

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on November 19, 1957.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>M</u>	<u>[Signature]</u>
Gov. Szymczak	<u>                    </u>	x <u>[Signature]</u>
Gov. Vardaman	x <u>(V)</u>	<u>                    </u>
Gov. Mills	<u>                    </u>	x <u>[Signature]</u>
Gov. Robertson	x <u>[Signature]</u>	<u>                    </u>
Gov. Balderston	x <u>CRB</u>	<u>                    </u>
Gov. Shepardson	x <u>[Signature]</u>	<u>                    </u>

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the offices of the Board on Tuesday, November 19, 1957, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Vardaman  
Mr. Robertson  
Mr. Shepardson

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary

Messrs. Brace, Massie, Mitchell, Denton, Fleming, Kimball, Livingston, Miller, Murray, Kemper, and Jacobs, members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, and Eleventh Districts, respectively

Mr. Wallace, Chairman of Walker Bank and Trust Company, Salt Lake City, Utah

Mr. Prochnow and Mr. Korsvik, Secretary and Assistant Secretary of the Federal Advisory Council, respectively

President Fleming noted that Mr. Wallace, Chairman of Walker Bank and Trust Company, Salt Lake City, was attending the meeting as a representative from the Twelfth District in place of Mr. King, who was unable to be present.

Before this meeting the Council submitted to the Board of Governors a memorandum setting forth the Council's views on the subjects to be discussed with the Board at this joint meeting. The statement of the topics, the Council's views, and the discussion with respect to each of the subjects were as follows:

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1. It is suggested that the Council and the Board discuss the provisions of S. 2824 described as a Bill to amend the Employment Act of 1946 to make the stabilization of the cost of living one of the explicit and primary aims of Federal economic policy.

In a free and competitive enterprise system, the reasonable stabilization of the cost of living is one of the most desirable objectives in the promotion of the national welfare. The members of the Council therefore look with favor upon the general intent of the proposed amendment. However, there are some aspects of the amendment involving its administration and implementation which require careful consideration. The Council will be pleased to discuss this item with the Board.

President Fleming indicated that the Council looked with favor on the intent of the proposed amendment but that it had some concern as to what might be the outcome of active efforts to change the preamble of the Employment Act of 1946.

Chairman Martin said that he thought that the preamble to the Employment Act of 1946 was susceptible of many interpretations. Under the conditions existing last summer, when he appeared before the Senate Finance Committee, he thought it important to stress that stabilization of prices was desirable. Having pointed out that fact, he doubted that much more could be done. The Chairman went on to say that he had stressed repeatedly maximum employment and maximum purchasing power. He had always considered that these goals required avoidance of inflation because employment created by inflation would not be stable or permanent. His concept of the intent of the Employment Act was to provide sustained growth, not a mirage or an illusion. Inflation created distortions on both sides of

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the ledger, he said, and once inflation got ahead of us the unraveling process became very difficult. In past years the Board had considered the wording of statements of objectives and, generally speaking, had not felt that a mandate to stabilize prices would be desirable. When it came to writing a provision that stabilization of prices was a major goal, a very difficult problem was presented. At the same time, Chairman Martin said that he believed it was important to make clear that efforts to avoid inflationary rises in prices were well within the purview of the present language of the preamble to the Employment Act. As for S. 2824, the Board had postponed sending comments to the Chairman of the Senate Banking and Currency Committee until it had had an opportunity to obtain the views of the Council.

In the ensuing discussion, members of both the Board and the Federal Advisory Council indicated some sympathy with the basic purpose of clarifying the intent of the Employment Act but expressed doubts as to the desirability of opening the subject in Congress because of the problem of writing satisfactory language, because of the uncertainty as to what language might ultimately be adopted, and because of the interpretations that might be placed upon any amendment to the law in this regard. In this connection, Governor Balderston suggested that it would not be desirable to introduce a concept under which the consuming public would fail to reap the benefits of improvements in efficiency.



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2. What are the views of the Council regarding the business situation during the remainder of this year and approximately the first six months of 1958? The Council's judgment as to the current psychology of the business community and of the general public and of the impact of their psychology on capital expenditures, business inventories, and consumer expenditures will be appreciated.

The members of the Council believe that for the remainder of this year business will decline moderately, except for seasonal influences, and most members believe that this downward trend will probably continue during the first six months of 1958.

In the opinion of the Council, recent international events and the decline of business activity in various sectors of the economy have resulted in some lack of confidence in the business outlook. These developments have altered the attitude of the business community toward capital expenditures and inventories and have affected the buying behavior of consumers.

Mr. Brace said that, generally speaking, in District 1 the economy had had some slide in the two months since the preceding meeting of the Council. This slide was not pronounced but nevertheless was noticeable. He anticipated the present level of business would be maintained pretty well through the rest of this calendar year, but some further slide in the first six months of next year was likely. Many industries were eating into their backlogs of orders. Some layoffs had already occurred, and further layoffs were to be expected. The supply of money seemed to be rather ample. Housing was one of the rather bright spots and showed some signs of slight pick-up. The shoe and leather industry had not been

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as badly hit as practically every other industry in the First District. Mr. Brace said that he did not look for a precipitate drop in the next few months but, nevertheless, some decline. Noting that the First District was a center of technological industries, he commented that a few months ago technical men were in very short supply whereas today they were in oversupply. He was not alarmed but not at all encouraged by the outlook.

