

1. Increase in prime lending rate from  $2 \frac{3}{4}$  to 3% at a number of New York City banks, presumably being followed by some banks in other cities, has caused further talk of an increase in the discount rate. Banks would have liked us to take the lead I think and now would like us to confirm what they have done.
2. The discount rate as one of our instruments of credit policy is geared, however, to the general business and credit situation and not solely, or in a fixed relation, to bank lending rates.
3. The business situation has continued to be one of mixed developments, with some factors such as capital investment and increasing defense expenditures pressing strongly upward, and other factors such as continuing sizable inventories in some lines and cautious consumer buying holding these upward pressures in check. Prices have not given evidence of breaking out on the upside. Bank credit has been expanding, but, allowing for seasonal factors, the expansion does not appear to have been excessive. What will happen if we have another round of wage increases beginning with the steel industry is another matter.
4. The present rate  $1 \frac{3}{4}$  which has been in effect since August 21, 1950, has slowly been coming into its own as an effective rate, as rates for short Governments and commercial paper and acceptances have moved up to or slightly above this figure.
5. This would seem to be no time to waste the psychological influence of an increase in the discount rate, and a good time to test the effectiveness of the present rate, with its bias in favor of bank borrowing as against sale of Government securities.

6. Healthy thing to have the market making its own decisions, and trying out these competitive rates which may or may not hold depending on the availability of funds and the demand for them. But this need not force action by us if the general credit situation does not warrant it.
7. Recommend that existing schedule of rates be re-established. Call attention to increase in currently effective minimum buying rates on acceptances.