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.

H.V.P.
W.J.K.

The Secretary's notes of the meeting of the Federal Advisory Council on June 3, 1968, at 9:30 A.M. in the Board Room of The Madison, Washington, D.C. All members of the Federal Advisory Council were present except Mr. David M. Kennedy who was not feeling well, and Mr. Jack T. Conn whose wife was suddenly taken ill. Mr. Herbert V. Prochnow, President (retired), The First National Bank of Chicago, attended as an Alternate for Mr. Kennedy, and Mr. Grady D. Harris, Jr., President, Fidelity National Bank & Trust Company, Oklahoma City, Oklahoma, attended as an Alternate for Mr. Conn.

The Council approved the Secretary's notes for the meeting of February 19-20, 1968.

ITEM I

HOW DOES THE COUNCIL APPRAISE THE GENERAL BUSINESS AND FINANCIAL OUTLOOK FOR THE REST OF 1968?

President Mayer read Item I. Before inviting the members of the Council to comment on the outlook in their particular districts for the rest of 1968, he suggested that the members assume the enactment of the tax-spending legislation now pending in the Congress. He also suggested that an effort be made to limit discussion on five of the six items on the Agenda so that adequate time would be available to consider the Steering Committee's report on the discount mechanism.

The discussion disclosed fairly wide agreement that the rate of rise in business activity will moderate in the latter part of the year. This will reflect not only a less expansive fiscal policy, but also the impact of the present restrictive monetary policy. The liquidation of steel stocks which are now being accumulated in anticipation of a strike may be offset by the growth in inventories of consumer goods which currently are low in relation to sales. Several members questioned whether capital investment will continue to be as vigorous as it is at present. This will reflect the possible narrowing of profit margins as a result of the tax surcharge and a lessening in the rate of business expansion.

ITEM II

WHAT IS THE COUNCIL'S ASSESSMENT OF THE PROBABLE STRENGTH OF BUSINESS LOAN DEMANDS OVER THE NEXT SIX MONTHS? WHAT ARE THE RECENT AND PROSPECTIVE TRENDS IN BANK LOAN COMMITMENTS, PARTICULARLY COMMITMENTS FOR WHICH A FEE IS PAID?

The President of the Council read Item II. The members of the Council reported strong business loan demands in recent weeks, especially term and revolving credits. Several attributed this to a concern over possible credit restrictions. Bank loan commitments, particularly those for which a fee is paid, have expanded sharply in most areas. These developments and trends suggest a sustained strong demand for the next six months. This demand may be intensified by tax borrowing by business firms if the proposed surtax is approved. A number of members suggested, however, that this may be eventually offset by an easing of demand after the fiscal package is approved.

ITEM III

HOW DOES THE COUNCIL ASSESS THE CURRENT AND PROSPECTIVE DEMAND FOR LARGE-DENOMINATION C/D's? FOR CONSUMER-TYPE C/D's AND SAVINGS DEPOSITS?

President Mayer, after reading Item III, asked the members to comment. Several members were critical of the wording of the item as there was a very strong demand on the part of banks for funds represented by C/D's and savings deposits. There was a fairly uniform response, however, indicating a lessening demand by the public on banks for large denomination C/D's, as well as for consumer-type C/D's and savings deposits. This largely reflects the growing attractiveness of rates and yields on alternative market-type investments. The members of the Council do not anticipate any change, and as a matter of fact, expect disintermediation to continue as long as this rate relationship exists.

ITEM IV

WHAT ARE THE COUNCIL'S VIEWS ON MONETARY AND CREDIT POLICY UNDER CURRENT CIRCUMSTANCES?

President Mayer read Item IV. After a brief discussion the Council indicated its approval of current monetary and credit policy. Moreover, it urged that even after the fiscal package currently being debated in the Congress becomes law, present restrictive monetary and credit policy should be continued until there is evidence that the inflationary trend has moderated.

ITEM VI

WHAT WOULD BE THE REACTION TO (a) COMPLETE REMOVAL OF THE REGULATION Q CEILING ON NEGOTIABLE C/D's IN AMOUNTS OF $100,000 AND UP, AND (b) RAISING THE CEILINGS FROM THE PRESENT 4 PER CENT ON SAVINGS ACCOUNTS AND FROM THE PRESENT 5 PER CENT ON OTHER TIME DEPOSITS BELOW $100,000?

President Mayer then read Item VI, suggesting that this would permit all of the remaining time to be devoted to consideration of the Fifth Item on the Agenda.

The Council again concluded that it favors the complete removal of the Regulation Q ceiling on negotiable C/D's on amounts of $100,000 and up as it is not logical to have a ceiling on a money market instrument. There was considerable difference of opinion among the districts on the question of changing the present Regulation Q ceilings on savings deposits and on other time deposits below $100,000.

ITEM V

THE BOARD WOULD APPRECIATE REACTIONS TO THE FINAL REPORT OF THE STEERING COMMITTEE FOR THE FUNDAMENTAL REAPPRAISAL OF THE DISCOUNT MECHANISM, COPIES OF WHICH WERE SENT TO THE MEMBERS OF THE COUNCIL ON MAY 9, 1968.

President Mayer than invited discussion on the Steering Committee's report on the discount mechanism. After considerable conversation, the Council concluded that it should express its appreciation to the Board of Governors for the opportunity of previewing the report. The members, moreover, would indicate that they were impressed with the thoroughness of the report, its candid appraisal of conditions as they exist, and the willingness to consider fresh approaches to the administration of the discount mechanism.

