

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 May 20, 1958.

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>W</u>	_____
Gov. Szymczak	x <u>AMS</u>	_____
Gov. Vardaman	x <u>(1)</u>	_____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>[Signature]</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 of Governors in Washington on Tuesday, May 20, 1958, at 10:30 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Kenyon, Assistant Secretary

Messrs. Brace, Massie, Sienkiewicz, Denton, Alfriend, Sibley, Livingston, McDonnell, Murray, Kemper, Jacobs, and King, Members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively

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

Before this meeting the Federal Advisory Council had submitted to the Board a memorandum setting forth its views on the subjects to be discussed. The topics, the Council's views, and the discussion were as follows:

1. What are the views of the Council regarding (a) the current business situation, (b) the prospects for the next six months, and (c) the seriousness and duration of the recession.
  - a) The members of the Council believe that although the rate of decline in business activity may have lessened, the economy continues a moderately downward trend. In certain segments of industry, for example, construction, aircraft, and farm equipment, there is a more encouraging appraisal of the present situation. Agriculture is one of the stronger elements in the economy. Retail trade is

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being maintained. On the other hand, the financial problems of the railroads, rising wages in the face of unemployment, and the decline in business profits continue to be unfavorable factors.

b) A continuation of the present downward trend seems probable with the possibility that business may tend to level out before the end of the next six months.

c) The members of the Council do not anticipate a serious deterioration of the economy from the present level of business activity. However, the duration of the recession may be longer than originally anticipated.

The foregoing views are predicated upon the assumption that there will not be important adverse developments abroad which would significantly affect the American economy.

Following preliminary comments of a general nature by President Denton, Mr. Brace reported that there seemed to have been very little change in the First District since the last meeting of the Council. A few of the weaker elements in the economy seemed to have bottomed and leveled out. A few elements such as electronics were very strong, but this was offset to some extent by a weak condition in industries such as textiles and shoes. In the machine tool industry, improvement was from a low level. Retail trade had more or less maintained itself, while unemployment, to which the area had become more or less accustomed over the last 20 years, had shown some shifting without much change in the over-all situation. Savings were well maintained, thus providing a basis for future build-up, but there was no indication that this would come immediately. In fact, the general consensus was that things would continue at quite an even level for the next six months. There was no feeling of a deepening recession, but there was a general inclination to lengthen the period of time over which it

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was felt that operations would continue on about the same basis. In this respect, there had been quite a change in sentiment during the past few months.

Mr. Massie said that business in the Second District was still tending downward. The district experienced a very bad February, with adverse weather and a drop-off in employment, and although employment dropped off further in March the decline was not as bad as in February. While there had been no substantial spring pickup of the kind which is customary in the New York City area, nevertheless retail trade was not down too badly for the first quarter, being down only about 1-1/2 per cent from the first quarter of 1957 as compared with a decline of 3-1/2 per cent for the nation as a whole. On items such as automobiles, the district was doing a little better than the national average, although sales were down considerably. The biggest problem from the standpoint of employment seemed to be in the manufacturing industries, where the drop-off was about 9.7 per cent. There were now seven areas in the district listed as surplus labor areas, and although this was offset to some extent by the fact that employment had held up quite well in financial circles, insurance, and service industries, the area was running into the problem, common to most States, arising from the fact that a substantial number of people were running out of unemployment benefits. From the over-all standpoint, construction did not appear to be in too bad a shape. However, the situation was very spotty, New York City being down only about 5 per cent with a lot of new contracts being awarded, while New Jersey was down 15 per cent and Connecticut even more.

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This was counterbalanced somewhat by a substantial increase in public construction, and there was a slight pickup in building of small homes. People in the construction business, generally speaking, were not feeling too badly and seemed to think that activity might begin to pick up a bit. Power projects in the Niagara district were proving helpful because Buffalo is one of the worst areas from the standpoint of unemployment on account of reduced activity in the steel, automobile, and related industries. In Long Island, where there had been substantial layoffs in the aircraft industry, things were beginning to improve and the prospect was that the situation might be reasonably well corrected.

In general, Mr. Massie said, the economy of the area was not too bad at this point. A lot of people were talking in terms of the situation straightening itself out, but, as he saw it, activity was still dropping off and some important corrections had not yet been made. Those in the investment field noted a bad squeeze on profit margins and were worried about what might happen to the stock market. If the market should come down sharply, this might have a bad effect psychologically on retail trade. Mr. Massie hoped that this would not happen, but he recognized reasons why such developments might take place. On a day-to-day basis, however, it might be said that the situation in the district did not seem to be too bad.

