

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 19, 1958

The second statutory meeting of the Federal Advisory Council for 1958 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on May 19, 1958, at 9:30 A.M., the President, Mr. Denton, in the Chair.

Present:

Lloyd D. Brace	District No. 1
Adrian M. Massie	District No. 2
Casimir A. Sienkiewicz	District No. 3
Frank R. Denton	District No. 4
John S. Alfriend	District No. 5
Homer J. Livingston	District No. 7
William A. McDonnell	District No. 8
Gordon Murray	District No. 9
R. Crosby Kemper	District No. 10
Walter B. Jacobs	District No. 11
Frank L. King	District No. 12
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary

Absent: John A. Sibley District No. 6

On motion duly made and seconded, the mimeographed notes of the meeting held on February 16, 17, 18, 1958, copies of which had been sent to the members of the Council, were approved.

A complete list of the items on the agenda for the meeting, and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 16 and 17.

The meeting adjourned at 12:00.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 19, 1958

At 2:15 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C., the President, Mr. Denton, in the Chair.

Present: Mr. Frank R. Denton, President; Messrs. Lloyd D. Brace, Adrian M. Massie, Casimir A. Sienkiewicz, John S. Alfriend, Homer J. Livingston, William A. McDonnell, Gordon Murray, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. John A. Sibley.

Mr. Albert R. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors of the Federal Reserve System, spoke on the small business credit study.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 19, 1958

At 8:00 P.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C.

Present: Mr. Frank R. Denton, President; Messrs. Lloyd D. Brace, Adrian M. Massie, Casimir A. Sienkiewicz, John S. Alfriend, John A. Sibley, Homer J. Livingston, William A. McDonnell, Gordon Murray, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

The Council reviewed its conclusions regarding the items on the agenda, and sent to the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 16 and 17, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the office of the Secretary of the Board of Governors at 10:15 P.M. on May 19, 1958.

The meeting adjourned at 9:10 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL
ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE
JOINT MEETING ON MAY 20, 1958

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 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.

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.

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.

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 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.

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.

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.

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.

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

May 20, 1958

At 10:30 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Wm. McC. Martin, Jr.; Vice Chairman C. Canby Balderston; Governors M. S. Szymczak, James K. Vardaman, Jr., A. L. Mills, Jr., J. L. Robertson and Chas. N. Shepardson; also Mr. S. R. Carpenter, Secretary, and Mr. Kenneth A. Kenyon, Assistant Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Frank R. Denton, President; Messrs. Lloyd D. Brace, Adrian M. Massie, Casimir A. Sienkiewicz, John S. Alfriend, John A. Sibley, Homer J. Livingston, William A. McDonnell, Gordon Murray, R. Crosby Kemper, Walter B. Jacobs, Frank L. King, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

The President read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, as printed on pages 16 and 17. In response to President Denton's suggestion, each member described the business situation and outlook in his district.

The President of the Council read the second and third items on the agenda, and the conclusions of the Council as given in the *Confidential Memorandum* mentioned above.

President Denton then read the fourth item and the conclusions of the Council as stated in the aforementioned *Confidential Memorandum*. An extended discussion followed on the general level of interest rates, in which members of the Board and the Council participated.

The fifth item on the agenda and the Council's conclusions were then read by President Denton. He added that some members of the Council felt it would be undesirable to ease credit beyond the present degree and that they saw no real advantage in a further reduction of the discount rate.

The President of the Council then read the sixth and seventh items on the agenda, and the conclusions of the Council.

The meeting adjourned at 12:40 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

H. V. P.

W. J. K.

The Secretary's notes of the meeting of the Federal Advisory Council on May 19, 1958, at 9:30 A.M. in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present, except Mr. Sibley who was delayed because of a previous commitment in Birmingham.

The Council approved the Secretary's notes for the meeting of February 16-18, 1958.

Denton reviewed the new schedule of the Council. General approval was expressed by the members present.

ITEM I

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?

Denton read Item I and asked the individual members of the Council for their views.