Approval was also expressed of the objective of encouraging the increased use of the discount window by the establishment of a "basic borrowing privilege" for each bank. Some members questioned whether the proposed arrangement would achieve the objective of encouraging greater use of the discount window by smaller banks. The discussion disclosed wide agreement that bankers would prefer the use of premium rates for borrowings, when this is legally possible, rather than administrative actions to achieve appropriate restraint. Several members said they thought it would be helpful if there were information on the possible effects of the proposal, on the market for federal funds, and on the money market in general. The Council also concluded that the report should be reviewed by a committee of technical experts which might be appointed by The American Bankers Association.

The meeting adjourned at 12:40 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C., AT 2:30 P.M., ON JUNE 3, 1968. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSRS. KENNEDY AND CONN. MR. HARRIS ATTENDED AS AN ALTERNATE FOR MR. CONN.

Mr. Daniel H. Brill, Senior Adviser to the Board, and members of the Board's staff Division of Research and Statistics, participated in a discussion on business and international developments. Following this, there was an extended discussion on the Steering Committee's report on the discount mechanism in which Mr. Robert C. Holland, Secretary of the Board of Governors, also participated.

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THE COUNCIL RECONVENED AT 5:30 P.M., ON JUNE 3, 1968 IN THE BOARD ROOM OF THE MADISON. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSRS. KENNEDY AND CONN. MR. PROCHNOW ATTENDED AS AN ALTERNATE FOR MR. KENNEDY AND MR. HARRIS ATTENDED AS AN ALTERNATE FOR MR. CONN.

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 June 4, 1968. The Memorandum was delivered to the Federal Reserve Building at 7 P.M.

The meeting adjourned at 6:30 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON JUNE 4, 1968

1. How does the Council appraise the general business and financial outlook for the rest of 1968?

On the assumption that the tax-spending legislation is approved, the Council anticipates some reduction in the rate of increase in business activity in the latter part of the year. This will reflect not only a less expansive fiscal policy, but also the impact of the present restrictive monetary policy. The liquidation of steel stocks which are now being accumulated in anticipation of a strike may be offset somewhat by the growth of inventories of consumer goods which currently are low in relation to sales. With a tax surcharge and a lessening in the rate of business expansion, profit margins may narrow and capital investment be somewhat less vigorous.

2. What is the Council's assessment of the probable strength of business loan demands over the next six months? What are the recent and prospective trends in bank loan commitments, particularly commitments for which a fee is paid?

In recent weeks business loan demands--especially for term and revolving credits--have been strong, reflecting in part concern over possible credit restrictions. Bank loan commitments, particularly those for which a fee is paid, have expanded sharply in most areas. Present loan trends and loan commitments already made indicate a sustained strong demand over the next six months. This demand may be intensified by tax borrowing by business firms if the proposed surtax is approved.

3. How does the Council assess the current and prospective demand for large-denomination CD's? For consumer-type CD's and savings deposits?

The members of the Council report a lessening demand by the public on banks for large denomination CD's as well as for consumer-type CD's and savings deposits. This largely reflects the growing attractiveness of rates and yields on alternative market-type investments. As long as this rate relationship exists, the members of the Council believe that disintermediation will continue.

4. What are the Council's views on monetary and credit policy under current circumstances?

The Council approves current monetary and credit policy. If the fiscal package currently being debated in the Congress becomes law, the Council believes that the present restrictive monetary and credit policy should be continued until there is evidence that the inflationary trend has moderated.

5. The Board would appreciate reactions to the Final Report of the Steering Committee for the Fundamental Reappraisal of the Discount Mechanism, copies of which were sent to the members of the Council on May 9, 1968.

The Council would like to express its appreciation to the Board of Governors for the opportunity of previewing the Steering Committee's Report on the Reappraisal of the Discount Mechanism. In general, the members of the Council were impressed with the thoroughness of the report, its candid appraisal of conditions as they exist, and the willingness to consider fresh approaches to the administration of the discount mechanism.

The Council approves the objective of encouraging the increased use of the discount window by the establishment of a "basic borrowing privilege" for each bank. However, some members questioned whether the proposed arrangement would achieve the objective of encouraging greater use of the discount window by smaller banks. When it becomes legally possible, a desirable change in the proposal would be the use of premium rates for borrowings rather than administrative actions to achieve appropriate restraint. It would be helpful also to provide information on the possible effects of the proposal on the market for federal funds and on the money market in general.

The Council believes that the Report of the Steering Committee should be reviewed by a committee of technical experts which might be appointed by the American Bankers Association.

6. What would be the reaction to (a) complete removal of the Regulation Q ceiling on negotiable CD's in amounts of $100,000 and up, and (b) raising the ceilings from the present 4 per cent on savings accounts and from the present 5 per cent on other time deposits below $100,000?

The members of the Council favor the complete removal of the Regulation Q ceiling on negotiable CD's on amounts of $100,000 and up, as it is not logical to have a ceiling on a money market instrument. There was considerable difference of opinion among the districts on the question of changing the present Regulation Q ceilings on savings deposits and on other time deposits below $100,000. Individual members of the Council will comment orally at the meeting with the Board of Governors.

ON JUNE 4, 1968, 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 MESSRS. KENNEDY AND CONN. MR. PROCHNOW ATTENDED AS AN ALTERNATE FOR MR. KENNEDY AND MR. HARRIS ATTENDED AS AN ALTERNATE FOR MR. CONN.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: VICE CHAIRMAN J. L. ROBERTSON, GOVERNORS GEORGE W. MITCHELL, ANDREW F. BRIMMER, J. DEWEY DAANE, AND WILLIAM W. SHERRILL. MR. MERRITT SHERMAN, ASSISTANT TO THE BOARD, MR. ROBERT C. HOLLAND, SECRETARY, MR. KENNETH A. KENYON, DEPUTY SECRETARY, AND MRS. SEMIA OF THE SECRETARY'S OFFICE, 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 the members of the Council.