Mr. Sienkiewicz recalled that the recession in the Third District started earlier than in the country as a whole and that the district had been affected by recession for about eight months. Recently, there had been some slight seasonal pickup but not enough to produce any conclusive trend,

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for the pickup came from the low levels of the first quarter. Consumer soft goods industries were showing greater optimism than the durable goods industries, which were still depressed and low. Structural steel plates and tin plates had been holding up rather well but the situation was spotty. There was somewhat more activity in residential and non-residential construction, there was continued inventory liquidation, and there was further delay in capital expenditures. Unemployment in the district's 14 industrial areas was still high; unemployment appeared to be running about 9.5 per cent, although employment itself had not declined as much from a year ago because of the number of persons added to the labor force. Working hours had declined and overtime work had been virtually eliminated. Retail trade was holding up fairly well, considering the cutbacks in employment and income, with sales about 3 per cent less than a year ago. Customers continued to be cautious and selective in their buying, cutting down particularly on their purchases of heavy goods, including automobiles. Savings continued to increase, so money was available, but customers were suspicious of special gimmicks and other efforts at pump-priming.

Mr. Sienkiewicz said it was the general consensus that business activity in the next six months would show a gradual turn for the better but that there would be no marked improvement before the fourth quarter of this year. No one seemed to expect a sharp upturn any more than a sharp downturn. Gradual improvement in construction and inventory buying was anticipated, and defense spending would help to support the economy, or

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at least help to keep it going. Comments which he had been able to gather indicated that this recession was probably more serious than the previous two post-war adjustments, but it was still regarded generally as a minor correction of excesses of the 1955-57 boom period. The general belief was that activity would probably go along at the present level for a while and turn upward by the fourth quarter, although some felt that the present level might carry forward into 1959. There was certainly no fear of the situation snowballing into a major depression and the greatest problem seemed to center around operating costs and the squeeze on profits, which was a very serious matter. The first quarter had been depressing in this respect and expectations for the second quarter were no better.

President Denton reported that business in the Fourth District was in general still declining, although less sharply than a few months ago. There was an indication that May and June might be a little better than April, partly because of some heavy steel orders that were obtained when it was decided to go ahead with a couple of pipe lines. However, the steel industry anticipated some falling off in July and August following this temporary upturn due to a specific type of activity. There seemed to be a wave of feeling that inventory pickups would start in the fourth quarter.

Mr. Denton recalled that he had predicted improvement in the fourth quarter at the last meeting of the Council and said that he still felt the same way. At the same time, he was a little less sure of the outlook, since it appeared that the pickup might not come until next year.

In summarizing the situation in the Fourth District, Mr. Denton said

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that it was not good; in fact, it was a little worse than it had been. Activity was still moving downward, although in a couple of spots there was temporarily an upward trend.

Mr. Alfriend said that the situation in the Fifth District was quite similar to that reported elsewhere. While unemployment in Maryland, Virginia, and the Carolinas was below the national average, the dark spot was West Virginia, where unemployment was far above the national average due to declines in manufacturing and the production of coal. Of course, coal production affects many things in West Virginia and Virginia, including the railroads, dockside employment at shipping points, and shipping itself. There were reported to be large stockpiles of coal in Germany, Western Belgium, and Great Britain, and a resulting unwillingness to add to them because of fear of having to close down the foreign mines. It appeared that exports of coal would be about 24 per cent lower in 1958 than in 1957, and that the coal situation would take much longer to change around than a six-month leveling-out period. In Mr. Alfriend's opinion there could not be any substantial improvement until the situation abroad rectified itself. Also, the downward trend in coal started last fall and the 26-week period of unemployment insurance benefits was running out for many persons. Shipbuilding in Newport News was off 15 per cent from the first quarter a year ago and, while the shipbuilders had had large backlogs, there was an unfavorable employment situation. The Norfolk and Western Railroad had laid off over 1,600 workers in the last year. In certain areas of the district, interest was again being manifested by multi-unit builders but it was noted



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that a number of the builders who had been out of the market were now talking in terms of a much smaller number of houses. In summary, the situation was not too bad in four States of the district and in the District of Columbia, but was bad in West Virginia.

Mr. Sibley said that he had sought the views of numerous bankers and people on the firing line in an effort to get a consensus of opinion throughout the Sixth District. Turning first to agriculture, he said that in general 1958 was expected to be a better year than 1957, this being due in large part to the fact that the Sixth District is developing into a livestock economy and that cattle and hog prices were now considerably better than a year ago. The improved situation was also due to the fact that better prices were expected in cotton and tobacco. In addition, the peanut crop last year was a failure and the peach and pecan crops were partial failures. While it was too early to tell, the situation looked good this year and better prices were expected. Therefore, notwithstanding adverse weather and excessive rainfall, it was the feeling that 1958 would bring the agricultural situation about back to where it was in 1956, which was 12 per cent higher than 1957. The State of Florida, of course, had experienced a difficult time because of the freezes last winter. It appeared that about 31,000 mature cows were lost due to the freezes, along with 45,000 calves. Also, farmers had had to buy a considerable amount of feed that they otherwise would not have had to buy and they were in debt for that. Furthermore, additional losses to the new calf crop must be expected due to the situation with respect to nutrition. There was a difference of

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opinion with regard to the extent of damage to the citrus crop, but it was estimated that losses might total around \$26 million, taking into consideration losses from last year's crop and the 1958-59 crop. Also, it was expected that about one-third of the vegetable crop would be lost. In terms of actual dollars, however, the losses were offset by better prices than would otherwise have been obtained.