Mr. Massie said that most Second District industries had shown a slackening since September. They had anticipated a pick-up which had not shown up. Some of the slackening could be temporary, but it was too early to tell. Aggregate employment was off. This was mainly in defense industries, but it was also true in the apparel business and, as to be expected, in the textile business backing that up. In retail trade and services, where there previously had been fairly constant pick-up in employment, there had been a slackening in the past two months. Construction had been off until recently when there was a slight improvement and the over-all construction figures were not bad at present. Major office building was still going on actively, even though the Astor project had been withdrawn. There was still the St. Lawrence Seaway Development and State and local government projects. Retail trade had been very active up until August and early September. September and October tended to "fall out of bed" but during the last week of October and the first week of November trade had picked up slightly. In New York more than in any other

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district, the community was affected psychologically by the drop in the stock market. The psychology around New York had been very bad, Mr. Massie said, reflecting both the stock market and Sputnik, as well as handling of defense contract receivables. He understood the latter problem had been pretty well worked out and, while it could be expected to result in some increased use of bank credit, there was nothing that could not be handled. From now until the end of the year, Mr. Massie anticipated that business would be reasonably good - perhaps not quite as much steam behind the Christmas trade as had been anticipated in September - but he would expect activity to fall off after the first of the year. Mr. Massie said he had been very seriously concerned with the psychological situation and the actual figures, and whether this influence would snowball into a downturn in the stock market, as many people had thought might be the case. The most bearish sentiment was found among the professional investors, where the narrowing profit margins had caused a feeling that there might be a further drop in stock market prices. The business community itself was pretty optimistic up until August, Mr. Massie said, but big business concerns had had less optimism recently and he assumed this would translate itself into their capital expenditure programs. He had not yet had an opportunity to judge psychological reactions to the change in the discount rate last week and to the recent buoyancy in the stock market, but he had felt for two or three weeks that the worst of the situation was boiling itself off and that there would be opportunity to do financing with the improvement in the bond market that was appearing.

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One of the weakest spots was in railroads, where the falling off in car-loadings could result in severe labor lay-offs.

Mr. Mitchell said that activity in the Third District was running along on a pretty even keel until September, but there had been a very slight downturn in the past two months. Business sentiment deteriorated due to three factors, (a) failure of the fall pick-up to materialize, (b) the stock market conditions, and (c) the using up of backlogs by manufacturers and the fact that unfilled orders had not kept up with production. Mr. Mitchell went on to say that things did not look too bad. Residential construction showed a very sharp upturn in September for the first time in some months; awards were about double those of September 1956. According to a recent survey in the Philadelphia area, manufacturers expected to spend some 13 per cent less on industrial construction in the coming year than they had in 1957. However, State and municipal construction was holding up and was expected to increase. Utility construction was being well maintained. The whole construction picture might be a little softer but not much. Department store sales dropped off some in October but recovered a bit in the first week of November. The nine months' total showed a one per cent increase over last year's high level. Automobile registrations during the first nine months of this year were about the same as last year, although September registrations were up from a year ago. Manufacturers' inventories of raw materials were large, generally speaking, and there might be some liquidation of these during the next



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six months. Carloadings were way off throughout the country. Electrical production was up from a year ago but had leveled off in the past two or three months. Agriculture in the Third District had been affected by drought in eastern Pennsylvania and New Jersey. Total factory employment was slightly down from a year ago and total hours worked were considerably less than last year. Payrolls, which were a little higher than last year until a month or two ago, recently had been lower than a year ago. Unemployment was up, the opposite of what occurred last year. Retail prices were still rising, but wholesale prices had leveled off and personal income had leveled off. Borrowings from the Federal Reserve Bank of Philadelphia were considerably less than a year ago, Mr. Mitchell said, and money had become easier although district banks were still lending some 56 per cent of total resources against a national average of 50 per cent. Deposits had come in seasonally and net loans had declined but were expected to come back by the end of the year. Broadly speaking, Mr. Mitchell said, the consensus was that Third District business would go along at about the present level or perhaps would be slightly lower until the end of this year, and for the first six months of 1958 activity would be moderately lower than today.

Mr. Denton recalled that at the September meeting he reported that he had checked with a wide group of businessmen in the Fourth District and that he had given a somewhat pessimistic view of the situation and prospect as compared with the views of Council members generally. Before this meeting, he had checked again with these groups and found that the

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things they expected in September had come about. Steel production was running well below capacity and the forecast for 1958 indicated a continuation of about the present rate of operations. Inventories on hand in the automobile industry and in other industries had cut incoming orders and releases to such a point that some of the mills were operating in the red. The aluminum industry had a large capacity beyond demand, but there was a hope that new markets for that metal would be opened and there was optimism in the industry because of this prospect. The chemical industry was running substantially below capacity and could see a continuation of the same situation. The electrical industry was having difficulty in the appliance field and other light manufactured products, while orders for heavy equipment such as turbines and generators were not coming in as had been anticipated earlier in the year. The oil industry was suffering from excess supplies of crude and both fuel oil and gasoline, and it was praying for a cold winter to use up the fuel oil on hand. The glass business was better than some others, with releases by the automobile industry much better than their releases for metals. Orders for window glass were increasing very satisfactorily. Retail trade had dropped off compared with the summer months and had not had the fall pick-up expected. In Pittsburgh, a transportation strike was now three weeks old and this was not good for retail trade. Heavy construction reflected the finishing of plant after plant, and orders for new plants were just not coming in. Individual housing was picking up. There was substantial unemployment, particularly in towns where people were engaged largely in work for one

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plant or one industry. Mr. Denton said that he had checked on past due obligations of people in these areas and, in spite of the unemployment, there had been little increase in past due accounts.