The meeting adjourned at 12:35 P.M.

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The next meeting of the Council will be held on September 16-17, 1968.

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the Board Room of the Federal Reserve Building in Washington, D. C., at 10:30 a.m. on Tuesday, June 4, 1968.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Mitchell
Mr. Daane
Mr. Brimmer
Mr. Sherrill

Mr. Holland, Secretary
Mr. Kenyon, Deputy Secretary
Mr. Sherman, Assistant to the Board
Mrs. Semia, Technical Assistant, Office of the Secretary

Messrs. Simmen, Moore, Still, Mayer, Wilkinson, Craft, Fox, Nason, Stewart, and Larkin, Members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Eighth, Ninth, Eleventh, and Twelfth Federal Reserve Districts, respectively

Mr. Grady Harris, President, Fidelity National Bank and Trust Company, Oklahoma City, Oklahoma

Mr. Prochnow, Secretary of the Council
Mr. Korsvik, Assistant Secretary of the Council

The Council member from the Seventh District, David M. Kennedy, was unable to be present at this meeting, and in his absence the District was represented by Mr. Prochnow. Also unable to be present was the member from the Tenth District, Jack T. Conn, and in his absence the District was represented by Mr. Harris.

1. How does the Council appraise the general business and financial outlook for the rest of 1968?

On the assumption that the tax-spending legislation is approved, the Council anticipates some reduction in the rate of increase in business activity in the latter part of the year. This will reflect not only a less expansive fiscal policy, but also the impact of the present restrictive monetary policy. The liquidation of steel stocks which are now being accumulated in anticipation of a strike may be offset somewhat by the growth of inventories of consumer goods which currently are low in relation to sales. With a tax surcharge and a lessening in the rate of business expansion, profit margins may narrow and capital investment be somewhat less vigorous.

In response to Governor Robertson's question whether the Council's statement reflected an expectation that there would be only a slight lessening of the rate of expansion in the second half of 1968, President Mayer said the Council expected a gradual downward movement, perhaps becoming fairly marked by the end of the year.

Governor Robertson then inquired whether the statement might be taken to mean that the Council was not too fearful, at this juncture at least, that a recession might be started as a result of the tax legislation. President Mayer replied that such a development was not expected this year. However, no view was being expressed as to what might happen next year.

Governor Brimmer asked whether the Council had tried to quantify the rate of change in measures of the economy, say between now and the end of the year. For example, did it expect a configuration in which the rate of expansion in real terms, which had been from 5-1/2 to 6 per cent (annual rate) in the first half of 1968, might drop to something in the neighborhood of 2-1/2 or 3 per cent?

President Mayer said that some quantification had been attempted. In general, he estimated that GNP in current dollars would increase about $20 billion in the second quarter, but only about $10 or $12 billion in the third and fourth quarters. However, Mr. Moore's figures were a little different.

Mr. Moore said he thought the second quarter increase in GNP would be nearer $25 billion, with a drop to about $13 or $14 billion in the third and fourth quarters.

Governor Brimmer then inquired about unemployment expectations, in response to which Messrs. Mayer and Moore indicated that they had not made estimates. Mr. Simmen said he would expect an increase in the unemployment rate from 3-1/2 to around 4-1/2 per cent.

Governor Mitchell inquired whether, in light of the prospective tax legislation, bank customers appeared to be concerned about their level of sales and the outlook for expansion.

Mr. Nason said they appeared to be more concerned about the size of recent labor settlements than about the tax bill, while Mr. Wilkinson commented that his bank's lending officers had detected no tendency to change plans for capital improvements, particularly labor-saving projects.

2. What is the Council's assessment of the probable strength of business loan demands over the next six months? What are the recent and prospective trends in bank loan commitments, particularly commitments for which a fee is paid?

In recent weeks business loan demands--especially for term and revolving credits--have been strong, reflecting in part concern over possible credit restrictions. Bank loan commitments, particularly those for which a fee is paid, have expanded sharply in most areas. Present loan trends and loan commitments already made indicate a sustained strong demand over the next six months. This demand may be intensified by tax borrowing by business firms if the proposed surtax is approved.

Governor Sherrill inquired whether, if tax borrowing proved to be substantial, the Council would not expect other borrowing to taper off, and President Mayer said he thought that a number of the outstanding commitments might never be called upon. Some parties might well cancel their commitments in the next few months in order to save the commitment fee.

Governor Sherrill then requested comments on the extent to which loan commitments had been sought for protective purposes.

President Mayer replied that the commitments represented insurance in many cases, and Mr. Moore attributed part of the recent demand to a backing away from the capital market. If that market improved, some of the pressure on the banks might be relieved.

Mr. Craft said his bank had experienced an upsurge in commitments to finance construction of multifamily residential units. He thought those commitments would be used and that, though there would be pay-offs, of course, the next few months would see a notable increase in outstandings. In reply to a question, he said his bank was making commitments for construction loans only on the basis that long-term financing was available from other sources.

Mr. Moore said his bank followed the same general policy. However, in some cases recently the bank had agreed to make construction loans for longer periods than usual due to difficulty experienced by the customers in arranging take-outs at mutually agreeable rates.

Mr. Craft observed that in recent months a decline had been noted in construction of single-family dwellings. However, there continued to be a good demand for credit at going rates to finance multifamily units.

3. How does the Council assess the current and prospective demand for large-denomination CD's? For consumer-type CD's and savings deposits?

The members of the Council report a lessening demand by the public on banks for large-denomination CD's as well as for consumer-type CD's and savings deposits. This largely reflects the growing attractiveness of rates and yields on alternative market-type investments. As long as this rate relationship exists, the members of the Council believe that disintermediation will continue.

