MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 17, 1958

The fourth statutory meeting of the Federal Advisory Council for 1958 was convened in Room 1032 of the Mayflower Hotel, Washington, D.C., on November 17, 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

A complete list of the items on the agenda 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 28 and 29.

The meeting adjourned at 12:10 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 17, 1958

At 2:30 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, 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 Adviser to the Board of Governors spoke on "The Current Economic Picture and Prospective Threats to Stability". A copy of Dr. Thomas' remarks was included with 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

November 17, 1958

At 8:00 P.M., the Federal Advisory Council reconvened in Room 1032 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 28 and 29, listing the agenda items with the conclusions reached by the Council. The *Memorandum*, addressed to the Secretary of the Board of Governors, was delivered to the Federal Reserve Building at 9:15 P.M. on November 17, 1958.

The meeting adjourned at 8:45 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 NOVEMBER 18, 1958

1. What are the views of the Council regarding the business situation during the remainder of the year and approximately the first six months of 1959? Comments on the current psychology of the business community and of the general public, and on the probable effects of their attitudes on plans for capital expenditures and on actual consumer expenditures during this period, will be appreciated.

The Council believes that business during the remainder of this year and approximately the first six months of 1959 will continue to improve moderately as contrasted to the rather sharp increase in business activity that occurred during the summer and early fall months. The volume of business in the months ahead will be influenced in some measure by the extent to which (1) inventories generally are rebuilt and (2) the public accepts the new model automobiles. Both factors are difficult to assess with assurance at this time.

The current psychology of the business community is optimistic but somewhat less so than it was several weeks ago. Although businessmen do not anticipate a sharp rise in the general level of prices in the immediate future, they are apprehensive about the long-run inflationary pressures in the economy. The improvement in business is prompting some upward revision in business capital expenditures; the fear of inflation over the years is probably contributing to these decisions.

The current psychology of the general public, in the Council's opinion, is one of optimism, reflecting the high and recently rising level of consumer income. Indications are that the volume of retail business this Christmas will be very satisfactory.

2. What is the prospective demand for bank loans during the remainder of this year and during approximately the first half of 1959?

The members of the Council believe that the prospective demand for bank loans will follow the usual seasonal pattern during the remainder of this year and during approximately the first half of 1959. Some increase in loans is anticipated during the balance of 1958. A modest reduction in loans after the first of the year probably will be followed by a gradual increase in loan demand to the middle of 1959. The extent to which banks are called upon to finance an increase in business inventories will influence considerably the demand for bank loans.

3. Does the Council have comments on the appropriateness of current credit policies?

The Council believes that current credit policies are appropriate in that they provide sufficient credit for the needs of business and the requirements of the Treasury and yet exercise some restraint on inflationary pressures. The anticipated federal deficit with large government expenditures, combined with a probable rise in business activity, may require a reappraisal of current credit policies in the months ahead.

4. The Board has been asked to consider a change in the provisions of Section 3(D) of Regulation Q that would bring about a uniform grace period of 10 calendar days for computation of interest on savings deposits received during any month. (The reasons advanced in the request presented to the Board are indicated in the copy of a letter which has been sent directly to the members of the Council by the Secretary of the Board of Governors.)

A substantial majority of the Council favors a change in the provisions of Section 3(D) of Regulation Q that would bring about a uniform grace period of 10 *calendar* days for the computation of interest on savings deposits received during any month.

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

November 18, 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, A. L. Mills, Jr., J. L. Robertson and Chas. N. Shepardson; also Mr. Merritt Sherman, 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, 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.

Absent: Mr. Casimir A. Sienkiewicz.

President Denton 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 28 and 29 of these minutes. The individual members of the Council then commented on business conditions and the outlook in their respective districts.

President Denton then read the second agenda item as mentioned above. In the discussion which followed, there was wide agreement that the growth in loan volume in recent weeks was disappointing.

President Denton then read the third and fourth items on the agenda, and the conclusions of the Council as noted in the *Confidential Memorandum* previously mentioned.

