MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 15, 1958

The third statutory meeting of the Federal Advisory Council for 1958 was convened in Room 932 of the Mayflower Hotel, Washington, D.C. on September 15, 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
John A. Sibley	District No. 6
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

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on May 19 and 20, 1958, copies of which had been sent previously 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 22 and 23 of these minutes.

The meeting adjourned at 12:40 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 15, 1958

At 2:30 P.M., the Federal Advisory Council convened in Room 2019 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, 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.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors of the Federal Reserve System, spoke on the "Current Economic and Credit Situation". A copy of Dr. Thomas' remarks was included in the mimeographed minutes subsequently distributed to the members of the Council.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 15, 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 office of the Secretary of the Board of Governors the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 22 and 23, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 10:45 P.M. on September 15, 1958.

The meeting adjourned at 10:00 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON SEPTEMBER 16, 1958

1. What are the views of the Council regarding (a) the current business situation, and (b) prospects for the next six months? Does the Council find the evidences of business recovery general or confined to a relatively few sectors or areas?

The Council believes that the current business situation has improved since its last meeting with the Board. In general, the prospects for the next six months are for a moderate improvement in business. However, there are some problems, such as, the relatively large volume of unemployment and the uncertainty of the automobile outlook which may adversely affect business recovery in the months ahead. The evidences of business recovery are comparatively widespread and include many economic sectors and most of the nation.

2. Comment in the financial, real estate, and other press suggests a mounting public concern about inflation, especially about longer run loss of purchasing power of the dollar. How widespread is the feeling that further inflation is inevitable? Does the Council feel that a developing inflationary psychology is a threat to sustainable recovery? If so, what steps might best be taken to counter this psychology?

The members of the Council believe that the feeling that further inflation is inevitable is spreading. The sharp rise in stock prices is one evidence of this concern. This view of inflation is probably held at present largely by investors, businessmen and persons whose salary or income is relatively fixed.

A substantial segment of the labor force has received wage and salary increases in recent years, which have more than offset the rise in prices. Consequently, the fear of inflation in this group has not yet become so widespread or intense that it has led to greatly increased buying of durable goods, commodities and real estate, or to any flight from savings and insurance.

The Council believes that a developing inflationary psychology would be a threat to sustainable recovery.

Many inflationary forces, such as the wage demands of organized labor beyond increased productivity, budget deficits of government, and pressure groups urging projects involving government expenditures without a corresponding increase in taxes, operate in areas in which the Federal Reserve System has no power to act. However, the System can exert a strong influence toward maintaining relatively stable prices through the full exercise of its powers and the widespread dissemination of information regarding the causes and consequences of inflation.

3. What influences account for the very rapid rate of increase in time deposits at commercial banks? Are there any indications that this rate of increase may be slowing down?

The Council believes that the very rapid rate of increase in time deposits at commercial banks may be accounted for primarily by the following developments:

(a) Lower yields on Treasury bills led foreign banks and some domestic corporations to shift funds to time deposits at higher rates;

(b) The movement of some demand deposits to time accounts because of attractive rates;

(c) Increased interest rates on savings in some areas of the country and the fear of possible unemployment stimulated savings.

There are indications that the rate of increase may be slowing down.

There is an apparent lack of full information regarding foreign central bank and corporate time deposits, and it might be helpful to the System if more data were available.

4. 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 with the Board would be to maintain essentially the present degree of restraint. This implies that the System will provide any reserves that may be required for the forthcoming Treasury financing and for normal seasonal demands.

5. Would the Council care to express any views with regard to the status of the commercial bank emergency preparedness program and how that program might best be encouraged?

The Council believes that few banks have an adequate emergency preparedness program. The Council is of the opinion that the Advisory Committee on Commercial Bank Preparedness and the associated working committee should be encouraged to develop and promote a simplified plan which would be economical and practical for banks of all sizes.

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

September 16, 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 Room 1202 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, A. L. Mills, Jr., J. L. Robertson, and Chas. N. Shepardson; also 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 of the Council 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 22 and 23 of these minutes. A discussion followed in which the individual members of the Council recited on conditions in their districts.

President Denton read the second item on the agenda, and the conclusions reached by the Council, as expressed in the *Confidential Memorandum*, previously mentioned. Members of the Board of Governors and the Federal Advisory Council participated in an extended discussion which followed.