6. What would be the reaction to (a) complete removal of the Regulation Q ceiling on negotiable CD's in amounts of $100,000 and up, and (b) raising the ceilings from the present 4 per cent on savings accounts and from the present 5 per cent on other time deposits below $100,000? (This question was suggested by the Council.)

> The members of the Council favor the complete removal of the Regulation Q ceiling on negotiable CD's in amounts of $100,000 and up, as it is not logical to have a ceiling on a money market instrument. There was considerable difference of opinion among the districts on the question of changing the present Regulation Q ceilings on savings deposits and on other time deposits below $100,000. Individual members of the Council will comment orally at the meeting with the Board of Governors.

President Mayer commented, in regard to the question suggested by the Board for discussion, that in the future any similar question might more appropriately be phrased in terms of the ability of the banks to compete rather than in terms of demand. As to the question raised by the Council, he said there was roughly an even split within the Council on raising the ceilings on savings deposits and on other time deposits below $100,000. Among those who would not, there was again a split when it came to the question of the 4 per cent and the 5 per cent ceilings. It would seem appropriate, therefore, that the members of the Council comment individually.

Mr. Nason remarked that in the Council's discussion he had received the impression that each member, from the point of view of his own bank, would like to see the interest ceiling removed from consumer-type CD's. It had been over-all policy considerations, including the problems of the savings and loan associations and of the smaller banks that had a substantial proportion of their deposits in time instruments, that had engendered views in favor of retaining the ceiling, however reluctantly.

President Mayer agreed that throughout the Council's discussion there had been recurrent references to political realities and to the danger that if substantial funds were lost by the savings and loans, they would be provided with ammunition for a renewed campaign to obtain additional banking powers.

There followed a go-around in which the individual members of the Council presented their views.

Mr. Simmen noted that the financial structure of the First District included a strong segment of mutual savings banks, which were highly competitive with the commercial banks, especially in Massachusetts, Rhode Island, and Connecticut. In those States the rate that was crucial was 5 per cent. While there was no appreciable disintermediation going on, some savings were moving from commercial banks paying 4 per cent to mutual savings banks paying 5 per cent. The commercial banks had prevented some change-over by offering features such as the 90-day notice account, savings bonds, and investment-type accounts. For the most part, the small passbook savings accounts--under $1,000--had been maintained, apparently because of the attraction to the depositor of holding a passbook and being able to withdraw the money whenever needed. Both the commercial banks and the mutual savings banks fixed minimum amounts ranging from $1,000 to $5,000 for other types of consumer time deposits.

Governor Mitchell observed that a few years ago a 4 per cent rate on savings had been fairly competitive. In the current situation, with an entirely different pattern prevailing, he wondered what Mr. Simmen would regard as a similarly competitive rate. Mr. Simmen expressed the view that 5 per cent would probably be such a rate.

Mr. Moore stated that in New York City the large banks had been experiencing a net loss in passbook savings. The loss recently had amounted to about twice the amount of interest credited, and it was increasing. However, if the ceiling were removed from that category of deposits, he did not believe city banks would increase their rates as high as 5 per cent. They probably would not go beyond 4-1/2 per cent, at which point they could hold their own with the mutuals. The situation upstate was different. While some of the larger banks would like to move to 4-1/2 per cent, in many smaller cities the banks did not have the same competitive problem and could live with the 4 per cent rate. Not all of them were paying even that rate. The over-all range of consumer CD's, including the several varieties such as the golden passbook account, had been enabling the city banks to remain competitive and show some over-all increase, but it seemed unlikely that that trend would continue unless the 5 per cent ceiling on such accounts was raised.

Governor Mitchell asked whether a 4-1/2 per cent passbook rate would be competitive, and Mr. Moore said that the smaller banks would object because of the adverse effect on their profit and loss statements. In the case of the large New York City banks, that would be a less vital factor.

Governor Mitchell then asked what would be likely to happen if the ceiling were lifted completely for the large CD's ($100,000 and over) with no other change, and Mr. Moore expressed the opinion that the volume and the rates paid would work upward. Matters were right at the breaking point at present, with banks reaching into the Euro-dollar market to replace funds lost through CD runoffs. If the ceiling were removed, banks would bid up cautiously. They would be reluctant to do so, because the interest costs would be expensive, but they could obtain 7-1/2 or 8 per cent on loans when compensating balance requirements were taken into account.

Governor Mitchell remarked that the negotiable CD's had been an important element in the growth of banks since 1962. They had been issued in a volume as high as $21 billion. He inquired whether Mr. Moore believed the volume might grow to as much as $40 billion or more, say in the next five years.

Mr. Moore responded that he did not envisage growth of such a magnitude. His own bank would not want to see the proportion of negotiable CD's in its portfolio increase too substantially, because the CD's were too volatile and the great demand now was in the term-loan category. If the ceiling were lifted, his bank would take advantage of the situation only to protect present liquidity requirements. It would not reach out for a sizeable increase in large CD's.

Mr. Still said that in general the totals of time and savings deposits in his area had not reached the levels projected earlier in the year or late last year. Difficulty in rolling over large-denomination CD's had resulted in some attrition. Passbook savings at 4 per cent seemed to go along at about an even keel. It appeared that most customers regarded passbook savings as segregated accounts, to put aside a little money for special purposes such as vacations or taxes, and therefore they did not care too much about the rate of interest. The story was different, however, with respect to 5 per cent certificates, for which there was fierce competition. There continued to be growth in this category of deposits, but the rate had slowed down greatly from 6 months or a year ago. Most of the city banks, he believed, would like to see the ceiling removed on large-denomination CD's. There was reluctance to removal of the ceilings on the deposits for which 4 and 5 per cent was paid, although a couple of banks had indicated that if the tax bill was not passed they thought it would be necessary to raise those ceilings. The general reluctance toward increases in such ceilings, or their removal, was based not so much on unwillingness of the large Philadelphia banks to pay more as on concern about the effect of higher rates on small, outlying banks and on the thrift institutions.