Turning to industry, Mr. Sibley said there was a wide difference of opinion as to whether the bottom of the recession had yet been reached. Some held the pessimistic outlook that business would not improve until well into 1959, while others thought that business had already reached bottom. The heavy industries had suffered the most, particularly in the Birmingham and Chattanooga areas. The largest steel mill in the district was running at 62 per cent of capacity on the assumption that steel inventories were getting very low and that rather quick and sharp buying might be expected at some time. Textiles were running about 92 per cent of the rate at the same time a year ago, with a reduction of employment indicated. Lumber was off about 20 per cent, and the pulp and paper industry was down about 13 per cent. Many mills were running three weeks and then laying off a week, this arrangement having a relationship to the problem of unemployment compensation benefits. Output at automobile assembly plants was down considerably, although not as much as the national average. Retail merchandising was off about 3 per cent, but in a number of smaller places sales in the first quarter equalled sales in the first quarter of last year or were a little better. One major store in Atlanta indicated that the only

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place it was suffering was in its basement sales, which afforded some indication as to the type of people who were not buying as heavily. Construction was only slightly down from 1957, in fact was higher in all of the States except Alabama and Florida. The current level was not expected to hold up, however, because a good deal of the construction was started some time ago and new construction was off somewhat. This might be offset by the fact that lower interest rates were bringing to the market a large volume of bond flotations. Employment was off only about 2 per cent in the district, compared with the national average of 4 per cent. Most of the unemployment was attributable to manufacturing, with only a slight decline in employment in nonmanufacturing lines.

In substance, Mr. Sibley said, many people in the district seemed to feel that the economy was now at bottom while other people felt that it would be well into 1959 before the bottom was reached.

Mr. Livingston said that except for agriculture, which is a very important factor in the Seventh District, conditions seemed to correspond rather closely to those in the Fourth District. The industrial situation was a little worse than it had been and employment was a little lower, being worse than the national average. A year ago only three of the district's 24 labor market areas were regarded as areas of labor surplus, but 15 areas were so regarded in March. This was attributable primarily to layoffs in the steel, automotive, and machinery industries. Outside of the critical labor areas, unemployment was only running between 3 and 6 per cent, and this included the city of Chicago. Elsewhere, however,

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unemployment was generally in excess of 12 per cent, and retail trade reflected this relatively larger unemployment than the national average. The construction business got off to a sluggish start this year and builders were very cautious. The emphasis seemed to be on lower-priced houses. From the standpoint of residential construction, it was said that 1958 would be an easier year in which to buy and a harder year in which to sell.

Agriculture, Mr. Livingston said, was the bright spot in the Seventh District. Prices of meat animals were about 25 per cent above a year ago, reflecting smaller marketings of hogs and beef cattle. How long this situation would last was a matter of some concern, for it appeared that the development of herds had about reached the point where marketings would be substantially greater, which meant that prices on hogs and beef cattle undoubtedly would go down in the fall. Nevertheless, the agricultural picture looked very good in the district.

Mr. Livingston went on to say that inventory liquidation was continuing, which might be regarded as a source of encouragement as to renewed buying. On the other hand, buying was being deterred in the expectation of lower prices, and this applied particularly to retail trade. There appeared to be a good deal of money available, as evidenced by the increase in savings, but people were not buying because of an increasing feeling of job insecurity and because of the hope, if not the expectation, that prices would be somewhat lower.

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In summary, agriculture was good, there was no evidence of a feeling of panic among businessmen, and they were continuing to saw wood in the expectation that there would not be a serious depression. Mr. Livingston said he shared the view that toward the end of 1958 or in the first part of 1959 there might be a perceptible upturn.

Mr. McDonnell said that at the time of the last meeting of the Council there was not much cheer in the Eighth District, but that there were now some favorable factors. Construction had picked up with the advent of better weather, steel production in the district was running at better than 80 per cent of capacity, and lumber production was better in March and April than in the first two months of 1958. Also, farm prices were up. Unfavorable factors were about the same as those mentioned in the other districts. Manufacturing and coal mining were still not good, while operations at automobile assembly plants reflected generally the sick condition of the automobile industry. Allied supply items such as tires and frames also were on the weak side. Coal production continued below 1957 and the worst situation of all was in the railroads, where the troubles stemmed from causes preceding the present recession. Unemployment was about the same, there having been no recent increase of consequence. It appeared that cotton production might be affected by recent excessive rainfall, for little cotton had yet been planted. In years past, this might have been disastrous but with mechanization there still might be time to make a crop.

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Summing up, Mr. McDonnell said he felt that the worst was over and that the bottom had been reached in the Eighth District. However, he was now inclined to think that it would take a longer time to come out of the recession than he once did. He based that opinion on the rigidity of wages, which meant rigidity of prices, for in the past recessions had always been corrected by reduced prices. He went on to point out, however, that major depressions in the past had been accompanied by credit and financial distress and that there was none of that now. In summary, he was slightly more optimistic than some of his colleagues.