The third item on the agenda, and the conclusions of the Council, as expressed in the attached *Confidential Memorandum*, were than read by President Denton.

The President of the Council then read the fourth item, and the conclusions of the Council as expressed in the *Confidential Memorandum* to the Board. The liquidity of corporations and, in particular, of banks, was considered in some detail in the discussion which followed in which both members of the Council and the Board participated.

President Denton then read the fifth item on the agenda and the conclusions of the Council.

The meeting adjourned at 12:20 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 September 15 at 9:30 A.M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

The Council approved the Secretary's notes for the meeting of May 19-20, 1958.

ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL REGARDING (a) THE CURRENT BUSINESS SITUATION, AND, (b) PROSPECTS FOR THE NEXT SIX MONTHS? DOES THE COUNCIL FIND THE EVIDENCES OF BUSINESS RECOVERY GENERAL OR CONFINED TO A RELATIVELY FEW SECTORS OR AREAS?

Denton read Item I and asked the individual members of the Council to comment on conditions in their districts and to give their appraisal of the outlook.

In the discussion which followed, there seemed to be general agreement that business had improved since the Council's last meeting with the Board. The rate of improvement in the areas where heavy industry predominates has been slower than in districts which are more diversified or largely agricultural. Most members of the Council anticipate that business will show a moderate improvement in the next six months. Concern, however, was expressed about the relatively large volume of unemployment and the uncertainty of the automobile outlook. There was general agreement that the recovery was comparatively widespread and not confined to a relatively few sectors or areas.

ITEM II

COMMENT IN THE FINANCIAL, REAL ESTATE, AND OTHER PRESS SUGGESTS A MOUNTING PUBLIC CONCERN ABOUT INFLATION, ESPECIALLY ABOUT LONGER RUN LOSS OF PURCHASING POWER OF THE DOLLAR. HOW WIDESPREAD IS THE FEELING THAT FURTHER INFLATION IS INEVITABLE? DOES THE COUNCIL FEEL THAT A DEVELOPING INFLATIONARY PSYCHOLOGY IS A THREAT TO SUSTAINABLE RECOVERY? IF SO, WHAT STEPS MIGHT BEST BE TAKEN TO COUNTER THIS PSYCHOLOGY?

Denton read Item II and invited comment from the members of the Council.

Subsequent discussion included reference to the Council's previous reply to a similar question last September. It was suggested that the Council's response this time mention government budget deficits, the cost-price spiral and the activity of pressure groups, all of which contribute to inflationary forces, but which tend to be beyond the powers of the Federal Reserve System. It was decided that the Council's reply also should indicate that the Fed had considerable power which, if fully exercised, could be helpful in stabilizing prices.

ITEM III

WHAT INFLUENCES ACCOUNT FOR THE VERY RAPID RATE OF INCREASE IN TIME DEPOSITS AT COMMERCIAL BANKS? ARE THERE ANY INDICATIONS THAT THIS RATE OF INCREASE MAY BE SLOWING DOWN?

Denton read Item III which was followed by a general discussion in which most members of the Council participated.

There was general agreement that the increase in time deposits at commercial banks could be accounted for largely by the following developments: (a) lower yields on Treasury bills; (b) higher rates on time deposits which stimulated savings and caused some shift from demand accounts; and (c) the fear of possible unemployment.

Evidence was cited indicating that the rate of increase is slowing down.

ITEM IV

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 IV.

The members of the Council expressed general approval of the recent reversal in Federal Reserve policy, despite the fact that too restrictive a policy could possibly thwart the developing recovery. It was decided that the Council's reply should suggest that the same degree of restraint be maintained but that Treasury financing and seasonal demands for credit may require that the System supply additional reserves.

ITEM V

WOULD THE COUNCIL CARE TO EXPRESS ANY VIEWS WITH REGARD TO THE STATUS OF THE COMMERCIAL BANK EMERGENCY PREPAREDNESS PROGRAM AND HOW THAT PROGRAM MIGHT BEST BE ENCOURAGED?

Denton read Item V and observed that most banks do not have an adequate emergency preparedness program. It was suggested by Mr. King, who together with Mr. Livingston are members of the Advisory Committee on Commercial Bank Preparedness, that this Committee be encouraged to develop and promote a simplified and economical plan which banks of all sizes could use.

The meeting adjourned at 12:40 P.M.