President Mayer agreed with Mr. Moore that banks would be averse to moving the component of large-denomination CD's in their portfolios much higher. If the ceiling rate on those instruments was removed, the banks would not be likely to increase the CD's substantially. On the other hand, they would not like to see their large CD's go down appreciably; they needed room to move. There seemed to be no question but that, if authority were given, large banks in his area would increase their rate on consumer-type CD's to 5-1/2 per cent in order to avoid disintermediation. He would be reluctant to increase the 4 per cent rate on passbook savings until the longer-term results of the tax increase could be appraised. The 4 per cent rate was well accepted and any increase would have a real impact on profit and loss where, as in his case, savings deposits represented a substantial percentage of total deposits. Of course, if any one of the leading banks took the initiative in raising that rate, others would have to follow to remain competitive. However, once that rate was moved up it would be hard to bring it back down. Only if it became evident that the general interest rate structure was going to remain high for a protracted length of time, and that passbook savings were likely to suffer, would he be inclined to think that the rate should be moved up.

Governor Brimmer said he was uncertain whether Messrs. Moore and Mayer would dislike to see an increase in the amount or the proportion of large CD's in their deposit structures; an amount target was quite different from a proportion target. Another point he would like to have clarified related to the comments that had been made that an increase in interest rates on passbook savings and consumer CD's would be adverse. His question related to the degree to which adverse effects would be experienced in terms of profit and loss.

Mr. Mayer responded that his bank had set a dollar amount target for negotiable CD's and was trying to adhere to that in the absence of any dramatic increase in total deposits. That target would be adjusted upward, of course, if there should be a dramatic increase in other deposits; under those circumstances the bank might not be so cautious. His apprehension about adverse effects if interest rates paid on passbook savings and consumer CD's were increased related to the impact on the profit and loss statement in a year when banks were going to have to absorb a tax increase. That combination of circumstances could amount to a bit of a blow.

Mr. Moore expressed agreement with Mr. Mayer's comments, adding that his bank had a dollar target for large CD's and was running close to that level.

Governor Mitchell inquired whether there would be merit in having a higher ceiling on longer-term CD's--perhaps those with maturity of 6 months or more.

Mr. Moore replied that his bank was avoiding longer-term CD's because it was guessing that rates would be lower next year. It did not want to have too much high-cost money in its portfolio.

Governor Sherrill inquired whether, if rates were equal, Mr. Moore would prefer Euro-dollars or negotiable CD's, and Mr. Moore indicated that his bank felt somewhat safer with the CD's. However, there could be a shift back and forth with even small rate differentials.

President Mayer asked Mr. Moore if he did not think that some banks were taking a substantial risk in getting into the Euro-dollar market when their names were not well known, and Mr. Moore agreed. He said it was a cause for concern that some banks were making 8-year term loans with 7-day money. It would seem appropriate for bank examiners to look into that question. In response to a question, President Mayer said the concern he had expressed about banks whose names were not well known arose from the risk that if the whole Euro-dollar market got smaller those banks would be squeezed out first.

Mr. Wilkinson remarked that mutual savings banks were not prominent in the Fifth District, except in Baltimore, but the district was honeycombed with savings and loans. He recognized that there was a philosophical contradiction in advocating a free market and still favoring rate controls. Yet, while the members of the Council were agreed on the desirability of removing the ceiling on CD's of $100,000 and over, there was a substantial body of sentiment against removing or increasing the ceilings on passbook savings and savings certificates. It was elementary to point out that pressure to pay a higher rate on such deposits would have a much more severe impact on a bank with 60 to 80 per cent of its money in time deposits than on a bank with only 20 per cent. Add to that impact the fact that a bank in which time deposits predominated typically would have a different kind of portfolio from that of a bank not so oriented, and the pinch of increased cost of time money--in whatever form--was intensified.

Also, from the point of view of timing it did not seem to Mr. Wilkinson to make sense to increase the ceilings on passbook savings and consumer CD's right now. The prospective surtax and expenditure cuts, taken together, should tend to ease interest rates. Therefore, while he would like to see the ceilings removed on those instruments, he believed this would be a poor time to do it. In conclusion, an observation he had heard from bankers in two different States in his district might be of interest, namely, that if types of accounts such as the golden passbook continued to flourish the result would be the death of the regular passbook account.

Mr. Craft remarked that he would have liked to have the capacity to retain large CD's at about the level of three or four months ago, but some had been lost. In a canvass of about a dozen banks in his District he had found that those in the eastern part of the District were almost uniformly in favor of removing the ceiling rate on larger CD's, but those in the western part, with one exception, were not. In both sections of the district he had heard strong views that the ceilings on savings accounts and smaller CD's should not be touched, although in the eastern part of the district the possibility of increasing those ceilings by 1/2 of 1 per cent had been mentioned. He believed the latter view was generally held by banks in Atlanta, who would also favor removal of the ceiling on large CD's. Relatively few banks in the Sixth District held CD's in large denominations.

Mr. Prochnow said he would favor removing the ceiling on CD's of $100,000 and over. He also would favor increasing the ceiling rate on 4 per cent passbook savings, even though that would be costly to banks such as his own that held a large volume of such deposits, since he did not feel that the 4 per cent rate represented adequate payment in the present market.