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 November 17, 1958 at 9:30 A.M., in Room 1032 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL REGARDING THE BUSINESS SITUATION DURING THE REMAINDER OF THIS YEAR AND APPROXIMATELY THE FIRST SIX MONTHS OF 1959? COMMENTS ON THE CURRENT PSYCHOLOGY OF THE BUSINESS COMMUNITY AND OF THE GENERAL PUBLIC, AND ON THE PROBABLE EFFECTS OF THEIR ATTITUDES ON PLANS FOR CAPITAL EXPENDITURES AND ON ACTUAL CONSUMER EXPENDITURES DURING THIS PERIOD, WILL BE APPRECIATED.

Denton read Item I and noted that it contains two questions, namely the outlook for business, and secondly, the current psychology of the business community and of the general public. He asked the members of the Council to comment on both items.

In the discussion which followed, there was general agreement that business during the remainder of this year and approximately the first six months of 1959 will continue to improve moderately. This would be in contrast to the rather sharp rise in business activity that occurred during the summer prior to the September meeting of the Council. Several members of the Council observed that the level of business will be influenced by possible inventory growth and the extent to which the public buys the new model automobiles. The members of the Council indicated that they believed the business community is optimistic but less so than it was several weeks ago. It was generally agreed that businessmen are apprehensive about long range inflationary pressures. While this may have contributed to the upward revision in businessmen's plans for capital spending, most members of the Council did not believe that this was the determining influence. Consumers, the Council observed, are optimistic, reflecting the high level of consumer income. A number of the members of the Council were of the opinion that retail business this Christmas will be very good.

ITEM II

WHAT IS THE PROSPECTIVE DEMAND FOR BANK LOANS DURING THE REMAINDER OF THIS YEAR AND DURING APPROXIMATELY THE FIRST HALF OF 1959?

Denton read Item II. He suggested that loan demand probably would trace the customary seasonal pattern, rising between now and the end of the year. Loan demand probably would decline in the early months of 1959 and then begin a slow rise up to the middle of the year.

The members of the Council expressed general approval of this suggestion. Several members noted that the extent to which inventories are rebuilt will be a factor in loan totals. In certain districts some borrowing for tax purposes in March and in June also is anticipated.

ITEM III

DOES THE COUNCIL HAVE COMMENTS ON THE APPROPRIATENESS OF CURRENT CREDIT POLICIES?

Denton read Item III, adding that in his judgment current credit policies of the System are appropriate. An informal poll was taken of the members as to whether credit should be made easier or tighter. The results indicated general agreement with present credit policies. It was pointed out, however, that an increase in business activity, together with the anticipated Federal deficit, probably will require a reappraisal of credit policies.

ITEM IV

THE BOARD HAS BEEN ASKED TO CONSIDER A CHANGE IN THE PROVISIONS OF SECTION 3 (D) OF REGULATION Q THAT WOULD BRING ABOUT A UNIFORM GRACE PERIOD OF 10 CALENDAR DAYS FOR COMPUTATION OF INTEREST ON SAVINGS DEPOSITS RECEIVED DURING ANY MONTH. (THE REASONS ADVANCED IN THE REQUEST PRESENTED TO THE BOARD ARE INDICATED IN THE COPY OF A LETTER WHICH HAS BEEN SENT DIRECTLY TO THE MEMBERS OF THE COUNCIL BY THE SECRETARY OF THE BOARD OF GOVERNORS.)

Denton read Item IV. He added that the change would be extremely helpful to those banks who pay interest each month on various savings accounts. In the discussion which followed, certain members of the Council pointed out that approval of the change in the Regulation would tend to raise the effective maximum interest rate paid on savings deposits. As a consequence, certain bankers do not favor the change in Regulation Q. It was decided that the Council's reply would indicate that a substantial majority favored the proposed change in the Regulation.

The meeting adjourned at 12:10 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING AT 2:30 P.M. ON NOVEMBER 17, 1958. 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 Picture and Prospective Threats to Stability."

A transcript of his remarks follows:

THE CURRENT ECONOMIC PICTURE AND PROSPECTIVE THREATS TO STABILITY

As a group, major indicators of economic activity are still showing upsweep, but more diversity of month-to-month movement among individual indicators is appearing and the over-all pace of rise seems to have slowed some. For some months, the averages of prices at wholesale and retail has been about stable, reflecting offsetting movements of industrial material prices and prices of farm products and foods--the former up and the later down.

