

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
1959

MEMBERS

Chairman, Henry G. Leland
Vice Chairman, Robert H. Anderson
Director, Fred J. McCall
Director, Nathan D. Jones
Director, George M. ...
Secretary, ...
Assistant Secretary, ...

MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

MEMBERS

Edward G. ...
John J. ...
William A. ...
Frederic D. ...
Edward W. ...
John A. ...
Joseph E. ...
William F. ...
Franklin ...
George S. ...
Charles F. ...

MEMBERS

Robert ...
George ...
David ...
Richard ...
Donald ...
Donald ...
Thomas ...
James ...
Charles ...

February 16-17, 1959

April 27-28, 1959

September 14-15, 1959

November 16-17, 1959

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1959

OFFICERS:

President, Homer J. Livingston
Vice President, Lloyd D. Brace
Director, John J. McCloy
Director, Casimir A. Sienkiewicz
Director, Gordon Murray
Secretary, Herbert V. Prochnow
Assistant Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

Homer J. Livingston
Lloyd D. Brace
John J. McCloy
Casimir A. Sienkiewicz
Gordon Murray

MEMBERS:

Lloyd D. Brace	District No. 1
John J. McCloy	District No. 2
Casimir A. Sienkiewicz	District No. 3
Reuben B. Hays	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. Otis McClintock	District No. 10
Walter B. Jacobs	District No. 11
Charles F. Frankland	District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

The Officers of this Council shall be a President, Vice President, three Directors and a Secretary, all of whom, except the Secretary, shall also serve as the Executive Committee.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council, and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

The Executive Committee, as indicated in Article I of the by-laws, shall consist of the President, Vice President, and the three Directors.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with its regulations and promulgations, and to communicate the same to the members of the Council, and to suggest to the Council, from time to time, special matters for consideration.

The Executive Committee shall have the power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

The Executive Committee shall have full power, as officers of the Council, to act for the Council between meetings of the Council.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum, and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 16, 1959

REPORT OF THE SECRETARY
OF THE
FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1958

Balance on hand, December 31, 1957 \$ 9,290.90	Salaries \$ 5,000.00
Assessments— 12 Federal Reserve Banks . . . 5,400.00	Printing and Stationery 500.60
	Postage, Telegrams and Telephone 39.43
	Balance on hand, December 31, 1958 9,150.87
<u>\$14,690.90</u>	<u>\$14,690.90</u>

Chicago, Illinois
February 1, 1959

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ended December 31, 1958, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO
(Signed) J. Carl Sommer,
Auditor.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 16, 1959

The first and organizational meeting of the Federal Advisory Council for the year 1959 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on February 16, 1959, at 9:30 A.M.

Present:

Lloyd D. Brace	District No. 1
John J. McCloy	District No. 2
Casimir A. Sienkiewicz	District No. 3
Reuben B. Hays	District No. 4
John S. Alfriend	District No. 5
John A. Sibley	District No. 6
Homer J. Livingston	District No. 7
Gordon Murray	District No. 9
R. Otis McClintock	District No. 10
Walter B. Jacobs	District No. 11
Charles F. Frankland	District No. 12
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary

Absent:

William A. McDonnell	District No. 8
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Mr. Walter B. Jacobs was elected Chairman *pro tem* and Mr. Herbert V. Prochnow, Secretary *pro tem*.

The Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1959.

The following officers were nominated and unanimously elected:

Homer J. Livingston, President
Lloyd D. Brace, Vice President
John J. McCloy, Director
Casimir A. Sienkiewicz, Director
Gordon Murray, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion duly made and seconded, the salary of the Secretary was fixed at \$3,000 annually, and that of the Assistant Secretary at \$2,000 annually.

The Secretary presented his financial report for the year 1958, which had been audited by Mr. J. Carl Sommer, Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the printed minutes for the meetings of the Council held on February 16, 17, 18, 1958; May 19-20, 1958; September 15-16, 1958; November 17-18, 1958; and the mimeographed notes of the meeting held November 17-18, 1958, copies of which had been sent previously to the members of the Council, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Secretary to ask each Federal Reserve bank to contribute \$450.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1959 and to draw upon it for that purpose.