Mr. Prochnow believed there was some merit in Mr. Wilkinson's view that any change in the rates on passbook savings and consumer CD's should be deferred until there had been an opportunity to observe the effects of the tax increase, but aside from that consideration an increase seemed to him desirable. For the time being, his bank was just about holding its own against the immediate competition, which came principally from savings and loans, but there might be some loss around the July interest-crediting date.

Governor Daane referred to the comments about the tax legislation putting a damper on interest rates and asked what the expectation was in terms of the package contained in the pending bill.

Mr. Prochow said that if one assumed a continuation of the present degree of monetary restraint he did not believe any very significant rate effect would develop for some time, and President Mayer added that that was probably the general feeling of the Council.

Governor Daane inquired whether the Council believed the tax increase had already been discounted, and President Mayer again expressed the view that there might not be any significant effect on interest rates. Certainly no dramatic effect was expected. Mr. Moore agreed that the rate structure probably would remain about the same as at present for some time.

Mr. Prochnow then remarked that while he would favor an increase in the ceilings on passbook savings and consumer-type time deposits, once the rates offered by banks were increased it would be difficult to move them down again. Therefore, it would probably be well to wait for a while.

Mr. Mayer agreed that a bank probably was not paying enough on savings at 4 per cent. On the other hand, small passbook accounts really were not used purely as savings instruments for the most part.

Mr. Fox, after pointing out that the Eighth District was largely a unit banking area, said he would favor removing the ceiling on large CD's. They were not, he noted, a major element in the deposit structure of area banks. He would also favor an increase in the ceiling on consumer CD's. As to passbook savings, he regarded them as a hybrid and not true time deposits at all. Therefore, if the Board was going to continue to prescribe different maximum rates for different types of deposits, he would like to see a lower maximum set for passbook savings. He did not believe there was justification for rewarding the passbook saver who, if a higher rate was desired, could easily switch to another type of time deposit. This was a personal view, Mr. Fox added, and other bankers in his area might not subscribe to his philosophy.

Mr. Nason agreed with removing the ceiling on large CD's and said that from a selfish standpoint he would also favor increasing the maximum rate payable on consumer CD's, or possibly removing the limitation. However, he would not advocate a higher maximum rate on passbook savings. There had been a strong effort in the Ninth District to induce savers to move from passbook accounts to low-denomination CD's, and as a result many of the banks had more deposits in consumer CD's than in passbook savings. However, the District was essentially a unit banking area, with country banks having a high proportion of time money. The newly-enacted par clearance bill in Minnesota had created concern about earnings, and the large banks were concerned about maintaining the good will of their correspondents. Therefore, even if a higher maximum rate was established on passbook savings, he doubted that the major correspondent banks in the Twin Cities would increase their rates. The banks might move up their rates on consumer CD's, however. While they had made some significant gains in the last few years in competition with savings and loans, they were not doing so well at present.

Mr. Harris said there appeared to be no need in the Tenth District to change the ceiling rate on passbook savings or on consumer CD's. In the first four months of this year there had been an increase in time deposits throughout the district, mostly in consumer CD's. The increase, while not as great as the increase during the comparable period of 1967, was larger than in any of the five years prior to 1967. It was not until late 1966 and early 1967 that commercial banks in the district had made a real effort to compete with the savings and loans; since then there had been large inflows from the savings and loans, and the growth of bank time deposits had been healthy and steady.

Mr. Harris agreed with comments by earlier speakers on the nature of the passbook account; it had more the character of a seldom-used checking account than a savings device. His own bank was at a standstill on passbook savings, principally because it had been trying to persuade those depositors to choose consumer CD's instead. He agreed in theory with the view that the ceiling should be lifted for large CD's. If it were, however, he doubted that institutions like his own would strive to increase the volume of such deposits, because to do so would merely increase their costs.

Mr. Stewart noted that Eleventh District banks did not have ready access to the Euro-dollar market. Dallas and Houston banks also had more trouble getting funds through large CD's than the New York City banks. They were encountering strong loan demand, and therefore they would like to see the ceiling rate lifted on large CD's to increase their ability to attract such funds. They would also like to be able to increase their rates on consumer CD's and passbook savings, which in combination were running about level. Bankers in Fort Worth, San Antonio, and other areas probably would not share those views, but banks in Dallas and Houston were having problems in getting money, with strong competition from the savings and loans. They were presently trying to adjust their positions through the Federal funds market and through borrowing from the Federal Reserve.

Mr. Larkin said he thought the general feeling in the Twelfth District was that banks should have relief from the rate limitations on large CD's as a protective measure in order to avoid a large amount of disintermediation in a short period of time. As far as the 4 and 5 per cent deposits were concerned, he had to admit prejudice because his own bank had such a large volume of them that the impact of a rate increase would be substantial. Over the past few years the volume of passbook savings had declined somewhat and the volume of 5 per cent certificates had increased, with a substantial net gain. This year deposits had increased in the early months and then dropped, perhaps more than seasonally, with the California State income tax exerting quite an impact; this had been felt by the savings and loans as well as by the banks. That trend now seemed to have flattened out, however.

There did not appear to be any particular need to increase the ceilings on the 4 and 5 per cent deposits, Mr. Larkin said. If there should be a change, it should be limited to the 5 per cent category. There were several reasons for this feeling, the principal one being that an increase of even 1/2 of 1 per cent in the ceiling for deposits on which 4 and 5 per cent was now paid could have an important impact on the position of savings and loan associations, which was crucial in his area. They could not raise their dividend rates without being hurt badly, because the rates on their outstanding real estate loans were fixed, and it would be undesirable to create disintermediation, not only because of adverse effects on the building industry but also because such a development could lead to legislation that would allow the savings and loans to expand into banking areas. With respect to the deposits on which 4 per cent interest was paid, he agreed with the idea of waiting to see what would result from the tax-spending legislation. His judgment was that no major surge in rates was in prospect if the tax legislation was enacted. If it did not go through, all bets were off. As others had remarked, if the rate on passbook savings were increased, it would be hard to bring it back down. That was not so true with respect to the consumer CD's.