THE COUNCIL CONVENED IN ROOM 2019 OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M. ON SEPTEMBER 15. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

Dr. Woodlief Thomas, Economic Adviser to the Board of Governors of the Federal Reserve System, spoke on the Current Economic and Credit Situation. An outline of his remarks is attached.

OUTLINE OF REMARKS ON CURRENT ECONOMIC AND CREDIT SITUATION

by

Dr. Woodlief Thomas, Economic Advisor
to the Board of Governors of the Federal Reserve System
before the Federal Advisory Council
September 15, 1958

Economic developments in this country during the past year have been characterized by wide, almost dramatic, shifts.

Recession in economic activity, that began a year ago, reflected

Slackening of consumer durable goods buying.

Slowing down of capital expenditures by business, after extended increase.

Curtailment of inventories.

Some decline in exports from spurt generated by Suez crisis.

These were due in part to the satisfying of shortages and building up of some surpluses by sustained high level of output, but also in large part to price and income distortions, which caused buyers to curtail purchases of many goods and services at prevailing prices.

Not to curtailment in incomes or in supply of money and credit.

Lessening of liquidity due to increased commitments, restraints on credit growth, and declines in prices of fixed-interest securities no doubt helped to restrain expansion.

Consumer expenditures in the aggregate continued at high level.

Government spending, including State and local, continued to increase, although Federal Government endeavored last year to cut back spending following an increase at a rate that was not contemplated.

Recession proceeded at somewhat more rapid rate than two previous post-war adjustments.

Raised fears that it might be prolonged because of --

Large recent additions to supply of durable goods -- both consumers and producers.

Failure of prices and costs to adjust so as to stimulate demand.

Possibility that downward spiral in spending, employment, and incomes might develop.

Current information indicates that recession ended last spring and pronounced recovery has already occurred, with prospects of continuation.

Industrial production index reached a low level of 126 in April, compared with 145 in July and August 1957.

Rose to 137 by August 1958.

Gross national product declined less than 5 per cent from $446 billion in third quarter of 1957 to $426 billion in first quarter of 1958.

Probably about $439 billion in current quarter.

Could be as much as $10 billion larger in fourth quarter or above last year's peak.

Inventory contraction is slackening and may soon end.

Housing expenditures have steadily increased, aided by increased credit availability.

Total construction at peak levels, despite decrease in industrial and commercial building.

Consumer durable goods outlook still a question - - particularly automobiles.

Curtailment in past year has reduced stocks in hands of dealers and maybe also those held by consumers.

But no fundamental adjustments in prices and styles of automobiles.

Decline in business capital expenditures appears to have ended and may increase.

Further increase in Government spending in prospect.

Moderation of decline and upturn may be attributed in part to so-called "automatic stabilizers" and other Governmental actions.

Transfer payments, representing unemployment compensation and the like, increased substantially.

Corporate dividend payments increased despite decline in corporate profits.

Tax obligations declined percentagewise more rapidly than incomes.

Net result -- only moderate decrease in disposable personal income -- from $308.7 billion in third quarter of 1957 to $305 billion in first quarter of 1958 -- now above last year's peak.

Government spending and particularly contracting for future spending was accelerated.

Consumers have drawn upon past savings to maintain expenditures.

Easier credit conditions and rising bond prices increased liquidity.

Bank credit and deposits have shown record-breaking expansion.

Mostly in time deposits -- holding of liquid assets by public.

Demand deposits also increased notwithstanding reduction in economic activity.

Prospects are for continuation of recovery.

Most stimulating factor is large Federal Government deficit in prospect for next year or longer.

Estimated at $13.7 billion on cash basis -- can be reduced very little this year by recovery.

Designed at first to offset decrease in private spending, but will coincide with increase.

Receipts in aggregate show little decline, though below earlier estimates.

Substantial increase in spending -- over $10 billion above fiscal 1958 and $14 billion above fiscal 1957.

Most of spending increase in unemployment compensation, agricultural supports, housing and highways.

Defense spending increase only moderate, but might have been reduced.

State and local spending continuing to rise.

Inventory reduction approaching an end and shift to increase likely in few months -- means a swing of over $10 billion in G.N.P.

Decline in business capital expenditures ended -- expected to increase in fourth quarter.

Consumer buying in aggregate at high level.

