in most of the South (except in areas affected by drought) have been large, and have helped farmers this year, offsetting to some degree the reduced income anticipated next year.

Shepardson. Is the family farm increasing in size, or is corporate ownership replacing the family?

Campbell does not believe the corporate farm is replacing family ownership.

Brown reports on his experience with a plantation in the South, where farms with tenant farmers are decreasing and being replaced by plantation managers who hire labor and operate the farm.

Chandler reports that there is no distress in his area, and that the agricultural problem tends to be exaggerated because of its political significance. Chandler cites as evidence of this the fact that little farm land has changed ownership.

Matkin. The dollar value of the cotton crop is down five per cent, while the value of the rice crop has declined fifteen per cent. However, acreage reduction has been greater and has been offset by the use of more fertilizer and more know-how. Matkin cites the case of a large cotton farmer who was obliged to cut his acreage two-thirds. He accomplished this by planting two rows of cotton and leaving four rows open. Because the cotton plants received considerably more sun, he harvested as much cotton as he previously obtained from the full planting. Matkin confirmed the report that there is a trend to larger units and that farmers are seeking employment elsewhere.

Martin. It is difficult to measure business confidence. Since the President's illness two schools of thought have developed. The one feels that as the President's recovery progressed there was a resurgence of confidence, and that now, it is greater than it was prior to his illness. The other school of thought holds that the peak of the boom was reached on September 25, and that we are now moving down. Martin asks the Council to comment.

Fleming. With GNP at $391.5 billion and the prediction that it will rise to $400 billion, and with the stock market recovering 80 per cent to 100 per cent of the losses it suffered since the President's illness, he is of the opinion that the peak has not been reached.

Martin. Reverting to agriculture, is there any indication that the agricultural price decline is over?

Matkin. The cotton outlook is hopeless because of the reduced export demand and the substitution of synthetics for cotton. The present support program is wholly responsible for the present price of cotton.

Davis. Experts say that if the supports were removed cotton would sell at 12 cents per pound. The economy is in a vulnerable position. The President's illness demonstrated how easily confidence can be shaken. Davis does not believe the confidence is very deep-seated. On the other hand, during a recent trip through the cotton area, the new cars which were apparent gave evidence of prosperous conditions. Davis suggests that the movement to the city may have a social effect which should not be overlooked, as farmers in the past were a great bulwark of society. Davis adds that subsidies are one way of meeting the agricultural problem, but a poor one.

Martin asks Ringland to comment on the situation in the Minneapolis district.

Ringland. Improved moisture has aided the crop, which is excellent. It is moving slowly because of the shortage of storage units. Agricultural income may not be down. Ringland doubts that the farmer has been hurt, but the farmer is unhappy because he has not been sharing in the prosperity to the same extent as other segments of the economy.

Shepardson. Are the dairy farmers in difficulty?

Brown. Not the dairy farmer who sells his milk to the city. The dairy farmer who sells butter cannot compete with butter substitutes made from soybeans and cotton seed oil.

Shepardson remarks he is surprised to learn this, as he understands butter consumption is up ten per cent.

Ringland says the dairy picture has improved somewhat recently.

Martin asks if any member of the Council feels that the top of the boom has been reached since the President was stricken, or will be reached by the end of the year. In other words, Martin asks whether we are in a "topping out" process.

Fleming doesn't think so. He believes the rise will be less rapid in 1956 than in 1955 and we are going full blast. However, it is not likely that we can increase output as we have in the past.

Martin remarks that the state of confidence is very fragile and delicate. Will the election next year disturb the state of confidence and affect the economy?

Fleming believes it may in 1957 but not in 1956.

Brown. (Off-the-record comments). Expansion plans take time to consummate, and as a consequence any reaction on the total volume of business is apt to be delayed.

ITEM II

WHAT ARE THE PROBABLE CHANGES IN THE VOLUME AND PURPOSES OF BANK LOANS (a) DURING THE REMAINDER OF 1955, (b) DURING THE FIRST SIX MONTHS OF 1956? WITHOUT LIMITING IN ANY WAY THE SCOPE OF THIS QUESTION, IT IS HOPED THAT THE MEMBERS OF THE COUNCIL WILL REPORT FULLY ON DEVELOPMENTS AND PROSPECTS IN THE FIELD OF REAL ESTATE CREDIT.

Brown reads Item II and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Brown emphasizes that because of commitments made by mortgage bankers and others for construction, it is difficult, if not impossible, for banks to refuse the requests for temporary financing. There is a marked reduction in commitments. However, demands under existing commitments must be met. Because of anticipated car sales, and the sale of household appliances as the result of new housing, loans to finance consumer credit are likely to increase. Brown mentions that part of what is reported as commercial loans actually go to finance consumer credit.