There was no doubt that there had been an enormous change in psychology of businessmen in the past few months, Mr. Denton said. It was standard to think in the spring that there would be a fourth quarter pick-up, but that had not materialized. This had affected plant budgets and plans for expansion were being resurveyed. The psychology of consumers in the area was perhaps less drastically affected than the psychology of businessmen; on the other hand, consumers were definitely showing signs of less readiness to create obligations, and this in turn was reflected in sales. Mr. Denton commented that this was an extremely pessimistic report. However, he thought that we had reached that point. How long it would continue he could not say but probably at least until next spring. If there was a pick-up in the automobile industry in the spring, that might alter the picture materially. It could continue until the fall of next year.

President Fleming said that in the Fifth District the textile people were very unhappy. Cotton cloth was unsatisfactory as was cotton yarn. There had been a pick-up in hosiery but the prices were not satisfactory. The bituminous coal industry was a bright spot but not nearly as good as a year ago. Flue-cured tobacco was down. Construction showed a rather mixed situation, with nonresidential awards having increased 72 per cent in August because of several special projects

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that he enumerated. Residential contracts had dropped off. Public works and utilities were off 15 per cent, but Mr. Fleming thought that this was temporary. The cotton crop was off one-third as compared with a year ago. Retail trade was down. The spurt that took place in the latter part of August and up to Labor Day had not continued in the Fifth District, but that situation was not too bad. Automobile registrations were 2 per cent under the corresponding period of a year ago. Furniture sales were off 12 per cent. Demand deposits had gone down from a year ago and banks were borrowing more heavily than last year. Time deposits of individuals had gone up materially but other time deposits had gone down. Perhaps the increase in savings deposits suggested that people were holding on to their money. Taking it all in all, President Fleming felt that the Fifth District looked like an ugly duckling, although perhaps the present picture was being compared with a very high period a year ago. The picture could change rapidly, he suggested, with a change in business psychology.

Mr. Kimball said that the Atlanta District was not quite as happy as at the time of the meeting in September. There had been some very bad developments in agriculture because of adverse weather and this had materially affected the position of farmers with the result that a reduction of about 10 per cent in agricultural income in the district was now expected for this year. Unemployment had shown comparatively little change. Nonmanufacturing employment was showing a moderate up-trend, but manufacturing employment was showing a moderate decline. In



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manufacturing, Alabama had been hit hard because it was the center of the steel and fabricating industry. Current operations in the steel industry in Alabama were at 75 per cent of capacity versus 80 per cent for the nation, whereas earlier this year Alabama was above the national average. Thus, in that state, the adverse factors included both agriculture and manufacturing. Construction in the district was a very bright segment of the picture, Mr. Kimball said, with both residential and nonresidential awards above the national average. A survey of builders indicated plans to start 10 per cent more houses than last year. The outlook for non-residential building would be affected by the slowing of the capital boom. Retail sales were fair but with considerable variation; for example, in Montgomery, Alabama, a decline of 14 per cent from last year was reported, whereas in Miami an increase was being shown. Over all, retail sales were 1 to 2 per cent below a year ago and a further decrease was expected because of the reduction in agricultural income. Loan demand in the district had faltered, Mr. Kimball said. State and local governments reflected the fact that for years district growth was below the national average, but they were now attempting to catch up with their needs and he expected that there would be numerous bond issues by these units in order to meet their needs. On balance, Mr. Kimball thought the economy probably would falter during the remainder of this year and into early 1958. He was encouraged by the fact that cotton consumption turned up in August and September. It might be that the textile industry was beginning to bottom out and to show signs of a pick-up.

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Mr. Livingston said that business in the Seventh District was definitely less good than when the Council met in September. He recalled that at that time he had commented on the pattern of retail sales he expected for the remainder of this year, including the view that the Christmas business would be the largest ever. While Christmas trade would still be good, it was very clear that it would not be as big as he expected at that time. Since September 1, there had been a very definite turn in retail business throughout the country, Mr. Livingston said, with heavier items such as refrigerators and household appliances manifesting the change particularly. He detected a feeling of job insecurity on the part of many individuals. There had been some increase in unemployment in the Seventh District with the exception of Michigan. Carloadings continued to go down rather sharply. As reported for most other districts, residential construction in the Seventh District had taken a fillip up, why he did not know. Agriculture continued satisfactory, if it ever could be said to be satisfactory, with \$19. hogs and \$25. cattle. In the Seventh District and also nationally, Mr. Livingston said that a good deal depended on how the new model automobiles were received. This was very important. In short, Mr. Livingston felt that we were now in the midst of a business recession in the Seventh District and nationally. The duration of this recession was something that was not now perceptible.

Mr. Miller stated that Eighth District conditions were about the same as had been reported for most other areas. Unemployment was a little higher than the national average. Retail sales continued well up until

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September but were now down. The tobacco crop was large and weather had been especially good for getting the crop in. Sales would be starting the latter part of this month and this always provided an upturn in cash on deposit in banks and an increase in loans. Loans at this point were running at about their peak, Mr. Miller said, a little higher than last year. Instalment credit was in very good shape and there was no slow-down in payments. Savings were increasing some in the area, but not as much in banks as would be the case if the banks had gone to a 3 per cent rate on savings deposits. However, they were still increasing slightly at the prevailing 2-1/2 per cent rate. All in all, Mr. Miller felt that business should continue for the remainder of this year at about the present level, but next year he would look for a slight downtrend in activity. He noted that the State of Kentucky had recently sold a \$35 million bond issue for the purpose of matching Federal road-building funds. Missouri had also sold some bonds, and this tendency could be expected around the country generally. Housing plans were up. Construction could play an important part as to what could happen in the first six months of 1958. Mr. Miller summed up his feeling by saying that while he was a little pessimistic, he was not quite so pessimistic as some of the reports for other districts indicated.