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 9, 10 and 11.

The meeting adjourned at 12:45 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 16, 1959

At 2:30 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Mr. Homer J. Livingston, President; Messrs. Lloyd D. Brace, John J. McCloy, Casimir A. Sienkiewicz, Reuben B. Hays, John S. Alfriend, John A. Sibley, Gordon Murray, R. Otis McClintock, Walter B. Jacobs, Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. William A. McDonnell.

Dr. Woodlief Thomas, Economic Adviser to the Board, and members of the Board's staff of the Divisions of International Finance, and Research and Statistics, participated in an audio-visual presentation on "The 1958 Recovery." Copies of the remarks were 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

February 16, 1959

At 10:00 P.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C.

Present: Mr. Homer J. Livingston, President; Messrs. Lloyd D. Brace, John J. McCloy, Casimir A. Sienkiewicz, Reuben B. Hays, John S. Alfriend, John A. Sibley, Gordon Murray, R. Otis McClintock, Walter B. Jacobs, Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. William A. McDonnell.

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* which follows on pages 9, 10 and 11, listing the agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 11:45 P.M. on February 16, 1959.

The meeting adjourned at 11:20 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 FEBRUARY 17, 1959

1. The Council understands that there will shortly be introduced in this Congress bills substantially identical with H.R. 11781 and S. 3603 which were introduced at the last session of the Congress at the request of the Board of Governors. The bills would provide for amending Section 19 of the Federal Reserve Act governing member bank reserve requirements. Would it be desirable to include in this proposed legislation a provision eliminating the central reserve city classification?

The Council understands that there will shortly be introduced in this Congress bills substantially identical with H.R. 11781 and S. 3603 which were introduced at the last session of the Congress at the request of the Board of Governors. The Council favors the general objectives of the proposed legislation but it should include an amendment eliminating the central reserve city classification.

2. The Council understands that the Board of Governors is considering a change in the time schedules published by the local Federal Reserve Banks under Section 4 (1) of Regulation J. Under the proposal, credit for items on so-called "country points" would become available after three days instead of the present two. The Council would like to discuss this proposal with the Board of Governors.

If the Board of Governors is considering changes in the time schedules published by the local Federal Reserve Banks under Section 4 (1) of Regulation J, the Council would welcome the opportunity to discuss such changes with the Board of Governors.

3. What are the views of the Council regarding the current business situation and the prospects for business activity during approximately the next six months?

The Council believes that business has continued to improve moderately since the last meeting with the Board. In recent weeks, the metal industry, especially steel, has reported increased buying, in part at least in anticipation of a possible strike. Retail sales are continuing at a high level. Although automobile sales are above totals of a year ago, they are somewhat below earlier expectations. The farm equipment industry has reported an increased volume of business as a result of the rise in farm income. Con-

struction, a buoyant force in the economy last year, continues an upward trend. Employment is lagging behind the improvement in production, reflecting 1) an improvement in productivity, owing largely to the use of more efficient plants, and 2) a longer work-week with overtime rather than an increase in the number of workers.

The members of the Council anticipate that business generally during the next six months will move to somewhat higher levels. The outlook for farm income in general would appear to be satisfactory though in some areas there may be some softening of farm prices.

4. How does the demand for credit at the present time compare with demands at this season in previous years of high activity, such as 1957? Is an increase in demand anticipated during the spring months of the year and, if so, in what areas of activity is it likely to be concentrated?

Although the volume of loans in some areas is exceptionally high, the demand for credit at the present time is not as great, over the country generally, as it was at this season in previous years of high business activity. However, the current demand for term loans is very strong. The members of the Council expect some increase in the demand for credit in the spring months of the year. This demand probably will reflect an increase in borrowing by consumers and sales finance companies. In addition, a probable increase in inventories, especially by the metal using industries, may add further to the demand.

5. Reports reaching the Board from various sources indicate some undercurrent of feeling on the part of business as well as individuals that further inflation is an inevitability. The Board would appreciate the Council's analysis of the extent to which such an attitude may exist; of the effect that it may have with respect to price levels over the next year and over the next several years; and of the steps that bankers and businessmen may be taking toward combating or fostering the factors that are responsible for the attitude described to the extent that it exists.