The rise of industrial production in October is now estimated at one index point over September to a figure of 138 per cent of the 1947-49 average. This is a smaller rise than earlier projected and reflects mainly three elements: hold-back of output through work stoppages, in autos, glass, and farm machinery; cessation of advance in business equipment output; and decline in fuel output--i.e., petroleum and coal. Steel output increased and there were small seasonally adjusted increases in various other lines.

The index of industrial production in September had regained more than half of the loss experienced during the recession. Recovery has been widespread, affecting all major industries with the exception of autos. Production of consumer goods other than autos by September had more than regained earlier losses. Recovery from the ression low was most pronounced for appliances, which increased about two-fifths from the low in April. Production of furniture and floor coverings rose 15 per cent, and apparel and shoe output 8 per cent. The decline was greater for production of industrial materials and parts--from a level at which inventories were being accumulated--and output had not fully recovered by September. Increases have been widespread, however, and have included steel, construction materials, textiles, rubber, and leather products. Output of paper and chemicals have risen to new highs. Producers' equipment showed an exceptionally sharp decrease during the recession, and has shown only moderate recovery to date.

October paper board output and freight car loading reached new highs, but electric power production about maintained its September level. With auto output rising sharply in November, some new advance occurring in equipment lines, and turn-around in fuel output, a November rise in the industrial production index of two points seems possible at this early stage.

Construction activity, as indicated by the value of work put in place, seasonally adjusted, rose 2-1/2 per cent in October to an all-time high of nearly $51.5 billion--3 per cent above last year's high level. Private residential, commercial, and public utility construction continued upward and public construction advanced further. Private industrial construction, after 13 months of unbroken decline, showed no change. Housing starts exceeded 1-1/4 million seasonally adjusted annual rate in October.

Nonfarm employment in October, counting strikers as employed, rose somewhat further and unemployment dropped 300,000 to a total of 3.8 million, giving an unemployment rate of about 7.1 per cent, compared with a high figure of 7.6 per cent in August. By another method of seasonal adjustment a rate of 6.4 per cent is shown for October, and the peak was 7.5 per cent last April. Continued unemployment claims again declined in October and initial claims showed the usual seasonal movement. The average workweek in manufacturing receded one-third of an hour to 39.5 hours, in consequence of work stoppages in some durable goods industries--and somewhat reduced output schedules in others. In recent months, employment in trades, services and communications seems to be showing less upward strength than earlier in the recovery movement.

The flow of goods into the hands of consumers slowed significantly in September, after adjustment for the customary seasonal increases. In October, lagging sales at department stores and the lagging availability of new model cars for retail delivery suggest little or no rise from September for October retail sales, on a seasonally adjusted basis.

After maintaining stability at a seasonally adjusted rate of $16.7 billion from May through August, U. S. exports fell sharply in September to a little under a $16 billion rate, or to about the level of February-April. Additional rise in imports in September and October suggests a further shrinkage of the export surplus. This development is the consequence of domestic recovery, stability to modest recession in Europe in activity, a leveling out of Canadian recovery, and continuing foreign exchange difficulties of non-industrial countries.

Tapering off of business inventory liquidation has been a feature of domestic developments in recent months. For the manufacturing sector, it is now evident that this has reflected primarily a turnaround from liquidation to inventory accumulation, beginning in July, in the automobile industry. In distribution, inventory turnaround began in June in nonautomotive lines, but at automotive distributors liquidation continued through October. Altogether these figures suggest further room for upward stimulus to the economy from inventory trends.

The McGraw-Hill fall survey of business plans for capital expenditures, just released, shows only a small increase in such expenditures for 1959. But in the fall of 1954, a similar survey projected for 1955 a 5 per cent decline in expenditures. Manufacturing businesses project a decline in capital outlays for 1959, while commercial, transportation, communications and mining businesses anticipate an increase. Manufacturing businesses, however, project a sizable increase -- 9 per cent--in their physical volume of sales for 1959. Manufacturing businesses report a substantial proportion of existing capacity to be of an age less than modern. Over half of present manufacturing capacity, the McGraw-Hill data indicated was put in place prior to 1945 and over two-thirds before 1950.