Mr. Murray said that because of the relative importance of agriculture, the Ninth District was feeling the recession a good deal less than other parts of the country. Bank debits were up from a year ago, particularly in the two Dakotas and in Minnesota. The Ninth District, he said, really had been the garden spot of the country as far as winter weather was concerned. Pasture conditions were now excellent, cattle and hog prices were high, and the farmers were feeling very good. There had been some increase in sales of farm equipment as compared with the same time a year ago. The weak spots were in iron ore mining in Minnesota and Michigan, and in copper mining in the State of Montana, but the situation as to copper mining was a little better this spring than during a substantial part of last year. Construction was a rather favorable factor, and residential building permits had been ahead of the corresponding month a year ago every month since September. Total nonagricultural employment was down less than 2 per cent from last year. Manufacturing employment was the worst hit, but was down only about 6 per cent as compared with the

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national average of about 9 per cent. The crop season was off to a good start, with ample subsoil moisture in most of the territory. Although the crop next fall would depend on rains this spring and summer, it could be said that the district had started off better than a year ago. While retail sales had not been down for the year as a whole quite as much as the national average, they had declined in the last three or four weeks more than the national average, with no satisfactory answer forthcoming from the retailers. Whether the short spring season had anything to do with this, he did not know, but the district almost skipped the "topcoat" season.

Automobile sales, Mr. Murray said, were still very poor, with the best movement of autos in the bottom and in the top price groups. The "auto-buy-now" program had a little success in moving used-car inventories; new-car sales at most stole a little bit from May sales.

In summarizing, Mr. Murray said that most people in the district seemed to feel that conditions were now at the bottom, or very close to it. At the same time, there seemed to be nothing in the picture to change the outlook for the next few months, and things were expected to run along at about an even keel. If the district had a good crop, an upturn might be expected in the latter months of this year. There seemed to be no great amount of apprehension, although the current recession had already carried past the other two post-war recessions, and no one seemed to feel that the situation would become disastrous. On the other hand, as opposed to thoughts expressed by some several months ago, there now appeared to be a

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feeling that it might take some little time to come out of the recession. There might be a slight upturn in the latter months of this year, but it appeared that it might be some time after that before conditions got back to the levels of 1957.

Mr. Kemper said that the Tenth District presented probably the best economic picture of any district throughout the country at the present time, due to the fact that the district is largely agricultural and cattle country. From a recent article in a local newspaper he read figures showing that, as compared with 1957, the price of hogs was up 15 per cent in 1958, the price of cattle up 33 per cent, cash receipts to farmers from livestock sales up 13 per cent, and cash receipts from sales of crops up 10 per cent. In addition, a steel plant in the Kansas City area probably had the best steel production record of any mill in the country, since it was now operating at 86 per cent of capacity. Moisture conditions throughout the district were excellent, a very large wheat crop was expected, the seeding of spring crops was proceeding very satisfactorily, and meat animal prices were a good deal higher than they had been. Slaughter steers were a little off from the peak but the prices were still excellent, perhaps a little too good. There was a great demand for feeder cattle because every rancher and every farmer had lots of feed, pasture, and water. In the first quarter, nonfarm employment was down only about 2 per cent and the picture in factory jobs was better than the national average, the drop-off having been only about 5 per cent. However, conditions in the oil industry were poor. There was a great surplus of oil and very little drilling, with the



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result that lots of oilfield workers were out of employment. Railroad carloadings were far off, there had been slashes in railroad employment, and there were a good many applications for the discontinuance of branch lines.

In New Mexico, Mr. Kemper said, the situation was particularly good. Employment was up around 4 per cent, while housing activity and building were up as much as 50 per cent over last year.

Mr. Kemper went on to say that retail sales had held up in the district better than the national average, being off only about 1-1/2 per cent. Automobile sales were off from last year about 8 per cent, as compared with the drop nationally of about 23 per cent, but in the State of Missouri sales were off more than the national average.

Summarizing, Mr. Kemper said that conditions in the Tenth District were exceptionally good when compared with the national picture. However, he found a good deal of apprehension on the part of businessmen, largely because of the fact that profit margins are narrowing in a great many instances. In checking with bankers, he heard that a lot of smaller businessmen were coming in with reports of little, if any, profits. There was a lot of overproduction in nearly every line. It was his opinion that although conditions in his area might have reached bottom, it would take a good deal longer than some anticipated to come out of the recession. If recovery were to be achieved one year from now, he would be delighted.

Mr. Jacobs reported that if there was any particular problem in the Eleventh District it would be the oil industry and its allied

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industries, for overproduction of oil since the Suez crisis had been very troublesome. For the first quarter of the year, department store sales were down from last year by approximately 2.8 per cent, and department store inventories had moved consistently with the lower level of sales, being down about 3 per cent from the corresponding period of last year. A check with some of the larger retail stores that extend a considerable volume of credit indicated that delinquencies were low and collections very good. New-car registrations in January were only 5 per cent under a year earlier but the decline deepened very sharply in succeeding months, with the result that registrations in the first three months were 24 per cent below the corresponding months of 1957. Crude oil production in the district dropped sharply in February and then dropped further in March and April, with Texas allowances reduced from 11 in February to 9 in March and 8 in April and May. Drilling during the recent period had been at a substantially reduced level.