The members of the Council believe that there is an increasingly widespread feeling that an inflationary trend in the economy is unavoidable. This defeatist attitude is one of the most difficult facets of the problem and is aggravated by the belief in certain quarters that some inflation is desirable for the growth of the economy.

Factors contributing to the foregoing attitude include 1) the strong upward pressure on wages, 2) the continuing budget deficits, 3) steadily increasing demand for Government projects and services, and 4) the reluctance to reduce Government subsidies for agriculture and stockpiling. There is a strong demand for Government expenditures in many sectors of the economy without a commensurate willingness to provide revenue for the expenditures. Should these pressures persist, a rise in prices seems probable over the next several years.

Although there is considerable discussion regarding inflation and its evils, there is little evidence that any segment of the economy is willing to take the steps necessary—including some measure of austerity such as higher taxes—to combat the inflationary trend. Until members of the community are persuaded that it is in their own self-interest that inflation be prevented, it is not likely that they will moderate their demands on

Government. The solution suggested, therefore, is one of education. The attitude of the Board of Governors and the strong public statements by the Chairman are constructive steps in this direction.

6. The Board would appreciate the views of the Council as to appropriate credit policy for approximately the next three months.

The Council believes that appropriate credit policy for approximately the next three months would be the maintenance of essentially the current degree of restraint.

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

February 17, 1959

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. Homer J. Livingston, President; Messrs. Lloyd D. Brace, John J. McCloy, Casimir A. Sienkiewicz, Reuben B. Hays, John S. Alfriend, John A. Sibley, Gordon Murray, R. Otis McClintock, Walter B. Jacobs, Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. William A. McDonnell.

President Livingston read the first item on the Agenda and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, as printed on pages 9, 10 and 11 of these minutes. In the discussion which followed, Chairman Martin reviewed the long history of the study of reserve requirements. The bill referred to in the Agenda was developed by the Board. As a consequence, the Chairman said the Board would be opposed to the amendment suggested by the Council.

The President then read the second item, and the conclusions of the Council. In the brief discussion which followed, Governor Robertson reported that the matter was under consideration by the Board and that no decision had yet been reached.

President Livingston read the third item, and the conclusions of the Council. In an extended discussion which followed, the members of the Council outlined the current business situation in their respective districts and the prospects for business during the next six months.

The fourth item on the Agenda and the conclusions of the Council as expressed in the attached *Confidential Memorandum* to the Board were then read by President Livingston.

President Livingston read the fifth item on the Agenda and the conclusions of the Council as expressed in the *Confidential Memorandum*. In the discussion which followed the view was expressed that when the public becomes aroused, only then is there likely to be pressure for constructive steps toward combating inflationary tendencies, including limitation of government expenditures.

The President of the Council then read the sixth item and the conclusions of the Council as expressed in the previously mentioned *Confidential Memorandum*.

The meeting adjourned at 12:45 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 February 16, 1959, 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. McDonnell who was absent because of duties connected with his responsibilities as President of the U. S. Chamber of Commerce.

Mr. Walter B. Jacobs was elected Chairman pro tem and Mr. Herbert V. Prochnow was elected Secretary pro tem.

The following officers were nominated and unanimously elected:

Homer J. Livingston, President
Lloyd D. Brace, Vice President
John J. McCloy, Director
Casimir A. Sienkiewicz, Director
Gordon Murray, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at \$3,000 annually, and that of the Assistant Secretary at \$2,000 annually.

The Secretary presented the financial report for the year 1958, which had been audited by Mr. J. Carl Sommer, Auditor of The First National Bank of Chicago. The report was approved and placed on file. It will be printed and included in the formal printed minutes.

A motion was adopted authorizing the Secretary to draw upon each Federal Reserve Bank for \$450 for the secretarial and incidental expenses of the Federal Advisory Council for the year 1959.

The Council approved the Secretary's notes for the meeting of November 17-18, 1958. The printed minutes for all the 1958 meetings of the Council, copies of which had been sent previously to members of the Council, also were approved.