4. What are the Council's views on monetary and credit policy under current circumstances?

> The Council approves current monetary and credit policy. If the fiscal package currently being debated in the Congress becomes law, the Council believes that the present restrictive monetary and credit policy should be continued until there is evidence that the inflationary trend has moderated.

Governor Robertson inquired whether the Council meant that monetary policy should continue to be restrictive for some time, say 3 to 6 months, after the tax bill was passed.

President Mayer said the Council meant that the foot should not be taken off the brake at once, because there was going to be a lag before the fiscal legislation took hold. The Council had not discussed the matter in terms of months.

Mr. Still observed that some people believed the tax bill would provide a panacea for all ills, that as soon as it was enacted the Federal Reserve would loosen up and monetary problems would disappear. In the Council's opinion, that was not true. The Federal Reserve should continue a restrictive monetary policy until there had been an opportunity to observe what effect the tax measure was going to have on the economy.

President Mayer brought out that the balance of payments problem must be taken into consideration. He added that the Council had not reached any conclusion as to the point in time at which it appeared that a change in monetary policy could appropriately be made.

Mr. Prochnow noted that it was difficult to be specific. If the present inflationary trend were to accelerate, it appeared that monetary restraint would have to be fairly firm. If the rate remained stationary or receded, there might be an opportunity for the System to give some evidence of easing.

Governor Robertson asked if it was felt, then, that any easing should be deferred until the rate of inflation dropped to a certain point, and Mr. Prochnow replied that while the rate of inflation was one of the significant guideposts, it was not the only one. Mr. Moore expressed the opinion that it was premature to talk about easing as of any particular point. In his view the whole economy needed to be cooled down first. The economic growth rate probably should subside by about 50 per cent, at least, before monetary policy eased significantly, in light of the balance of payments problem and other factors that must be taken into account. President Mayer remarked that an impression had been received by the Council yesterday that the Board's staff was confident about the economic impact of the tax legislation and foresaw the possibility of overkill by next year. The Council, in its own discussion, did not have the same feeling.

Governor Mitchell referred to a recent article by Professor Friedman in which the question was raised whether the Federal Reserve would be willing to maintain a posture of restraint long enough to retard inflationary trends to a sufficient degree, at risk of a small increase in unemployment and a reduction in the rate of economic expansion, or whether it would react to the emergence of such phenomena by premature easing. He inquired what the Council members thought of the idea that in order to find a cure for inflation it might be necessary to condone some degree of recession.

Mr. Prochnow expressed the view that it would be necessary to exercise caution to avoid easing too fast, given the present economic forces; it might be necessary to go close to the brink of recession.

Mr. Moore commented that from a social aspect he was distressed at the thought of a recession. Yet the tax increase had been too long delayed and the balance of payments problem was extremely serious. The balance of payments figures would be bad this year in spite of the fiscal action finally in prospect.

Mr. Still said he was extremely concerned regarding the social impact. He thought the reaction of society to substantially more unemployment would be a great deal worse than to permit some degree of inflation to continue.

Mr. Prochnow agreed that that was the fundamental issue. It was admittedly risky to go to the brink of recession in order to be sure of being tight enough to contain the inflationary trend. However, a continuation of that trend would ultimately present more difficult social problems. It might lead eventually to a serious recession.

Governor Brimmer said he believed it was possible to quantify the reaction of the economy in the coming months, within certain ranges, since a number of the influences were known. The pending legislation provided for an additional $10 billion in taxes, with some retroactive features, and cuts in governmental expenditures equal to $6 billion over the next fiscal year. Another given factor was the present degree of monetary restraint, and there was sufficient experience to have some idea about the lags associated with the impact of such a policy. Another reasonably well known quantity was the scheduled increase in social security taxes next January. At the present time there appeared to be some question regarding the Government pay bill, set for July, but if that was put aside from the calculations it could be seen that the other factors were all restrictive. Assuming no change in monetary policy, it looked to him as though by the second quarter of 1969 the rate of growth, in terms of real output, might be around 1 or 1-1/2 per cent, compared with the present 5-1/2 to 6 per cent, and as low as 3 per cent by the fourth quarter of this year. When it came to prices, it looked as though enactment of the pay bill might result in an increase in the GNP deflator of one-half point, thus raising the rate in the third quarter to well over 4 per cent; without the pay bill the rate would be just over 4 per cent. In the second quarter of 1969, the rate might be 3 per cent or a little less. The unemployment rate, now 3.7 or 3.8 per cent, would be 4 per cent, perhaps close to 4-1/2 per cent. He believed this quantification suggested the choices open to the monetary authorities in terms of the timing and amounts of their actions. The beneficial effects of a slowdown in the rate of inflation on the balance of payments probably would be postponed well into next year; there would not be much effect this year in terms of imports. In view of the interplay of circumstances that he had described, he wondered if it might not be possible to be more specific in responding to a question such as had been posed.

Governor Robertson observed that the discussion today had emphasized the kind of problem the System would be facing in the period ahead. The views expressed by the Council had been based on as accurate an appraisal as they believed could be made on the basis of presently-available evidence. It seemed certain that the same type of question would be addressed to the Council again at the next meeting, and by then there would have been some opportunity to assess the impact of the tax legislation.