After commenting on the difficulties presented by the cost of off-shore oil drilling operations, Mr. Jacobs stated that nonagricultural employment in the district, generally speaking, followed the downward trend of the district's economy, with manufacturing employment down 7.7 per cent. Construction had shown less than seasonal strength in the early part of 1958, and in the first quarter nonresidential construction was down rather sharply. On the other hand, residential building appeared to be maintaining itself well, and home building awards were up 11 per cent

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from a year ago. Credit easing and the new housing laws explained much of this expansion. There appeared to be growing optimism that home building would show a considerable gain this year. In agriculture, weather conditions were unfavorable in the first part of 1958, but there was excellent soil moisture and there were good prices, all of which pointed to a satisfactory year. Cotton planting had been delayed due to rain and cold weather, there was some flooding in the northeastern part of the district, but small grain prospects were unusually promising.

This was in contrast to last year, when late rains destroyed the peanut crop and small grains in many parts of the district. While range and livestock conditions were very good, a lot of people believed that a rush of cattle into the markets in the summer might produce lower prices. Thus far, cash farm receipts had been 30 per cent larger this year than a year ago.

As to banking, Mr. Jacobs said that credit demands continued strong in the three months of this year and that many banks reported loans above this time last year. Consumer loans were the single category consistently weaker than 1957; these loans had followed the general downward movement of the last 12 weeks, particularly the decline in sales of automobiles. Savings accounts had shown a considerable increase.

In summary, Mr. Jacobs said, with the exception of the oil industry there did not seem to be any major problems in the Eleventh District.

Mr. King stated that developments in the Twelfth District covered most of the things that had been touched upon in the reports from the other

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districts. Agriculture, for example, was following the pattern described generally. On the other hand, mining, which is important in the district, continued to be depressed. In the oil industry, which also is important, many drilling rigs were not being used and prospects did not seem to be bright. At the last meeting of the Council, Mr. King said, he had thought that it would be well into the latter part of the year before employment in the aircraft industry turned around and started up, and those in the industry felt the same way until a month ago. However, a current check on the employment situation in the Los Angeles area, where the largest number of aircraft plants are located, showed that one large employer had taken on 2,400 new workers in the last few weeks. In general, there had been a change for the better in the aircraft industry compared with the outlook 30 to 60 days ago.

Mr. King went on to say that despite the continuing influx of people into the West Coast area, the housing industry had not turned up as fast as it had been thought that it might. However, those builders who had difficulty selling in the last year seemed now to have finally disposed of the bulk of their unsold houses and the credit actions taken thus far had resulted in strengthening the mortgage market. The effect was not yet too great on the economy of the area or the labor market, but Mr. King believed that the situation was likely to improve soon, and perhaps to a rather important degree. He went on to say that instalment paper had drifted downward along with automobile and appliance sales.

Mr. King recalled that it had been his guess at the last meeting

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of the Council that some upturn would be seen in the latter part of this year. He was now a little more convinced of that in the Twelfth District, with the aircraft people moving ahead of the projections that they had had in mind. He felt that things were pretty close to the bottom in the Twelfth District and the district was likely to come out of the recession gradually during the latter part of this year in the absence of unfavorable foreign developments.

Governor Vardaman inquired whether the members of the Council had noted a tendency on the part of banks or finance companies to correct delinquencies by refinancing.

The responses to this question indicated that the practice had been going on to a certain extent for a long time. It was not believed, however, that there had been any marked increase in the practice recently.

With respect to certain observations which had been made by Mr. Sibley, Governor Balderston inquired whether it appeared that employers were tending to lay workers off completely, in order to make them eligible for unemployment compensation benefits, as an alternative to work spreading. He recalled that in the 1930's many leading companies participated in a national program to spread the available work, and it seemed to him that perhaps a blunder had been made in setting up the unemployment compensation program in a manner which in effect provided an incentive not to spread the work. In further comments, he suggested that a tendency to lay workers off completely in order to make them eligible for unemployment compensation benefits might tend to reconcile the high unemployment figures

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with the fact that average working hours were holding at a rather high level.

President Denton replied that this condition undoubtedly prevailed in the Fourth District. He said that where there are strong labor unions there is little chance to spread the work beyond the terms of the basic wage contract. A company running a nonunion shop in the Fourth District was operating on a 32-hour work week by choice of the workers themselves, as an alternative to reducing the work force, but this practice would be in direct violation of many of the labor contracts in the area. He knew of no concern that had been successful in spreading the work pursuant to agreement with the union concerned.

2. What effect are the easing of the credit situation and the steps taken by the Government to liberalize the terms of Government sponsored mortgage credit having on residential construction?

The major effect of the easing of the credit situation and the steps taken by the Government to liberalize the terms of Government sponsored mortgage credit has been to strengthen the market for mortgages. Although the number of mortgage applications has risen, there has not as yet been a significant increase in actual residential construction over the country.