ITEM I

THE COUNCIL UNDERSTANDS THAT THERE WILL SHORTLY BE INTRODUCED IN THIS CONGRESS BILLS SUBSTANTIALLY IDENTICAL WITH H.R. 11781 AND S. 3603 WHICH WERE INTRODUCED AT THE LAST SESSION OF THE CONGRESS AT THE REQUEST OF THE BOARD OF GOVERNORS. THE BILLS WOULD PROVIDE FOR AMENDING SECTION 19 OF THE FEDERAL RESERVE ACT GOVERNING MEMBER BANK RESERVE REQUIREMENTS. WOULD IT BE DESIRABLE TO INCLUDE IN THIS PROPOSED LEGISLATION A PROVISION ELIMINATING THE CENTRAL RESERVE CITY CLASSIFICATION?

Livingston read Item I. He then outlined the ABA efforts to obtain legislation revising the Federal Reserve bank reserve requirements. Last spring, following conferences with
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Federal Reserve Bank of St. Louis

certain ABA officials, the Board of Governors had introduced in the Congress the bills referred to above.

After an extended discussion, during which most of the members of the Council participated, it was agreed that the Council would indicate that it favored the general objectives of the proposed legislation, but that the legislation should include an amendment eliminating the central reserve city classification.

ITEM II

THE COUNCIL UNDERSTANDS THAT THE BOARD OF GOVERNORS IS CONSIDERING A CHANGE IN THE TIME SCHEDULES PUBLISHED BY THE LOCAL FEDERAL RESERVE BANKS UNDER SECTION 4 (1) OF REGULATION J. UNDER THE PROPOSAL, CREDIT FOR ITEMS ON SO-CALLED "COUNTRY POINTS" WOULD BECOME AVAILABLE AFTER THREE DAYS INSTEAD OF THE PRESENT TWO. THE COUNCIL WOULD LIKE TO DISCUSS THIS PROPOSAL WITH THE BOARD OF GOVERNORS.

Livingston read Item II and added that he understood the matter had been discussed by the Presidents of the local Federal Reserve banks. It was pointed out in the discussion which followed that if the availability schedule was extended to three days from the present two, the Federal Reserve System would be obliged to supply additional reserves to compensate for the reduction in float. This might be accomplished by a reduction in reserve requirements, but the Board of Governors obviously could make no commitment to reduce reserves. Moreover, the float varies each day and a reduction in reserves would lack the flexibility to meet the situation. The Federal Reserve probably would prefer to make the compensating adjustment for reserves by means of Open Market operations. The present arrangement for handling the problem of float seems to work well. The Council unanimously concluded that it did not favor extending the availability time schedule from two to three days. However, since the Council's views might be premature, or inappropriate, if the Board had abandoned the idea, it was decided that the Council's reply should indicate that it would welcome the opportunity to discuss any possible changes with the Board of Governors.

ITEM III

WHAT ARE THE VIEWS OF THE COUNCIL REGARDING THE CURRENT BUSINESS SITUATION AND THE PROSPECTS FOR BUSINESS ACTIVITY DURING APPROXIMATELY THE NEXT SIX MONTHS?

Livingston read Item III and asked the individual members of the Council to comment on business conditions in their respective districts.

An extended discussion followed during which members of the Council indicated that business had continued to improve moderately since the last meeting with the Board. Several members noted that the metal industry, especially steel, had reported increased buying in recent weeks, in part at least, in anticipation of a possible strike. There was general agreement that retail sales are continuing at a high level, although most members of the Council reported that automobile sales apparently were below earlier expectations. Several members commented on the increased volume of business enjoyed by the farm equipment industry, reflecting the rise in farm income. Construction, it was reported, continues to move upward. Most members of the Council noted that employment is lagging behind the improvement in production. This, it was observed, reflected an improvement in productivity, and was largely due to the use of more efficient plants, and a longer workweek with over-time rather than an increase in the number of workers. There was general agreement

among the members of the Council that business during the next six months will continue to move to higher levels. Farm income may tend to stabilize or even decline in the months ahead.