Mr. Murray said that business conditions in the Ninth District had been holding a little better than in several of the other districts for which reports had been made. The one strong factor was the agricultural situation, with the Government estimate of crop production up

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10 per cent from last year and farmers' cash income up 4 per cent. Retail sales had held up well. More autos had been sold in the metropolitan areas than a year ago. People seemed to be looking at rather than buying the 1958 models, but it was too early to tell how they would go. Dealers went into the 1958 model year with big stocks of 1957 cars, but those had been cleaned up well. A major factor seemed to be the price increase on the new cars, Mr. Murray said, and it appeared that people were becoming more and more price conscious. Employment in the Ninth District was up slightly from a year ago but unemployment also was up very moderately. Employment was down in Montana because of lumbering and copper mining, and in Minnesota mining had been affected by the falling off in steel production. Residential construction, which had been running behind 1956, turned around in September. How long this turn would continue could not be told. A further drop-off in commercial and industrial construction was expected next year, but this drop-off would be offset by stepped-up public building programs. There seemed to have been a change in psychology of people in the past two or three weeks, Mr. Murray said, and there was a feeling among employees that they had better hold on to the jobs they now had. Carloadings were down in the Ninth District. Mr. Murray noted that there always was a seasonal liquidation of bank loans in October, and this year the liquidation was larger than in the past. This was because of the way the wheat crop was marketed. There had not been a shortage of cash this year and the crop had gone into the market fast. Aside from that, there still seemed to be a pretty strong demand for credit. Borrowings from the Federal Reserve



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Bank were down from a month ago. Mr. Murray felt that business in the Ninth District would probably run along at the present level for the balance of this year. There would be the advantage of a strong agricultural situation for next year, but the Ninth District would be affected by the national economy and he was looking for some little decline in business in the Ninth District in the first part of 1958. He thought, however, that this would be less than nationally.

Mr. Kemper said that the Tenth District was having better conditions than several of the other districts for which reports had been made. Rains had been abundant and, in fact, recently had interfered with moving some crops. Fall crops were in excellent condition. The wheat crop was probably in the best condition it had been in at this season for years and was providing ample fall pasture. It looked as though the wheat harvest next year would be one of the largest on record. During the past year, with the exception of wheat which was down 17 per cent, grain crops were the largest that had been harvested in the district. Cattle prices were good. Most ranchers were holding calf crops, and herds were being replaced. There was a slow movement of stocker and feeder cattle. Prices of hogs were fair and prices of lambs were good. From the agricultural standpoint, things looked excellent and a large purchasing power could be anticipated during the next year.

Mr. Kemper went on to say there were some segments of the Tenth District economy that were not doing so well. The oil business was in distress and the oil supply business was "simply terrible".

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Farm machinery had not been moving well, and he noted the formation of credit subsidiaries by large organizations, presumably to take paper that could not be put into the banks. Loans of district banks reached their high point toward the end of August this year and at the end of October were down somewhat, the liquidation having come from metal manufacturers and construction firms and in commodities. Cattle loans were up because of the holding of feeder and stocker cattle. Deposits had fallen somewhat in October and inter-bank balances were off greatly. Construction during the first nine months of 1957 totaled 4 per cent greater than in 1956. Public utilities and public works were off, but non-residential construction was up 10 per cent and residential building was up 11 per cent. Employment figures were up slightly for manufacturing, but within the last few weeks there had been some indication that unemployment was developing. Retail sales had been off recently from the previous months and from a year ago. There had been a good many strikes in the area. The automobile business was not too good; dealers were not making a profit and many of them were retiring from business because of that fact. The high prices of automobiles were meeting with resistance and there was a noticeable movement to the more economical cars, including purchases of a good many foreign made automobiles. The over-all picture in the Tenth District was not too encouraging, Mr. Kemper said, although he believed the district would be better off than most of the other parts of the country because of the purchasing power created by the marketing of the good crops.

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Mr. Jacobs said that department store sales in the Eleventh District for the three months ending October 31 maintained a gain of 3 per cent which was the same rate that had shown up earlier in the year. In September and October, sales had followed pretty well the national trend with a dropping off compared with seasonal. Inventories had followed sales and were in very good balance. New automobiles seemed to be doing fairly well. Crude oil production continued to decline and in October was running at the lowest rate in two years. Manufacturing had declined somewhat. Construction for the nine months was up 9 per cent over 1956, with residential building up ten per cent in the same period and continuing fairly strong. Agriculture might be in for some trouble. Spring had started off very wet and planting had been delayed. Recently there had been an early freeze, with severe damage now indicated for some of the cotton crop. Live stock prices had been very good, running around 10 per cent ahead of last year and continuing strong at the present time. Demand for bank credit continued strong with loans of member banks well above 1956. Demand deposits were down slightly and time deposits were showing a slight gain. The confidence of the business community had deteriorated badly recently, Mr. Jacobs said, much faster than the economic forces could possibly warrant.

Mr. Wallace commented that historically the Twelfth District had been about the slowest of any of the districts to feel the effects of a recession. However, because of the nature of the industries that had been

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developed on the West Coast and because of the way some of them had been affected in recent years, the Twelfth District had reflected difficulties for some little time. He cited Seattle as a "one industry" area, noting that the aircraft industry had been affected unfavorably for some little time. In the Pacific Southwest, aircraft, electronics, and oil had shown recession for some months. In the Inter-mountain section, lead and zinc mining activities were pretty well played out and more recently copper had been having its difficulties. However, Mr. Wallace thought some offsetting factors were beginning to come into the picture. There appeared to be some evidence that people were developing a feeling of a need for conserving their resources and this was having an influence on the economy. There was the development of a gas transmission line from the Inter-mountain section to the Pacific Northwest as well as another to southern California. He noted a forecast that between now and 1970 the population increase in the Pacific coast area would be 50 per cent greater than the average increase for the United States. Mr. Wallace said that he thought the Twelfth District might have a somewhat earlier improvement in a number of industries than would appear in some other parts of the country. He was also looking for a strong resurgence in local and state financing for public works, particularly with the recent decrease in costs of money - and he was looking for some further action by the monetary authorities that would help in this situation. By the middle of 1958, the Twelfth District might be showing some improvement, perhaps partly because it had been in the current trough longer than the rest of the United States,



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Mr. Wallace said. For example, he thought there might be signs that lumbering in the Pacific northwest was beginning to come out of the doldrums.