In comments supplementing the statement of the Council, President Denton said that in the various districts there had been increases in residential construction in certain sections. On balance, however, it was more accurate to say that there had not been any significant increase for the country as a whole. Although the prices on Government sponsored mortgages had gone up, that was attributable to the greater availability of mortgage money.

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3. What is the prospect for downward adjustments in prices over the next three months?

If there is any adjustment in the general price level in the next three months, the majority of the members of the Council feel that the adjustment will be slightly downward.

President Denton stated that this was a subject on which there could be a great deal of discussion and that in fact there had been considerable discussion within the Council. It appeared that price adjustments had been going on in various ways, including under-the-table adjustment of terms. For example, although purchasing a new automobile at list price, a person might get a considerably greater allowance for the used car turned in. However, as far as published prices were concerned, most of the members of the Council felt that there would be only a slight downward trend, if in fact there was any.

There was also the basic question, Mr. Denton said, of what the price would be on steel. It was certainly expected that there would be a price increase due to the increase in the price of labor at the end of June and that would be a matter of national concern and publicity for it seemed rather incongruous to have production running at 50 per cent of capacity or less and at the same time an increase in the price of steel. Nevertheless, this involved a basic question of price relationships and most people in the steel industry felt that as long as their costs were going up they had to raise prices to some degree to offset them.

4. What are the developments in interest rates on loans and on time and savings deposits?

The recent decline in the interest rates on bank loans has

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caused rates on time deposits to fall and is resulting in a review of the savings interest rate, especially by those banks which increased the rate to 3 per cent. There is a possibility that some banks now paying 3 per cent may reduce the rate paid to savings depositors effective July first.

President Denton indicated that the statement of the Council was based mostly on information obtained by the members from their own institutions and on the members' concepts of developments in their respective areas. The lesser income that banks were currently receiving by virtue of lower interest rates had already been reflected in a reduction in the rate of interest on time money in bank after bank. Account after account was being investigated from the standpoint of the level of income that banks were now receiving.

Governor Vardaman said that he could understand the situation and certainly agreed that the rate of interest on some time certificates should be reduced. However, it seemed to him that a reduction of the rate of interest on bona fide savings accounts would be a mistake at this time, for there might well be a flight of money to the savings and loan associations. A reduction, he said, would have a depressing effect on the morale of bank customers, who appeared to be very happy with a 3 per cent rate of interest on savings deposits.

In response, members of the Council said that they thought there was also serious discussion on the part of savings and loan associations with regard to their dividend rates. The members indicated that where commercial banks were considering a reduction in the rate on savings accounts, they were tending to hold back, thinking that the savings and



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loan associations would have to reduce their rates also. They did not feel that there would be any great reduction of rates at the banks unless the savings and loan associations also came down.

Mr. Livingston pointed out that it had always been an axiom in commercial banking business that there could not be a reduction of rates, except in an emergency, without a substantial loss of deposits. At this time, it was quite clear that if the commercial banks should reduce their rates and the savings and loan associations did not do so, there would be a substantial movement of funds into the savings and loan associations. He said that the savings institutions were very conscious of this, and that he doubted whether many banks would take action unless they were quite sure that competitive savings and loan associations were going to move down also.

Mr. Kemper expressed the view that unless new terms and rates on FHA and VA mortgages stimulated building considerably, the savings and loan associations were going to find it difficult to obtain loans that would enable them to pay dividend rates of 3-1/2 to 4 per cent and have any margin. It seemed to him that there was just as much pressure on the rates paid by savings and loan associations as there was on commercial banks at the present time.

Mr. Denton said that the transfer of funds from demand deposits into time accounts was going on quite vigorously. The banks were attempting to police the practice, but there was quite a good deal of money getting through. Many corporations were making proposals to the banks to keep a certain amount

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of money at a stated rate of interest, and there was a good deal of pressure on the banks to accept that.

Chairman Martin then raised the question of the longer-term interest rate structure and said that the Federal Reserve System had been subjected to some criticism for not intervening in the longer-term market to force a lower rate of interest. He pointed out that the System had been operating to initiate credit ease and then let the longer-term market stabilize in response to the System's operations at the short end of the market. There had been a heavy response to the more favorable terms of financing; through April, there had been nearly \$3 billion of State and municipal securities floated on the market. Most of the flotations reflected situations where the State or municipality had been deterred from coming to the market earlier due to the then prevailing credit policy, or where it had borrowed short-term and now wanted long-term money. These developments, he said, had been all to the good, but there continued to be discussion of whether credit policy ought not to be aggressive in the longer end of the market. The System's judgment was to the contrary, but that was a major problem which all had to consider.

President Denton stated that he thought the actions taken in the direction of credit ease had had the desired result from the standpoint of the longer-term market. Undoubtedly, many borrowings were postponed earlier, but when credit conditions changed the borrowers had come to the market. There had been an abundance of these issues recently, but he

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felt that they had now been pretty well digested. Therefore, speaking as an individual, he felt that the desired result had been achieved.