In the discussion which followed, the members of the Council described conditions in their respective districts. In those in which heavy industry dominates, it was reported that business was continuing downward, though the rate of decline appears to have lessened. In districts where agriculture predominates, the comments were somewhat more optimistic. The consensus seemed to be that business in general was edging moderately downward, tending to level out. There was wide agreement, however, that a more encouraging appraisal was evident in certain segments of industry, for example, construction, aircraft and farm equipment. It was observed that retail trade also was being maintained. A number of members expressed concern about the financial problems of the railroads, rising wages in the face of unemployment, and the decline in business profits. Most members of the Council do not anticipate a serious deterioration of the economy, but rather, that business will tend to level out before the end of the next six months.

It was also suggested that the Council's reply include a comment about the seriousness of the international situation.

ITEM II

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?

Denton read Item II and commented that the 4-3/4 per cent rate on GI mortgages is still not competitive. He indicated that he thought the increased availability of mortgage money had stimulated construction and caused some upturn in residential activity.

A brief discussion followed in which the members of the Council concluded that the easing of the credit situation and the steps taken by the government to liberalize the terms of government sponsored mortgage credit had strengthened the market for mortgages. Although some members reported increases in housing starts in their districts, the general feeling was that the increase in mortgage applications had not as yet caused a significant rise in actual residential construction over the country.

ITEM III

WHAT IS THE PROSPECT FOR DOWNWARD ADJUSTMENTS IN PRICES OVER THE NEXT THREE MONTHS?

Denton read Item III.

Although a few members of the Council were of the opinion that prices would continue to rise, the majority felt that large inventories and declining demand might cause prices to move slightly downward in the next three months.

ITEM IV

WHAT ARE THE DEVELOPMENTS IN INTEREST RATES ON LOANS AND ON TIME AND SAVINGS DEPOSITS?

Denton read Item IV.

During the course of the discussion, a number of members stated that in view of the strong demand for loans and the present high volume outstanding, any further decline in bank lending rates was unwarranted. The Council concluded that it would indicate to the Board that the recent decline in the interest rates on bank loans has caused rates on time deposits to fall. In addition, it has caused a review of the savings interest rate, especially by those banks which increased the rate to 3 per cent. A number of members expressed the opinion that there is a possibility that some banks now paying 3 per cent to savings depositors may reduce the rate effective July 1.

ITEM V

WHAT ARE THE COUNCIL'S VIEWS AS TO AN APPROPRIATE CREDIT POLICY BETWEEN NOW AND THE NEXT MEETING OF THE FEDERAL ADVISORY COUNCIL?

Denton read Item V. He questioned if any benefit would be derived from increasing excess free reserves above their present level.

In the ensuing discussion, in which the financial requirements of the Treasury were outlined, the Council concluded that the appropriate credit policy between now and the next meeting of the Council would be to maintain the present degree of ease.

ITEM VI

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?

Denton read Item VI.

In a brief discussion that followed, it was decided that the Council strongly support the Board's action in reducing reserve requirements as against supplying the reserves through open market operations.

ITEM VII

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.

Denton read Item VII and observed that the A.B.A. is supporting the bill.

In the discussion that followed a number of members of the Council expressed some concern about the discretionary powers which the bill gives to the Board. It was decided that the Council in its reply would indicate that it supports the bill. It also was decided that members of the Council would express their concern about the discretionary aspect of the bill during luncheon with Chairman Martin.

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The various bills introduced into the Congress relating to the credit requirements of small business were briefly discussed. It was decided to ask Chairman Martin at luncheon on Tuesday, the status of the proposed legislation.

The meeting adjourned at 12:00.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. AT 2:15 P.M. ON MAY 19, 1958. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. SIBLEY.

Mr. Albert R. Koch, Associate Adviser, Division of Research and Statistics, reported on the results of the small business credit study.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON MAY 20, 1958

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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.

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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.

ON MAY 20, 1958, AT 10:30 A.M. THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS SZYMCAK, MILLS, VARDAMAN, ROBERTSON AND SHEPARDSON. MR. CARPENTER, SECRETARY, AND MR. KENYON, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS, ALSO WERE PRESENT.

The minutes of the joint meeting are being prepared in the office of the Secretary of the Board of Governors of the Federal Reserve System. Their content will be compared with the notes of the Secretary of the Council. Assuming they are in substantial agreement, they will be reproduced and distributed to members of the Council.

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The meeting adjourned at 12:40 P.M.

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The next meeting of the Council will be held on September 15 and 16.