Retarding factors

Level of unemployment -- likely to continue high because increase in output can be accomplished with smaller increase in workers.

Labor has been priced "out of its market" by rising wages, escalator clauses, and restrictive working rules.

What level of unemployment economy can stand or requires for efficient operation is unsolved question.

Failure of prices to adjust may also retard recovery or may again bring expansion to an end.

Agricultural prices -- particularly meats -- almost certain to decline.

Basic materials, however, after declining last year, are much firmer.

Will finished goods prices be lowered to stimulate buying or again be increased?

Will wages continue to be pushed up?

Financial developments have been spectacular -- reflecting not only actual economic developments, but also speculative anticipations, and to some extent credit policies.

Most striking manifestation has been the dramatic adjustment of interest rates.

Rates declined sharply last fall with change in demand outlook and in monetary policy.

One of sharpest drops on record.

Largest decline in short-term rates -- reflecting liquidity demands.

Also bank credit availability.

Reserves made available by monetary policy.

Private short-term borrowing declined.

Banks expanded credit at record rate by buying Government securities.

Drop in long-term rates more moderate.

Hesitancy of investors to make commitments in view of recent high rates.

Continued heavy borrowing demands in capital market.

U. S. Government larger total borrowing and shift to long-term.

State and local government continued to increase.

Corporate capital issues declined only moderately from previous high level.

Mortgage demands increased.

Since June rates have risen almost as spectacularly.

Yields on long-term securities close to highs of 1957.

U. S. Government bonds around 3-3/4 per cent, above 1957 peak.

Corporate, high-grade, seasoned issues 4%.

New issues 3/8 higher.

Medium-term U. S. issues close to long-term, though lower than last year's peaks of 4 per cent.

Short-term rates in open market -- on Government and private obligations -- have risen from around 1 to 1-1/2 per cent to around 2 to 2-1/2, still well below 3-1/2 to 4 per cent a year ago.

Factors in recent rate increase in interest rates.

Four principal causes (name) -- relative importance of each uncertain.

Prospective increase in credit demands, on top of expansion that has already occurred.

Large Treasury borrowing ahead and possible increase in private demands.

Higher level of rates fully justified on this basis alone -- although not so sharp a turn.

Speculative factors -- first too far in one direction then in another.

Overbuying of long- and medium-term securities in anticipation of further decline in yields.

Selling in anticipation of decline.

These speculative influences have probably abated.

Professional positions sharply reduced -- probably to minimum, with some short positions.

Many speculative holdings sold out.

Some holders locked in by lower price level and unwillingness to take losses -- particularly true of banks, for tax reasons.

Resumed expectation of creeping inflation.

Reflected in rise of stock prices, despite reduced profits and uncertainty as to future cost squeeze.

Breakdown of confidence in fixed interest securities.

Bond yields now above stock yields -- rare situation that doesn't persist -- often leads to critical developments.

Shift in Monetary policies

From maintaining excess reserves in order to encourage use of credit and increase liquidity --

To reducing availability of reserves to keep further credit growth within bounds of needs for sustained recovery and growth, without inflation.

Prospective credit developments

Credit demands for next few months difficult to predict.

Treasury borrowing needs about $7.5 billion before year-end. More in the first half of 1959, largely offset by retirement of maturing debt.

Private demands could be covered in part by Treasury spending of deficit and should be less than usual.

May, however, be stimulated by change in economic climate and be larger than necessary.

Coincident increases in both could result in much greater credit and monetary growth than needed or desirable for sustained economic recovery.

Bank credit growth, August-December, usually about $6 billion or more, including Federal Reserve credit to supply reserves.

Much of seasonal growth can help finance Treasury deficit.

No objection if other types of credit are limited and total growth is moderate.

How much more credit growth is needed for sustained economic recovery?

Particularly in view of large contra-seasonal increase that has already occurred.

No precise quantitative guides, because of variations in use of money and money substitutes.

Active money supply -- demand deposits and currency -- now about $2 billion or 1-1/2 per cent above a year ago.

Time deposits $10 billion or 12 per cent larger, and U.S. Government deposits up $1.5 billion.

Total increase $13 billion or nearly 6 per cent, G.N.P. about 2 per cent less than peak a year ago.

Existing money availability more than adequate to support recovery to above previous peak, if seasonal needs are covered.