Mr. Brace said it seemed to him that the problem could become more difficult if longer-term rates were softened unduly, for this might tend to cause the Treasury to postpone further a decision to issue longer-term securities. He believed that the System could be of most assistance by operating in such a way as to let the longer end of the market stabilize and thus make it more attractive for the Treasury to look at that end of the market.

Mr. Livingston said that in his opinion the Treasury had not withheld selling long-term bonds in the hope of selling them later at a lower coupon. Rather, the question was whether the Treasury should sell long-term bonds and compete with municipal and corporate obligations, and this was quite a policy decision. In the past, even when times were good, there was a reluctance to sell longer-term bonds because of the competitive aspects. He did not think, therefore, that a further postponement of that decision by the Treasury would reflect expectation of a substantially lower coupon.

5. What are the Council's views as to an appropriate credit policy between now and the next meeting of the Federal Advisory Council?

The Council believes that the appropriate credit policy between now and the next meeting of the Council would be to maintain the present degree of ease.

Several of the Council members felt, President Denton said, that it would be in error to attempt to ease credit beyond the degree of ease

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associated with free reserves in the range of \$500-\$600 million. He saw no real advantage in a further reduction of the discount rate, which had already reached a point where it was not much of a limiting factor from the standpoint of member bank borrowing. However, the Council had decided in its statement simply to suggest that it would be appropriate to maintain the present degree of ease, recognizing that there was financing to be accomplished by the Treasury in the not too distant future and that there were uncertainties such as those associated with the outflow of gold. All of those contingencies would seem to be taken care of by maintaining about the present degree of ease.

Mr. Denton added that he and Mr. Brace were the members of the Council who perhaps had been the most vigorous in their statements that there was no reason for making credit easier, either by open market operations or through reduction of the discount rate.

Mr. Brace expressed the opinion that the situation now was not far from the point reached in 1953 when excessive ease proved to be of no benefit. That point perhaps had not yet been reached, but it was being approached.

Mr. Kemper suggested that further ease might induce more borrowing on the part of a substantial number of banks, particularly in his section of the country. As Mr. Jacobs had noted, many banks in the Eleventh District were quite well loaned up, and in the Tenth District quite a few banks also were in that position. If money were eased further and if more member bank borrowing developed, a substantial upturn in business would find

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those banks in a rather difficult position to take care of the situation.

Chairman Martin then inquired whether any members of the Council felt that credit policy should be reversed on the slightly tighter side.

In response, Mr. Sienkiewicz said that he was in sympathy with the present degree of ease but that further action on the discount rate at this time would be a feeble gesture. He then mentioned anticipated financing needs of the Treasury through fiscal year 1959 and said that he saw inflation as a danger ahead, that many businessmen and customers felt the same way, and that at some point it might be necessary to reverse policy on the tighter side.

Mr. Livingston said that a good many members of the Council felt that if business conditions should get worse, maybe the System ought to ease credit some more, but that if business picked up credit policy ought to be reversed.

6. In April the Board reduced reserve requirements of central reserve and reserve city banks for the purpose of supplying additional reserves. It has been alleged that the needs of the money markets would have been more effectively served if these reserves had been supplied through the medium of open market operations. What are the Council's views?

All members of the Council believe that the needs of the money market were more effectively served by the Board's action in reducing reserve requirements than by supplying the reserves through open market operations. The announcement of a change in reserve requirements receives wide attention and is public evidence of efforts of the Federal Reserve System to use its monetary tools to encourage business recovery. Open market operations, on the other hand, receive far less attention and are understood by relatively few persons.

In response to a question raised by Governor Szymczak, President Denton indicated that the last two sentences of the Council's statement

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simply represented an additional, and not the main reason for the Council's conclusion.

7. The Board will be glad to have any comments that the members of the Council might wish to make with respect to the bill introduced in the Congress at the Board's request which would amend the law relating to reserve requirements of member banks.

The Federal Advisory Council supports the bill introduced in the Congress at the Board's request which would amend the law relating to reserve requirements of member banks.

President Denton stated that the Council had gone over the reserve requirements bill in detail and that the members, without exception, were very hopeful that the bill would be passed.

Chairman Martin then discussed informally factors affecting the present outlook for obtaining legislation with respect to reserve requirements.

This concluded the discussion of the topics that had been listed on the agenda for this joint meeting.

Report on Bank Holding Company Act. Chairman Martin commented that the report required to be made by the Board to the Congress within two years after the date of enactment of the Bank Holding Company Act had been submitted on May 7, 1958, and that copies of the report had been sent to the members of the Council. He went on to say that the Board had no idea as to when action might be taken by the Congress with respect to the report.

Small business legislation. President Denton said that the Council appreciated the statement made to it yesterday by Mr. Koch of the Board's staff concerning proposed small business legislation and the Board's small

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business financing study. The Council felt that Mr. Koch's statement represented a very clear analysis of the situation, from which it had profited considerably.

Chairman Martin commented that the Board had recently been approached by members of the Congress to ascertain its views on acceptance by the Federal Reserve System of responsibility for the administration of a small business financing program. He said that the Board's response was that it should not be given that assignment.