Denton feels that loans in his district may not be as high by the middle of 1956 as they are now, as he is a little less optimistic. Denton questions the ability of the economy to absorb the planned car production.

Balderston. Are the new cars really selling? He adds that the Board has heard some rumblings from dealers.

Alexander states that his information indicates that sales are moving as anticipated, and that all companies are planning production at capacity. (Off-the-record comments).

Robertson asks if the expectations of the automobile companies are based on any lengthening of terms of consumer credit.

Alexander doesn't believe they are. There already has been a lengthening of terms and he doesn't expect them to worsen.

Robertson. Is there any truth to the stories that the auto producers are putting pressure on their dealers?

Alexander doesn't know the answer to that. He adds, however, that there is some pressure on dealers by manufacturers to keep the customers from buying the competitors' cars. It would be unnatural if it were otherwise under present conditions.

Mitchell reports that new cars are selling in his district, and that there is no accumulation of inventory.

Vardaman. What was the carry-over of old models as of October 1?

Alexander. (Off-the-record comments). Alexander reports that the "clean-up" of old models was exceptionally good.

Martin reports that he receives letters from dealers and dealer associations urging the use of Regulation W. He takes this as an indication that some dealers are in difficulty, otherwise they wouldn't be writing him. Martin wonders if there is a growing feeling among dealers for some regulation.

Brown states that this feeling hasn't spread to the manufacturers.

Martin replies that it definitely hasn't. His only point in mentioning it is that if the manufacturer exerts more sales pressure on the dealers the pressure from dealers for Regulation W is apt to increase.

Alexander reports that cars are moving despite modest price increases.

ITEM III

IS THERE ANY CONCERN ABOUT THE PROPORTION OF NEW CAR INSTALMENT PAPER ACQUIRED BY BANKS THAT HAS LESS THAN STANDARD DOWN PAYMENTS AND VERY LONG TERMS?

Brown reads Item III and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. He says he has been requested by the Council to ask the Board what it regards as "standard down payments and very long terms." Under Regulation W a 33 1/3 per cent down payment with a loan to be paid off in 24 months was considered standard. Currently, a down payment of 25 per cent with payments spread over thirty months is common.

Balderston. What are the Council's views as to the equity problem? How thin can it get before the soundness of the credit is affected?

Ireland. Terms vary greatly and one hears of the extremes. He mentions the survey conducted by the Federal Reserve bank in his district, and that the most liberal terms have been offered by banks in the metropolitan centers.

Robertson says that the Board is not concerned with a standard but rather with the "inching up" on terms and down payments.

Mitchell reports there is some up-grading in Philadelphia, though this was needed as terms had deteriorated.

Fleming thinks that there is going to be further pressure on lengthening of terms, and he hopes the banks will resist the pressure.

Alexander says that the large finance companies are "inching up" as a result of competition from local banks and finance companies.

Robertson. An increasing percentage of consumer credit is in longer maturities.

Brown. The large finance companies "preach the gospel", but they intend to keep their share of the business and to meet the competition. As a result, there is a gradual lengthening out of terms. In the opinion of the Council it hasn't reached the point where it threatens the solvency of banks.

Mitchell states that delinquencies are very small and less this year than last, although the dollar volume of credit has increased.

Denton reports that terms have improved in his district. Consequently, the percentage of paper with maturities of over thirty months is being reduced.

Shepardson asks Matkin if there is any stretching out of terms to 42 months or 48 months in the Houston area.

Matkin doesn't know of it.

Vardaman asks if the improvement reported by Denton is a result of a balloon at the end.

Denton. No, the improvement is a result of amortization over a shorter period.

Brown doesn't believe there is anything to be gained by considering the second point, for we all agree that the lengthening of terms and the reducing of down payments would tend to further intensify booms and depressions.

ITEM IV

WHAT ARE 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 BY DEVELOPMENTS DURING THE BALANCE OF THIS CALENDAR YEAR OR DURING THE FIRST THREE MONTHS OF 1956?

Brown reads Item IV and the conclusions of the Council as expressed in the Confidential Memorandum to the Board attached. Every member of the Council feels that the Board should continue to keep money tight. Banks borrowing funds from the Federal Reserve are under continuous pressure from their own volition to avoid debt by selling bonds or discouraging borrowing. Any threat that the use of the discount window might be restricted might cause a widespread selling of government bonds by banks as a result of a panicky feeling. A small increase in the discount rate, say to $2\frac{1}{2}$ per cent, would not significantly discourage borrowing and would depress the intermediate government bonds. The bond account of most banks shows a red figure today and the banks don't wish to see this increased.