The unevenness of recent movement of economic indicators is occasioning in various quarters searching reappraisal of the outlook, with some toning down of optimistic projections because of inability to foresee forces that will convert recovery into a period of expansionary boom. At this relatively advanced phase of recovery development, skeptical outlook reappraisals are probably to be expected in increasing numbers. It is to be hoped that they will exert some salutary influence on the inflationary psychology of markets, particularly financial markets.

Financial developments, from the standpoint of the more immediate aims of Federal Reserve policy, may be considered as generally satisfactory during the past three months. A relatively even keel has been maintained with respect to the availability of reserves without appearing to result in undue restraint upon, or excessive encouragement to, bank credit expansion. The half a point rise in the discount rate to conform to the realities of the market caused no evident adjustment in the market. Yet in some broader respects the stiuation is fraught with potentials for unfavorable developments that will be difficult to contain.

Government securities markets have been generally firmer since the later part of September. Long-term rates have been fairly stable, while short-term rates have declined. Additional Treasury cash issues have been well absorbed--mostly outside the banking system. Banks bought the new issues initially, but were able to sell them--generally at favorable prices. Since mid-year, the Treasury has issued more than $8 billion of additional securities, all in the short-term area, and the marketable public debt has increased by $5.5 billion, yet commercial bank holdings of Government securities have risen by only about $1 billion.

Perhaps some of the firmness in the bond market has been due to the moderately smaller volume of the new capital issues by corporations and State and local governments, as well as to the cessation of liquidation by speculators. Recent increases in the liquidity of business concerns have contributed to the absorption of short-term Government securities by nonbank investors and the firmness of short-term rates. Treasury bill rates declined to below 2-1/2 per cent for three-month bills and lower for short bills. Rates have risen somewhat in the last week, partly influenced by the offering of a $3 billion June tax bill, as well as by the beginning of seasonal money market pressures.

Since July banks have met moderate seasonal loan demands and have underwritten new Treasury issues, but have sold securities to nonbank investors. As a result total bank credit has increased only moderately. In October, bank credit growth, although not striking, was somewhat larger than in September. Business loans at city banks showed little net change in the month compared with a marked decline in October, 1957 and a moderate increase in October, 1956. There were, however, larger increases than usual in real estate loans, agricultural loans, and all other loans.

Both demand deposits and currency showed greater than seasonal increases in October, with the seasonally-adjusted total increasing by $1.1 billion, largely reversing seasonally adjusted declines of August and September. Time deposits at commercial banks declined in both September and October. U. S. Government deposits showed a net decrease.

To some extent, the slackened monetary expansion along with Treasury deficit financing and general economic recovery has been possible because of previously accumulated liquidity. Demand deposits, after adjustment for seasonal variations, increased by over 2 per cent in July, following an increase of two per cent in the first half of the year. Time deposits increased at a rate of over 1 per cent a month from December until July. Further monetary expansion, other than seasonal, has not been needed to finance economic recovery. The higher level of interest rates has helped to attract some of these available funds into other uses, such as short-term Government securities. Total demand deposits adjusted and currency are more than 2-1/2 per cent larger than a year ago and time deposits are over 10 per cent larger. Turnover of demand deposits has increased slightly in recent months, compared with a declining tendency during the same period last year. In October, the turnover rate was higher than a year ago.

Reserves have been supplied on balance during the past month through System open market purchases. These operations, aggregating over half a billion dollars, have provided for a continued outflow of gold, a seasonal increase in currency, and an increase in required reserves resulting from the greater than seasonal deposit growth. Member bank borrowings have generally remained below $500 million--mostly at reserve city banks. Net free reserves have remained close to $100 million since the beginning of September.

Reserves needed to cover seasonal currency and deposit increases, with allowance for other market factors, will be in excess of $1 billion during the next 6 weeks. Additional reserves will be needed next week as a result of the increase in Treasury tax and loan accounts in connection with the new Treasury financing. Heavy drains on reserves will also occur in the Thanksgiving week and then more in the last week of the year.

In view of liquidity needs during December, demands for reserves will be heavy, with resulting pressures on the Government securities market. These reserve needs can be supplied as usual through Federal Reserve open market operations, including repurchase contracts with dealers, with some of the temporary needs of individual banks being met by occasional borrowing at the Reserve Banks. Most of the reserves supplied during the next few weeks should be withdrawn in January, as currency and credit demands show a sharp seasonal decline.