To provide usual seasonal needs means increase in credit of $6 billion in next three months, followed by decline of almost as much in early months of 1959.

Deposit growth of $6 billion means required reserve increase of $800 million. Added to seasonal currency increase of about $1 billion, and after allowing for other factors, will require temporary addition of about $1.5 billion to reserve funds -- mostly from late October to late December, followed by sharp contraction in January.

Likely pressures of credit demands, however, will require some restraint to prevent expansion in excess of these amounts.

Recent Federal Reserve actions are designed to impose such restraints.

If credit demands exceed seasonal needs, then banks will have to increase borrowings to obtain reserves.

Interest rates will rise.

If credit demands are moderate, reserves should be available and interest rates would not need to rise --

Might even decline some with reversal of speculative forces and movement of liquid assets into Government securities.

THE COUNCIL RECONVENED AT 8:00 P.M. ON SEPTEMBER 15, 1958, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on September 16. The memorandum addressed to the Secretary of the Board of Governors, was delivered to the Federal Reserve Building at 10:45 P.M. on September 15, 1958.

The meeting adjourned at 10:00 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON SEPTEMBER 16, 1958

1. What are the views of the Council regarding (a) the current business situation, and (b) prospects for the next six months? Does the Council find the evidences of business recovery general or confined to a relatively few sectors or areas?

The Council believes that the current business situation has improved since its last meeting with the Board. In general, the prospects for the next six months are for a moderate improvement in business. However, there are some problems, such as, the relatively large volume of unemployment and the uncertainty of the automobile outlook which may adversely affect business recovery in the months ahead. The evidences of business recovery are comparatively widespread and include many economic sectors and most of the nation.

2. Comment in the financial, real estate, and other press suggests a mounting public concern about inflation, especially about longer run loss of purchasing power of the dollar. How widespread is the feeling that further inflation is inevitable? Does the Council feel that a developing inflationary psychology is a threat to sustainable recovery? If so, what steps might best be taken to counter this psychology?

The members of the Council believe that the feeling that further inflation is inevitable is spreading. The sharp rise in stock prices is one evidence of this concern. This view of inflation is probably held at present largely by investors, businessmen and persons whose salary or income is relatively fixed.

A substantial segment of the labor force has received wage and salary increases in recent years, which have more than offset the rise in prices. Consequently, the fear of inflation in this group has not yet become so widespread or intense that it has led to greatly increased buying of durable goods, commodities and real estate, or to any flight from savings and insurance.

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Many inflationary forces, such as the wage demands of organized labor beyond increased productivity, budget deficits of government, and pressure groups urging projects involving government expenditures without a corresponding increase in taxes, operate in areas in which the Federal

Reserve System has no power to act. However, the System can exert a strong influence toward maintaining relatively stable prices through the full exercise of its powers and the widespread dissemination of information regarding the causes and consequences of inflation.

3. What influences account for the very rapid rate of increase in time deposits at commercial banks? Are there any indications that this rate of increase may be slowing down?

The Council believes that the very rapid rate of increase in time deposits at commercial banks may be accounted for primarily by the following developments:

(a) Lower yields on Treasury bills led foreign banks and some domestic corporations to shift funds to time deposits at higher rates;

(b) The movement of some demand deposits to time accounts because of attractive rates;

(c) Increased interest rates on savings in some areas of the country and the fear of possible unemployment stimulated savings.

There are indications that the rate of increase may be slowing down.

There is an apparent lack of full information regarding foreign central bank and corporate time deposits, and it might be helpful to the System if more data were available.

4. 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 with the Board would be to maintain essentially the present degree of restraint. This implies that the System will provide any reserves that may be required for the forthcoming Treasury financing and for normal seasonal demands.

5. Would the Council care to express any views with regard to the status of the commercial bank emergency preparedness program and how that program might best be encouraged?

The Council believes that few banks have an adequate emergency preparedness program. The Council is of the opinion that the Advisory Committee on Commercial Bank Preparedness and the associated working committee should be encouraged to develop and promote a simplified plan which would be economical and practical for banks of all sizes.

ON SEPTEMBER 16, 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 ROOM 1202 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 SZYMCZAK, MILLS, ROBERTSON AND SHEPARDSON. MR. KENYON, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS, ALSO WAS 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.

The meeting adjourned at 12:20 P.M.

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The next meeting of the Council will be held on November 17 and 18.