Fleming. Since bank loans are expected to increase, and corporate treasurers, attracted by the bill rate, are shifting deposits into bills, it may be necessary to create some reserves in order to keep the credit situation from getting tighter.

Brown. Deposits in the larger centers have not increased this Fall as was expected and as is usual. Corporate treasurers have put balances in bills or commercial paper. The velocity of the reduced deposits has tended to increase.

Fleming reports that many insurance companies have reduced their deposits in banks to a minimum.

Ringland. Municipalities and other government agencies also are paring balances down to a minimum and are investing public funds in bills.

Fleming emphasizes the daily swings in deposits and the difficulty of accurately anticipating them. Insurance premiums are increasing, which may help the banks on their warehousing commitments.

Brown explains that in his opinion the insurance companies are making commitments into the future in the expectation that the present high long-term rate will decline. Their actuarial requirements are based on a three per cent yield. Since they can obtain $4\frac{1}{2}$ per cent now, they are making forward commitments. Brown believes that the funds expended for capital goods, such as automobiles, housing and appliances, is exceeding capital formation. This leads to inflation and trouble, as it has elsewhere in the world. Brown believes it is unhealthy and undesirable for insurance companies to make commitments far ahead of receipts.

Fleming estimates that new jet air line equipment will require $1 billion of new money on a long term. This sum is much greater than the cost of a fleet of constellations.

Mitchell tends to agree with the report of the Council. If it came to a choice of either increasing or decreasing the pressure in the money market, he would increase the pressure as he feels there is much less danger if money is made tighter because of the inflationary pressures in the economy. Easing credit now might start an inflationary spiral which would be difficult to halt.

Brown asks Alexander if he would care to comment on his recent speech.

Alexander. While the danger of further price advances is great when production expansion is limited, Alexander believes it is sound banking and economics to make productive loans so as to increase productive facilities. Banks have sold government bonds to meet this loan demand and the selling has been orderly. As loan demands increased further, the free reserve figure has increased from minus $300 million to a minus $500 million. This has been good for it has made banks feel the pressure. If it gets tighter, Alexander is afraid some productive loans will be refused. He does not believe the full effect of the tight loan policy has been felt. He would not tighten credit further at present. The point of his speech, Alexander states, was that he was not in favor of doing anything drastic, but instead was in favor of a gentle, continuous, pressure as has been building up this Fall. This he believes is desirable with the economy running at a very high level. Federal Reserve policy has been excellent. Alexander doesn't think the economy next year will be as buoyant as it was in 1955. The threat of a price spiral concerns Alexander.

Brown feels that the discount window should not be restricted or severely discouraged. At the September meeting the Board assured the Council that there was no reason to be apprehensive. Is there any change in the Board's attitude?

Martin concurs with the position expressed by his colleagues at the September meeting and emphasizes that the Board's attitude has not changed.

Brown. The Council reviewed the bill H. R. 569 and wishes to state that it is unanimously opposed to all three provisions of it. The Board is at liberty to state this fact and may do so in writing. If a Resolution is necessary, the Council will be pleased to oblige.

Martin replies that Mr. Brown's statement of the Council's position is understood and sufficient and that a Resolution of the Council is not necessary.

Fleming suggests that the Board Staff examine the hearings that took place when the Banking Act of 1935 was reviewed, as this subject was carefully considered at that time.

The meeting adjourned at 1:05 P.M.

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The next meeting of the Council will be February 19, 20 and 21, 1956.

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Brown states that a number of the members of the Council will not be present next year. He reports that this concludes his twentieth year on the Council, and he has asked the Federal Reserve Bank of Chicago not to name him to the Council next year. However, there will be some continuity as he understands Mr. Fleming again will represent the Richmond district. Mr. Brown states that it is with real regret that he leaves the Council as he has enjoyed his contact with the Board.

Fleming expresses regret on behalf of the Council. Mr. Brown's long service and constructive contributions have been of great value to the Council. Fleming adds that he knows of no man of comparable intellectual attainments, yet Mr. Brown always has shown great consideration for the opinions of the other members of the Council.

Martin remarks that this is his fifth year with the Federal Reserve System. One of the pleasantest experiences he has had has been the association with the President and the members of the Council. The Council has been of great benefit to the Board. Martin states that it has been a source of great confidence to him to know that he had the support of "Ned" Brown, for he knew his solidarity of character and that he could count on him in difficult times.

The Board concurs with Martin's statement.

Brown thanks the Board for their kind words.