In view of the ominous nature of many aspects of prospective economic developments, there are longer-run and more fundamental credit problems than the relatively simple task of supplying seasonal needs for bank reserves. An important question is what degree of restraint upon bank credit expansion may be appropriate.

The relatively satisfactory developments that have accompanied the maintenance of member bank borrowing at a fairly steady level during the past ten weeks can hardly be attributed to restrictive monetary policies. By past standards, free reserves of $100 million, which means member bank borrowings of less than $500 million, are not particularly restrictive, if conditions are favorable for expansion. Pressures for further credit expansion have been absent during most of this period. In the past month, however, there has again been a somewhat greater than seasonal monetary expansion.

What are the threatening aspects of the current situation that may result in need for more restrictive policies? The first, of course, is the budget deficit. Another is the continued outflow of gold, or rather the combination of factors responsible for that outflow. The rise in stock prices based on speculation and on the retreat from fixed-return investments is another. Finally, there is the complex of forces reflected in wages, profits, and prices, which determine whether appropriate adjustments are being made to maintain a balanced economy or whether the course will be one of inflation or of chronic underemployment of resources.

All of these aspects are interrelated and play upon each other. They cannot be adequately controlled by monetary policies, but they can create situations in which inappropriate monetary policies could add to maladjustments and thereby augment inflationary pressures or, on the other hand, prevent adequate employment of resources.

Outlook for the Federal deficit is generally familiar. The August budget review indicated the prospect for a deficit in the current fiscal year of about $12 billion. New factors that have been brought into the picture since then are (1) the greater than previously estimated increase in corporate profits, as well as in personal income, and (2) the possible effect of the election on expenditure programs. The higher corporate profits and income estimates may raise the Government's receipts for this fiscal year by as much as $2 billion above estimates of the mid-year Budget Review. These additional receipts, however, are likely to be at least partly offset by increased expenditures. It is unlikely that the deficit can be brought down to below $10 billion.

Prospects for the longer term, even after allowance for substantial increases in incomes and profits and assuming no further increase in expenditures, indicate likelihood of a deficit of as much as $4 billion in fiscal year 1960. It is questionable whether, under the pressure of wage increases and competitive market forces, corporate profits could be any larger than those projected in these estimates. Moreover, election results presage the threat of substantial increases in expenditures. Without higher taxes, a deficit is not likely to be avoided in fiscal year 1960, or possibly in subsequent years even with full employment.

A Federal deficit of the size indicated, along with economic activity at the volume projected, would be highly stimulating. It probably cannot be financed without inflationary consequences without rather severe restraints on the private economy.

Outflow of gold, which has exceeded $2 billion this year, seems to have slackened somewhat in the past month, but foreigners continue to add to their holdings of dollar assets. This build-up of foreign gold and dollar holdings reflects, basically, increased productive capacity abroad and the movement of capital. To some extent it also reflects what may be called a flight from the dollar because of inflation fears, corresponding to the domestic flight from bonds to stocks. The improved competitive position of foreign producers relative to producers in the United States is a most important factor, and one related to the persistent increase in wages in this country. Contrast between the vigorous and courageous action of the British in dealing with inflationary threats and loss of reserves and the apparent attitude in this country toward those problems does not contribute to confidence in the future of the dollar.

Action of the stock market since the election gives continuing evidence of the inflationary potential in that area. Rising stock prices are evidently being supported by a flow of funds from other forms of investment of savings, as well as by buying and selling among existing participants. While the direct use of credit has been limited, inducements for its use are strong. Credit might be brought in indirectly through borrowing in other forms or through the sale of other assets to banks.

Problems in the area of wages, profits, and prices are subtle, indirect in their effects, and difficult to control through public policies. At present, unemployed resources of labor and productive equipment would seem to provide some leeway for further expansion without resulting in upward pressures in prices. There seems, however, to be little prospect of abatement in the persistent pressure for increased wages, notwithstanding the existence of unused resources. The fact that recent, sharp increases in productivity are being reflected in corporate profits and not in lowered prices adds support to demands for wage increases. The maintenance of prices, and in some cases increases in prices, will further detract from the competitive position of American producers in foreign markets. They may also restrict the growth in buying by domestic consumers.