Governor Shepardson inquired whether there was apprehension that the restocking of cattle herds might be proceeding too fast, to which Mr. Jacobs responded that there was some feeling that prices were being pushed. Mr. Kemper said there was apprehension in the Tenth District among larger cattle ranchers regarding prices for stockers, and Mr. Murray said there was pressure to use up the large feed crops with the result that feeders might be running a risk this winter.

3. How are current demands for credit shaping up and what is the prospective demand for bank loans during the remainder of this year and during approximately the first half of 1958? What is the explanation for the unusually sharp decline in business loans during October? To what extent might it be attributed to more restrictive lending policies by banks and to what extent to a slackening in borrowing demands by business?

Most members of the Council anticipate some seasonal increase in the demand for bank loans during the remainder of this year, but almost all members believe that the loan demand will decline during approximately the first half of 1958.

The Council finds no completely satisfactory explanation for the unusually sharp decline in business loans during October. This decline was not attributable to more restrictive lending policies by banks, but probably reflects a slackening in borrowing demands by certain sectors of the economy.

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President Fleming observed that loans at his bank currently were at an all time peak and had not experienced the decline in October reflected in figures for all weekly reporting member banks. He then called upon Mr. Denton.

Mr. Denton said that he was unable to say why loans had declined sharply in October. He commented upon changes in a number of individual lines, stating that those that had gone up during October had gone up less than last year, while those that went down went down more than in the previous year. The idea that banks had changed their policy seemed to Mr. Denton completely erroneous. He felt that the decline was the natural result of people not starting activities.

President Fleming said that he had checked in the Fifth District and found no evidence of a change in lending policy. He believed that all worthy borrowers were being taken care of.

4. (a) Is there any concern at bank management levels about the current volume of repossessions in instalment financing of new automobiles?
- (b) For soundness in this type of financing, is undue emphasis being placed on stability of values in the used car market?

(a) Within the experience of the individual members of the Council, there is no concern about the current volume of repossessions in instalment financing of new automobiles.

(b) In new car financing, for example where terms may run for 36 months, the Council believes there should be growing concern that undue emphasis is being placed on stability of values in the used car market.

President Fleming commented that it was true at the present time that the used car market was strong and that prices were up. He thought

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there should be concern about this feature because the Council was not as optimistic as representatives of some of the motor car companies. As to terms, he referred to a report by one of the large manufacturers that over 50 per cent of time sales were running at 36 months' maturity.

Mr. Mitchell said that in the Third District there perhaps had been the worst record as to length of terms. Some effort had been made to get the 36-month maturity reduced to 30 months but without success. Mr. Mitchell thought that probably 60 per cent of all district retail paper was running 36 months. He had studied the used-car market and felt that the 36-month maturity should be cut because there was very little equity in a used car at that maturity. Generally speaking, he thought there were a good many reasons why the used-car market would stay reasonably strong. New cars were all being sold at considerably higher prices and people thought they could get more for their money in a good used car than in a new one. There also was the tendency toward two-car families and the trend toward living in suburban areas which would help to sustain that market. Nevertheless, Mr. Mitchell felt that the used-car market should be studied carefully.

Governor Shepardson mentioned a report of terms being carried out to 42-months' maturities in Texas and inquired whether this was a development generally. None of the members of the Council indicated that they knew of a tendency to extend terms beyond the 36-months' maturity, and their comments were to the effect that the longer terms to which Governor Shepardson referred were isolated instances.

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President Fleming said that if sales of the new cars did not develop satisfactorily - and he was afraid they would not - there might be continuing pressure for the 36-month and even longer maturities.

Governor Balderston inquired whether there were other factors in the economy that the Council felt should be watched as examples of misallocations of capital. He referred to farm values which had risen 8 per cent in the past year, to the increase of many millions of square feet in shopping areas, and to the growth of new office buildings such as was taking place in New York City.

Mr. Massie said that in New York most of the office buildings were being rented at good leases to responsible lessees. There were a couple of cases of buildings now under construction where they were taking some leases that would run between five and ten years and this made it difficult to do 25-year financing. In the case of the Astor project that had been dropped and to which he had referred earlier, he did not know the reasons for it having been dropped, but he understood that there was another operation trying to develop the project on the basis of different cost figures. The expansion of demand for office space was terrific, Mr. Massie said. The new buildings are putting pressure on the older buildings and when the present leases on the older buildings run out this pressure will become greater because they are not air conditioned and generally do not offer as efficient office space. At that time there might be some trouble.



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Mr. Kemper said that another area that was causing him concern was the one to which he had referred before, that is, the formation of credit corporations. It seemed to him that one of the chief reasons for forming these credit corporations was to get away from bank policing of credits.

Mr. Massie also commented on this point, stating that over the past five to seven years there had developed, on the part of corporations, a tendency to do a great deal of their expansion work on leases and also to handle their mobile equipment on leases. This did not show up in the figures of borrowings by these corporations. He recalled that this had taken place in the 1920s and that it had caused some difficulty. Mr. Massie suggested that at this time the development might have more serious consequences since today's credit men had not had the experience that credit men had in the 20s. He felt that this development should be watched carefully.