ITEM IV

HOW DOES THE DEMAND FOR CREDIT AT THE PRESENT TIME COMPARE WITH DEMANDS AT THIS SEASON IN PREVIOUS YEARS OF HIGH ACTIVITY, SUCH AS 1957? IS AN INCREASE IN DEMAND ANTICIPATED DURING THE SPRING MONTHS OF THE YEAR AND, IF SO, IN WHAT AREAS OF ACTIVITY IS IT LIKELY TO BE CONCENTRATED?

Livingston read Item IV and a brief discussion followed.

It was agreed that the demand for loans is not as great over the country generally as it was at this season in previous years of high business activity. A number of bankers, however, reported a strong demand for term-loans. An increase in demand for credit in the spring months of the year is anticipated and probably will reflect an increase in borrowing by consumers and sales finance companies. The expected increase in inventories may add further to the demand for credit.

ITEM V

REPORTS REACHING THE BOARD FROM VARIOUS SOURCES INDICATE SOME UNDERCURRENT OF FEELING ON THE PART OF BUSINESS AS WELL AS INDIVIDUALS THAT FURTHER INFLATION IS AN INEVITABILITY. THE BOARD WOULD APPRECIATE THE COUNCIL'S ANALYSIS OF THE EXTENT TO WHICH SUCH AN ATTITUDE MAY EXIST; OF THE EFFECT THAT IT MAY HAVE WITH RESPECT TO PRICE LEVELS OVER THE NEXT YEAR AND OVER THE NEXT SEVERAL YEARS; AND OF THE STEPS THAT BANKERS AND BUSINESSMEN MAY BE TAKING TOWARD COMBATING OR FOSTERING THE FACTORS THAT ARE RESPONSIBLE FOR THE ATTITUDE DESCRIBED TO THE EXTENT THAT IT EXISTS.

Livingston read Item V.

An extended discussion followed during which members of the Council observed that there is an increasingly widespread feeling that an inflationary trend in the economy is unavoidable. This defeatist attitude rather than the immediate trend of prices is what concerns many people. The problem is further aggravated because people in certain quarters believe that some inflation is desirable for the growth of the economy. Factors contributing to the defeatist attitude include (1) the strong upward pressure on wages, (2) continuing budget deficits, (3) the steadily increasing demand for government projects and services, and (4) the reluctance to reduce government subsidies for agriculture and stockpiling. Should these pressures persist, a rise in prices over the next several years seems highly probable. The Council concluded that until the various segments of society are persuaded that it is in their own self-interest that inflation be prevented, it is not likely that they will moderate their demands on the government. The solution suggested by the problem is one of educating the public on the evils of inflation and in particular the necessity to eliminate budget deficits during periods of high economic activity.

ITEM VI

THE BOARD WOULD APPRECIATE THE VIEWS OF THE COUNCIL AS TO APPROPRIATE CREDIT POLICY FOR APPROXIMATELY THE NEXT THREE MONTHS.

Livingston read Item VI.

Following a brief discussion, it was agreed that the Council indicate to the Board that it believes appropriate credit policy for the next three months would be the maintenance of the current degree of restraint.

The meeting adjourned at 12:45 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M. ON FEBRUARY 16, 1959. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. MC DONNELL.

Dr. Woodlief Thomas, Economic Adviser to the Board, and members of the Board's staff of the Divisions of International Finance, and Research and Statistics participated in an audio-visual presentation on "The 1958 Recovery". Copies of the remarks were distributed to the members of the Council.

THE COUNCIL RECONVENED AT 10:00 P.M. ON FEBRUARY 16, 1959, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. MC DONNELL.

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 February 17, 1959. The Memorandum was delivered to the Federal Reserve Building at 11:45 P.M. on February 16.

The meeting adjourned at 11:20 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 17, 1959

1. The Council understands that there will shortly be introduced in this Congress bills substantially identical with H.R. 11781 and S. 3603 which were introduced at the last session of the Congress at the request of the Board of Governors. The bills would provide for amending Section 19 of the Federal Reserve Act governing member bank reserve requirements. Would it be desirable to include in this proposed legislation a provision eliminating the central reserve city classification?