These maladjustments in the price structure should have a retarding effect upon expansion and upon pressure for rising prices. There is a danger, however, that any such consequence would be used as a reason for further governmental actions of stimulating nature, which would in turn help to forestall rather than promote the adjustments needed to maintain a balanced economy.

Most of these threats to stability cannot be corrected by monetary policy. Yet the operation of these underlying forces may give rise to pressure for excessive credit expansion of an unsustainable nature. This would call for imposition of more effective credit restraints. Under such circumstances, it is unlikely that credit restraints would retard sound recovery and growth. Easy credit, on the other hand, could unquestionably contribute to developments of an unstabilizing nature.

THE COUNCIL RECONVENED AT 8:00 P.M. ON NOVEMBER 17, 1958, IN ROOM 1032 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 November 18. The Memorandum, addressed to the Secretary of the Board of Governors, was delivered to the Federal Reserve Building at 9:15 P.M. on November 17.

The meeting adjourned at 8:45 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON NOVEMBER 18, 1958

1. What are the views of the Council regarding the business situation during the remainder of the year and approximately the first six months of 1959? Comments on the current psychology of the business community and of the general public, and on the probable effects of their attitudes on plans for capital expenditures and on actual consumer expenditures during this period, will be appreciated.

The Council believes that business during the remainder of this year and approximately the first six months of 1959 will continue to improve moderately as contrasted to the rather sharp increase in business activity that occurred during the summer and early fall months. The volume of business in the months ahead will be influenced in some measure by the extent to which (1) inventories generally are rebuilt and (2) the public accepts the new model automobiles. Both factors are difficult to assess with assurance at this time.

The current psychology of the business community is optimistic but somewhat less so than it was several weeks ago. Although businessmen do not anticipate a sharp rise in the general level of prices in the immediate future, they are apprehensive about the long-run inflationary pressures in the economy. The improvement in business is prompting some upward revision in business capital expenditures; the fear of inflation over the years is probably contributing to these decisions.

The current psychology of the general public, in the Council's opinion, is one of optimism, reflecting the high and recently rising level of consumer income. Indications are that the volume of retail business this Christmas will be very satisfactory.

2. What is the prospective demand for bank loans during the remainder of this year and during approximately the first half of 1959?

The members of the Council believe that the prospective demand for bank loans will follow the usual seasonal pattern during the remainder of this year and during approximately the first half of 1959. Some increase in loans is anticipated during the balance of 1958. A modest reduction in loans after the first of the year probably will be followed by a gradual increase in loan demand to the middle of 1959. The extent to which banks are called upon to finance an increase in business inventories will influence considerably the demand for bank loans.

3. Does the Council have comments on the appropriateness of current credit policies?

The Council believes that current credit policies are appropriate in that they provide sufficient credit for the needs of business and the requirements of the Treasury and yet exercise some restraint on inflationary pressures. The anticipated federal deficit with large government expenditures, combined with a probable rise in business activity, may require a reappraisal of current credit policies in the months ahead.

4. The Board has been asked to consider a change in the provisions of Section 3(D) of Regulation Q that would bring about a uniform grace period of 10 calendar days for computation of interest on savings deposits received during any month. (The reasons advanced in the request presented to the Board are indicated in the copy of a letter which has been sent directly to the members of the Council by the Secretary of the Board of Governors.)

A substantial majority of the Council favors a change in the provisions of Section 3(D) of Regulation Q that would bring about a uniform grace period of 10 calendar days for the computation of interest on savings deposits received during any month.

ON NOVEMBER 18, 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 FEDERAL RESERVE BUILDING, WASHINGTON, D. C. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. SIENKIEWICZ WHO WAS OBLIGED TO RETURN TO PHILADELPHIA IN ORDER TO BE PRESENT AT AN IMPORTANT MEETING.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS SZYMCZAK, MILLS, ROBERTSON AND SHEPARDSON. MR. SHERMAN, 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.

The meeting adjourned at 12:20 P.M.

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The next meeting of the Council will be held on February 16-17, 1959.