Mr. Denton stated that the factor to which Mr. Massie referred represented, in his opinion, a great danger. He had made it his business in corporations with which he was associated to obtain information on their total fixed obligations and had found cases where the amounts of payments required year by year, including amortization, exceeded substantially the total amount of debt shown by the companies on their balance sheets, sometimes by several times. There was a major amount of debt in this form, reflecting the mania for a clean balance sheet that had spread throughout industry. He cited the oil

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industry as an example. Mr. Denton suggested that if there was anything the Board could properly do to alter this practice, it would be constructive. In response to a suggestion by Governor Vardaman that perhaps the commercial banks in their reviews of annual statements of corporations could do something about it, Mr. Denton expressed doubt stating that there was competition among banks and that, in addition, much of the money involved was coming from pension and other funds.

President Fleming referred to the shopping center developments, suggesting that at least in the Washington area the development of these suburban centers seemed to be a necessity if the larger downtown stores were to retain an appropriate share of the total trade.

Mr. Livingston said that the shopping centers generally had been financed by the insurance companies and not by the banks. If money ever became more available, this should be watched because a good many plans for shopping centers had not come forward simply because they could not get the additional financing from banks.

5. The Comptroller of the Currency has recently made certain rulings regarding repurchase agreements by banks with dealers in Government securities. Does the Council think that these rulings will interfere with the availability of funds for financing dealers and with the performance of the market for Government securities?

The Council does not believe that the recent rulings of the Comptroller of the Currency regarding repurchase agreements by banks will interfere with the availability of funds for financing dealers and with the performance of the market for Government securities.

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Mr. Massie said that he had taken the position that the Comptroller's new ruling resulted in a bit of a nuisance but should have no effect whatsoever on the ultimate market for securities or on financing dealers. It was perfectly true that it was necessary to do a little more paper work under the new regulation, but Mr. Massie did not think this was of any substantial importance. One of the Government security dealers had been expressing considerable concern about the new ruling, but Mr. Massie did not think that it would have any substantial effect other than the nuisance element to which he had referred.

Mr. Livingston said that he felt the same way about the ruling. Shortly after the Comptroller's regulation had been published in the Federal Register, one of the Government security dealers had raised a hue and cry about it and had written letters to a great many persons to the effect that it would result in demoralization of the bond market. The Comptroller of the Currency had gotten in touch with a number of the banks, Mr. Livingston said, and they came to the conclusion that the ruling would not interfere at all and that the anxiety expressed by the Government security dealer was not well founded. The new regulation had gone into effect and had been operating without substantial effect. Mr. Livingston added that this might tend to inconvenience the smaller sized banks that accumulated surplus funds and had found the old arrangement convenient for employing them.

Mr. Kimball said that from the standpoint of the banks, the ruling would have no effect. He did think that during times of severe

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stress in the financial centers the ruling would reduce the availability of country bank credit to securities dealers because it was very difficult for a dealer to borrow directly from a bank in an outlying area, whereas indirectly through the repurchase device it could absorb some of the credit need. Also, from the bank's standpoint, the repurchase device was a very convenient method for use in evening out the bank's position. However, the net result was that the ruling was more of an inconvenience than anything else.

Mr. Denton said that he had taken the position that if a bank wished to invest excess funds in Government securities, it should do so and take the ebb and flow of such investment. If it wished to make a loan, it should make a loan.

Mr. Kimball commented further that the intent of the bank actually was to purchase Government securities, not to make a loan in these cases. It had the alternative of buying bills or of increasing loans. Mr. Kimball also felt it somewhat misleading to class these transactions as loans because the funds involved would automatically go into bills.

6. At its meeting in September, the Council expressed the unanimous view that the degree of credit restraint which the System had maintained in recent months should be continued unchanged for the present. As of November, what are the views of the Council with respect to System credit policies?

In view of the events which have transpired since the Agenda was prepared, the Council would prefer to discuss this Item with the Board.



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President Fleming said that it was correct that at its September meeting the Council had expressed the unanimous view that the degree of credit restraint being exercised by the System's credit policy was appropriate and constructive and that it should remain unchanged. He noted that at that time he also had indicated that at its meeting in November the Council might have a different view. Obviously, the question presented to the Council at this time was placed on the agenda prior to the decrease in the discount rate last week, he said, and the Council found itself in the dark because of questions of policy. The Council had gotten a better picture of the situation in its discussion yesterday afternoon with Mr. Thomas, Economic Adviser to the Board. It knew, of course, that the reduction in the discount rate would save money for the banks that were borrowing from the Federal Reserve, but the action did not put more money into the banking system although it was an indication to borrowers and the public that money would be easier. This was the way in which the action was being interpreted, President Fleming said, but unless some funds were placed in the System the situation could become tighter rather than looser for the banks if the public started pressing for more loans. He cited instances of borrowers inquiring as to a reduction in the rates charged on their loans in view of the decrease in the discount rate. President Fleming went on to say that it was difficult for the Council to write a reply to this question until it had gone a little further into the subject and, therefore, it felt it best to debate the question orally. As shown by the Council members' reports, business was sliding

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down, he said. Unquestionably, the action on the discount rate was an encouraging factor, certainly to the Treasury. President Fleming said that he had been one who never wanted to see a dramatization of the fact that we were in a slide. Psychology had played a great part in business in recent months. This was the time of year when the Open Market Committee had traditionally put money into the market but the Council did not know whether that would be different this year. In the absence of additions to the reserves in the market, the discount rate reduction could work in reverse.