President Denton said that the Council had a great deal of sympathy with the Board's position.

President Denton then said that, if agreeable, the next meeting of the Federal Advisory Council would be held on September 15 and 16, 1958, with the joint meeting with the Board to be held on the latter date, and Chairman Martin replied that the dates suggested were agreeable to the Board.

In further discussion, Governor Shepardson referred to the statements made by several members of the Council concerning the squeeze on profits and inquired whether there were indications of stiffening resistance to pressures for wage increases.

In reply, President Denton discussed the difficulties encountered in negotiating wage contracts, using as an example the current negotiations in the automobile industry. The cost-price squeeze, he noted, was continuing despite substantial unemployment, and wages were continuing to advance in the face of a large supply of unsold goods. In reply to a question concerning reports of a changed attitude on the part of the rank and file of labor,

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Mr. Denton suggested reasons why even the more farsighted union leaders found it difficult to take a conservative position in their negotiations.

Mr. Livingston said that employers were conscious of the fact that they were trading in a much more favorable climate. However, he felt that this would result in no more than getting smaller wage increases, for the situation had not yet reached the point where employers were willing to run the risk of a strike rather than to consent to a small wage increase.

Mr. King reported that in the building industry there was quite a bit of talk about getting more productivity per worker, but Mr. Brace stated that even in spite of the critical railroad situation in New England there was not the slightest suggestion of cutting down on featherbedding practices. Mr. Denton said that there was no evidence in the heavy industries in the Pittsburgh area of any relaxation of the union rules. Mr. Massey commented that there had been no relaxation yet in the working rules in the construction industry in New York City but that there had been some relaxation of those rules outside the city.

With regard to worker efficiency, Mr. Brace said that in some of the smaller industries in New England the attitude of workers had shown a considerable improvement in the last six months, and Mr. Denton reported that this was true among white-collar workers in the Fourth District. He added that the current delay in orders had resulted in some postponement of labor-saving expenditures, for the employers did not want to borrow money for those expenditures. He went on to say that in his area the subject of the cost-price squeeze was now paramount to the exclusion of almost everything else.



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After Chairman Martin commented that the United States had apparently lost a part of its export market due to the price factor, Governor Vardaman stated that he was very discouraged about the labor picture. He felt that the labor leaders would come out of the current recession stronger than they had ever been before and no more reasonable from the standpoint of their demands upon employers.

Mr. Massey then commented that the greatest amount of unemployment tended to be found in those industries where the labor unions had been strongest. He felt that it was still much too early to expect certain natural forces to operate but that they would tend to operate over the course of time. Although the unions might be able to hold up the price of labor per hour, he felt it likely that productivity would rise, for when a company lays off 1,000 workers and then takes back 500, those who are re-employed are apt to like their jobs better and be more efficient. While, therefore, he thought that the situation would tend to improve, it was too soon to expect a full correction. This was one of the reasons why he felt that the recession would be more prolonged than the original estimate. However, he said, there were already little signs like drop-offs in absenteeism. These encouraging signs started to appear around January and the ensuing months showed a lot of change in that direction. Also, those applying for jobs were now better qualified than those applying for jobs in December and January.

Turning to another aspect of the current situation, President Denton pointed out that there had been a great deal of confidence in the country based upon prices in the stock market. However, if second quarter earnings

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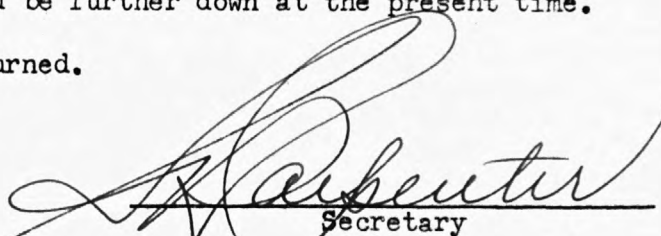
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reports were bad--as many members of the Council expected them to be--and third quarter prospects also were bad, there might be substantial changes in stock market prices. That could disturb the confidence of the public to a considerable degree and would be a big factor in the forecast for the months ahead. The Council, he said, was not quite sure why stock prices were currently so high except for the talk about inflation which caused people to want to have an equity interest. Stock prices were very high based on price-earnings ratios for the first quarter, and in the second quarter this might become even more pronounced. As he had said, a large break in stock prices might produce a substantial wave of pessimism.

Mr. Livingston said that many corporations evidently paid dividends for the first quarter in the expectation that earnings over the year as a whole would enable them to pay the full rate. There is a tendency, he said, to regard the stock market as the composite judgment of lots of people and a break in prices could be rather dramatic. He was not suggesting that this would necessarily occur but it was something to worry about.

Mr. Kemper suggested that fear of further inflation was a principal factor tending to hold up the stock market, along with the fact that those now in the market had a question of where to go if they left the market. A lot of people were hemmed in to the market because they had realized a profit and did not want to pay the tax. From the standpoint of corporate earnings, stock market prices actually should be further down at the present time.

Thereupon the meeting adjourned.

  
Secretary