The Council understands that there will shortly be introduced in this Congress bills substantially identical with H.R. 11781 and S. 3603 which were introduced at the last session of the Congress at the request of the Board of Governors. The Council favors the general objectives of the proposed legislation but it should include an amendment eliminating the central reserve city classification.

2. The Council understands that the Board of Governors is considering a change in the time schedules published by the local Federal Reserve Banks under Section 4 (1) of Regulation J. Under the proposal, credit for items on so-called "country points" would become available after three days instead of the present two. The Council would like to discuss this proposal with the Board of Governors.

If the Board of Governors is considering changes in the time schedules published by the local Federal Reserve Banks under Section 4 (1) of Regulation J, the Council would welcome the opportunity to discuss such changes with the Board of Governors.

3. What are the views of the Council regarding the current business situation and the prospects for business activity during approximately the next six months?

The Council believes that business has continued to improve moderately since the last meeting with the Board. In recent weeks, the metal industry, especially steel, has reported increased buying, in part at least in anticipation of a possible strike. Retail sales are continuing at a high level. Although automobile sales are above totals of a year ago, they are somewhat below earlier expectations. The farm equipment industry has reported an increased volume of business as a result of the rise in farm income. Construction, a buoyant force in the economy

last year, continues an upward trend. Employment is lagging behind the improvement in production, reflecting 1) an improvement in productivity, owing largely to the use of more efficient plants, and 2) a longer work-week with overtime rather than an increase in the number of workers.

The members of the Council anticipate that business generally during the next six months will move to somewhat higher levels. The outlook for farm income in general would appear to be satisfactory though in some areas there may be some softening of farm prices.

4. How does the demand for credit at the present time compare with demands at this season in previous years of high activity, such as 1957? Is an increase in demand anticipated during the spring months of the year and, if so, in what areas of activity is it likely to be concentrated?

Although the volume of loans in some areas is exceptionally high, the demand for credit at the present time is not as great, over the country generally, as it was at this season in previous years of high business activity. However, the current demand for term loans is very strong. The members of the Council expect some increase in the demand for credit in the spring months of the year. This demand probably will reflect an increase in borrowing by consumers and sales finance companies. In addition, a probable increase in inventories, especially by the metal using industries, may add further to the demand.

5. Reports reaching the Board from various sources indicate some undercurrent of feeling on the part of business as well as individuals that further inflation is an inevitability. The Board would appreciate the Council's analysis of the extent to which such an attitude may exist; of the effect that it may have with respect to price levels over the next year and over the next several years; and of the steps that bankers and businessmen may be taking toward combating or fostering the factors that are responsible for the attitude described to the extent that it exists.

The members of the Council believe that there is an increasingly widespread feeling that an inflationary trend in the economy is unavoidable. This defeatist attitude is one of the most difficult facets of the problem and is aggravated by the belief in certain quarters that some inflation is desirable for the growth of the economy.

Factors contributing to the foregoing attitude include 1) the strong upward pressure on wages, 2) the continuing budget deficits, 3) steadily increasing demand for Government projects and services, and 4) the reluctance to reduce Government subsidies for agriculture and stockpiling. There is a strong demand for Government expenditures in many

sectors of the economy without a commensurate willingness to provide revenue for the expenditures. Should these pressures persist, a rise in prices seems probable over the next several years.

Although there is considerable discussion regarding inflation and its evils, there is little evidence that any segment of the economy is willing to take the steps necessary—including some measure of austerity such as higher taxes—to combat the inflationary trend. Until members of the community are persuaded that it is in their own self-interest that inflation be prevented, it is not likely that they will moderate their demands on Government. The solution suggested, therefore, is one of education. The attitude of the Board of Governors and the strong public statements by the Chairman are constructive steps in this direction.

6. The Board would appreciate the views of the Council as to appropriate credit policy for approximately the next three months.

The Council believes that appropriate credit policy for approximately the next three months would be the maintenance of essentially the current degree of restraint.

ON FEBRUARY 17, 1959, 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. MC DONNELL.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS SZYMCAK, 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 12:45 P.M.