Chairman Martin said that it would be helpful to the Board to have a frank discussion of this question. Policies were not made in an hour or in a day, he noted, and policies have to be flexible. We are in a moving picture and one of the problems that the System faces is the way the picture moves. He did not think he had the answer to the difficult problem that we were dealing with, but it would be very helpful to the Board if, in the light of the present economic situation on which there seemed surprisingly little difference of opinion, the individual members of the Council would state frankly what, if they were members of the Board, they would have done and how they would have handled the situation. This was not intended to commit any member of the Council, but the Board had complete confidence in the members of the Council, and it did not want them to say that they considered that the Board had done the right thing if they did not believe that. Specifically, it would be helpful to get the opinions of the Council members on (1) whether they agreed or

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disagreed that some adjustment of credit policy was in order, (2) if so, how they would have gone about making that adjustment, and (3) what mistakes they thought the Board had made at the moment.

President Fleming said that personally he did not think the Board had made a mistake. However, he thought the discount rate action had to be followed with a temperate supplying of funds to the market because he believed the action would stimulate borrowing.

Mr. Denton said that before the action on the discount rate he was prepared to argue rather vigorously with his colleagues on the Council that he believed the System should ease a little. The business picture led inherently to that result. He did not then have in mind any substantial amount of easing or a drastic move in figures of net borrowed reserves from the minus side to the plus, but he was prepared to suggest to his colleagues that the time had come when we should begin to ease and certainly have less of a minus figure than the \$375-450 million that net borrowed reserves had been running. The action on the discount rate brought into play other forces than the simple economics of the situation. Public psychology, which all members of the Council had said was not good, had been affected, although Mr. Denton said that he did not feel competent to say just how. The discount rate reduction had come as quite a surprise to him. He would have thought action would have been taken through the open market rather than the discount rate, which hit the world very strongly. Inasmuch as we are now where we are, and maybe rightly so, it seemed to Mr. Denton essential that we carry on at least on what he had in mind before the discount rate

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action, that is, through open market operations to bring about a more moderate position of net borrowed reserves than we have had in the past few weeks.

Mr. Livingston said that he, of course, recognized the closeness of the position. He would be in the minority, he said, and if he had had to make a decision would have favored continuing the same degree of restraint. He was saying this as one of the principal customers of the Federal Reserve System; his bank was very tight, but he really felt as he had expressed himself. Mr. Livingston spoke of an oft-asserted charge that the System acted too late. It was hard to see ahead, but he would have liked to have seen more definite evidence of the depth and likelihood of the duration of this recession that admittedly we are in. He would have liked to see some decrease in the cost of living, to see if this situation manifested itself in a real reduction in the cost of living. He would have favored the same degree of restraint and, specifically, would not have reduced the discount rate.

Mr. Mitchell said that he would see the situation in the same way as Mr. Livingston. We have had this long uptrend in the economy, and we are now viewing this leveling off. Costs of living are still perhaps on the uptrend and certainly have not turned down. If it was desired to maintain the stability of the dollar, the action on the discount rate seemed to him a little premature. He would have preferred also to wait and not be too quick to put more money into the market when we are already at a high level. It seemed to him that we keep putting money into the



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market at the least little drop, and the value of the dollar keeps going down and down. There are many considerations, Mr. Mitchell said, but looking at the domestic situation, he was prepared to come here and battle as vigorously as he could for maintaining restraint. He would not have eased the situation at all.

Mr. Jacobs said that he certainly agreed with this statement. He felt that the System should have kept the same degree of restraint.

Mr. Miller said that the move on the discount rate had thrown the thinking of the bankers of the country in somewhat of a dither. He could not understand what effect the reduction in the discount rate was presumed to have factually. Psychologically, politically, it had had its effect, but factually he did not know what had been accomplished. The only thing he could see was that banks would charge a little less for the money they lend, but they would have no more money to lend unless the action was implemented by some other move. Mr. Miller reiterated that he could not see the discount rate action as any move except psychologically and politically. It served notice that things were on the downgrade, and the System was prepared to bolster them. It seemed to him the move would indicate a lessening of restraint, with which he did not agree. He agreed with Mr. Livingston. He could not see what effect the discount rate reduction could have practically on the whole picture unless it was accompanied by something else. He wondered if the Board had in mind possibly the reserve situation. He wondered if it would not be a good idea to press for an enabling act on reserves that would loosen money. He was somewhat puzzled.

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President Fleming recalled that at the September meeting when he made the remark that we might have a different situation in November, the Council had said that the policies which the Federal Reserve System had followed since the spring meeting had been appropriate and constructive. He repeated that he thought they had been constructive up to September, that the Open Market Committee and the Board had acted constructively and courageously up to that time. Because of developments since then, he would have been prepared, as Mr. Denton had said, for some easing, but he did not expect the discount rate to change.

Mr. Kemper said that he would rather have dealt with the situation through the open market, not the discount rate. He had heard a good many remarks to the effect that "they must have been badly scared in Washington to have lowered the rate, perhaps I had better get out of stocks." Mr. Kemper said the market might be showing that reaction. The action might boomerang rather than give confidence.

Mr. Murray said that he was prepared to come to this meeting with the thought that he would recommend no change in credit policy. Perhaps he was influenced by the fact that the Ninth District had not had as much drop-off as other parts of the country. Frankly, the announcement of the discount rate reduction came as quite a surprise to all of those he knew in the Ninth District. The result among the bank's customers was, as President Fleming had indicated, that they expected it to affect them. It would have seemed to Mr. Murray that if a change were to be made, perhaps it should have been in a little less dramatic way than to announce

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to the public generally that there was substantial concern. Mr. Murray said that he also agreed that, this having been done, there should be some way figured out for actually putting more money into the banking system because otherwise the banks would have trouble with their borrowers.

Mr. Massie suggested that there were three problems, (1) public relations, (2) money, (3) psychology. The Council had indicated at its round table discussion that all of a sudden psychology had taken a very bad turn for the worse, and of course public confidence was based primarily on public psychology. Mr. Massie said that he had the impression the System had been thinking of some shift in policy three weeks ago, and it looked to some of those close to the market as though there might have been a bit of softening. That, however, did not give anything to the public because open market operations are 99 per cent secret. Mr. Massie believed the psychological drop that had taken place called for some kind of action. He was a bit surprised at what he would consider a dramatic action. If the System had wanted to make a disclosure of some easing, it could have said it was leaning a little less heavily against the wind, or it might have reduced the discount rate by 1/4 per cent instead of 1/2 per cent. He felt it was important to consider what had taken place over the past one-and-a-half to two years. There had been a big build-up in business, based primarily on a stepped-up velocity of money, not in the amount. If this psychology that we now see were to take hold, it would be reflected in a diminution of velocity in which case it might be necessary to ease in the open market to zero borrowed reserves. Mr. Massie said

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he hoped these figures would not go above zero, but there should be some easing to compensate for the drop in velocity. There was another thing also: the speeches on the missile development program. If this program should result in a deficit for the Federal Government, Mr. Massie hoped there would be an offset in other expenditures to adjust for the deficit. He said he felt the Federal Reserve was entitled to some disclosure in one form or another because any change in open market policy was not a disclosure to 99-1/2 per cent of the people. But the Board would have to look out. The public could read the action that had been taken as being extremely bearish. However, Mr. Massie felt the System was entitled to some kind of announcement that would let the public know that because of a change in business sentiment it was making a slight modification in money conditions.

Mr. Brace said that this action on the discount rate was being interpreted, and correctly so, as primarily a psychological move. But the very fact that the Federal Reserve saw a danger in the business situation was dangerous. A number of economists had recently raised questions as to the efficacy of the Federal Reserve to control depressions. The mere fact that a psychological move had been made with nothing to implement it could, Mr. Brace was afraid, lend some credence to the suspicion that the Federal Reserve could not be as effective as some proponents of monetary action believed. It was Mr. Brace's feeling that the action on the discount rate was perhaps a little inopportune at a time when the System would have been expected to put funds into the market. He



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was a little afraid that, with this signal of some concern having been given to the public with no direct effect on reserves, there would be a suspicion that the Federal Reserve was less potent than a good many people had believed.

Mr. Wallace said that in the Twelfth District there was some feeling of shock at the action in reducing the discount rate. There had been a feeling that it was more to be expected that there would be an open market move which would give some disclosure as to the System's attitude. He felt that the present situation which was in flux might have been met through the open market. He now hoped that, following the discount rate action, something a little more definitive would be forthcoming from the Federal Reserve.

Mr. Kimball said that his feelings paralleled more closely the views expressed by Mr. Denton than those of the individuals who differed from him. The Sixth District saw crosscurrents of many national developments. The change in psychology and in figures that had already appeared indicated that recession factors were moving extremely fast. Any action taken by the Federal Reserve in this situation would have a time lag, Mr. Kimball noted, just as there was a lag in the effect of restraining actions. Therefore, he thought it very important at this time that there be a cushioning of the psychology and the figures indicating that we were going into a depression. Mr. Kimball also felt very strongly that this country could not afford to have a depression, especially under the conditions where we have lost prestige abroad because of Russia's activities and its

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accomplishments. Thus, he felt that it was appropriate for the Federal Reserve to dramatize with a signal that it is flexible in its policy, and that action will be taken to cushion a depression. Mr. Kimball would also favor moving quickly to a small negative position in borrowed reserves.

7. Further comments with respect to the Bank Holding Company Act of 1956 will be welcomed by the Board.

Some members of the Council may comment briefly with respect to the Bank Holding Company Act of 1956.

Mr. Murray said that he had no additional suggestions to add to what had been presented to the Board in writing. He had heard recently that it was possible that legislation might be introduced at the next session of the Congress which would require approval of State banking departments to additional acquisitions of banks, even those by national banks within their own states, and he inquired whether the Board knew of such a proposal.

Governor Robertson responded that he did not know of any specific proposal along these lines. There were, of course, individuals who would like to bring about just such legislation. His impression was that the likelihood of legislation during the coming year was not great.

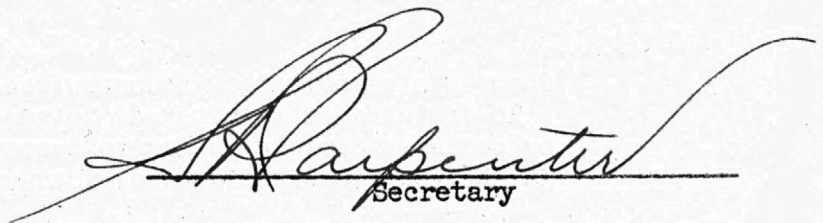
Governor Robertson also stated that the Board had been working on recommendations to be submitted to the Congress concerning the Bank Holding Company Act, and President Fleming noted that the topic would be kept on the agenda for the next meeting of the Council, which would be the last meeting prior to the time when the Board would submit its recommendations.

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President Fleming then suggested that unless there were objection, the next meeting of the Council would be held on February 16-18, 1958, and it was understood that the meeting would be scheduled for that date.

Thereupon the meeting adjourned.



A. Carpenter  
Secretary