President Mayer agreed that at the time of the next meeting the Council should find it possible to answer such a question in a more precise manner.

5. The Board would appreciate reactions to the Final Report of the Steering Committee for the Fundamental Reappraisal of the Discount Mechanism, copies of which were sent to the members of the Council on May 9, 1968.

The Council would like to express its appreciation to the Board of Governors for the opportunity of previewing the Steering Committee's Report on the Reappraisal of the Discount Mechanism. In general, the members of the Council were impressed with the thoroughness of the report, its candid appraisal of conditions as they exist, and the willingness to consider fresh approaches to the administration of the discount mechanism.

The Council approves the objective of encouraging the increased use of the discount window by the establishment of a "basic borrowing privilege" for each bank. However, some members questioned whether the proposed arrangement would achieve the objective of encouraging greater use of the discount window by smaller banks. When it becomes legally possible, a desirable change in the proposal would be the use of premium rates for borrowings rather than administrative actions to achieve appropriate restraint. It would be helpful also to provide information on the possible effects of the proposal on the market for Federal funds and on the money market in general.

The Council believes that the Report of the Steering Committee should be reviewed by a committee of technical experts which might be appointed by the American Bankers Association.

Governor Robertson noted that copies of the report had now also been sent to the directors of the Federal Reserve Banks on a confidential basis, so the Council members could undertake discussion of the document at directors' meetings.

President Mayer stated that generally speaking the Council regarded the concept of the basic borrowing privilege as a step forward, although, of course, it would be more helpful to some banks than to others. Certainly it would help to have a dialogue started between the Reserve Banks and the member banks, particularly the smaller banks, in order to achieve clear understandings. This process of communication was one that the Council would urge as being highly constructive.

The provisions for emergency and for adjustment credit seemed to the Council members to be very little different from the present arrangements, President Mayer said, but here again the initiation of an educational process should be useful. Some question had been raised regarding the setting of the basic borrowing privilege according to the number of reserve computation periods in which a bank was in debt to the Federal Reserve and those in which it was not. If a bank borrowed a nominal amount for a period shorter than a reserve computation period, it seemed unfortunate to have the entire period counted. This was a point to which some further consideration might be given.

Mr. Moore expressed regret that the report contained practically no reference to the specialized position of the money market banks.

President Mayer commented that the provisions for seasonal credit no doubt would be helpful to some smaller banks, especially in agricultural areas, but probably would not be of particular consequence to most banks, including the larger banks.

Governor Mitchell remarked that a study by the Chicago Reserve Bank had indicated that quite a substantial percentage of the very small banks in that district should be eligible for seasonal credit. The benefits apparently would flow almost exclusively to small banks, particularly in areas where unit banking was prevalent.

Mr. Wilkinson said his bank had concluded, after study, that the seasonal eligibility contemplated by the report would be found only in a smaller bank that was quite static and not experiencing secular growth.

Mr. Simmen remarked that if the provisions described in the report had been in effect in the spring of 1966 about one-third of the First District banks would have been borrowing in excess of their basic borrowing privilege. That raised a question whether something was actually being taken away from the banks. He understood that the answer was in the negative; that a bank could continue to borrow to satisfy its needs without falling under undue surveillance. The banker opinions he had gathered indicated good relations in the past between the member banks and the Federal Reserve Bank of Boston; during the 1966 period of credit stringency questions had been asked by the Reserve Bank, but they were limited to ascertaining the plans of the member banks for making adjustments. He understood that the Steering Committee's report was not intended to suggest any particular change.

Governor Robertson replied that essentially the same rules as now applied would continue to prevail after the basic borrowing privilege was exceeded.

Governor Mitchell remarked that the Council members had been somewhat at a disadvantage in not having available the research study that had gone into the discount mechanism project. That study had indicated a great deal of diversity in lending and borrowing practices throughout the System, and also among banks in the same district. It had seemed to the Committee that the problem was essentially one of lack of communication between the discount officers and with the member banks. One way of dealing with this lack of certainty was to have a very specific statement on what the basic borrowing privileges were. If a bank borrowed beyond that line, it would be subject to the same kind of rules, surveillance, and counseling as at present. If one accepted the idea that a bank should not be continually in debt to the Federal Reserve, then some way must be found for assuring that the bank was out of debt part of the time. The other option would be continual surveillance, as in some European countries. If a bank was not continuously in debt, it should have to explain only the plan for adjustment. While a majority of the Steering Committee was sympathetic to the idea of using premium rates as a control mechanism, that was not possible under present law.

Mr. Moore commented that banks were disciplined by their profit and loss statements. Even small variations in the rates they had to pay would cause them to respond promptly, and the grounds for misunderstanding would be diminished. Therefore, he hoped that legislation would be pushed.

Governor Daane inquired whether the Council had any views to express, beyond favoring the concept of the basic borrowing privilege, on the design of the discount window suggested by the report, particularly in terms of impact on the money market.

President Mayer replied that the Council in general believed that the basic borrowing privilege established a formula that should provide greater flexibility. On this and other parts of the design, however, the Council felt that an educational job was needed. The Board should encourage the Federal Reserve Banks to carry on a dialogue with the member banks so that the latter would be familiar with the groundrules before rather than after the fact. At present, after a bank was indebted for a period of time the Reserve Bank began to ask questions. The member bank was sensitive to such a communication and resentment built up. Mr. Moore added that despite the Council's general approval of the program, he thought none of its members believed that anything significantly different was going to happen in terms of use of the discount window by member banks. President Mayer and Mr. Craft said they were not sure they agreed with Mr. Moore's comment.

Governor Mitchell remarked that it was estimated that maximum exposure, with the basic borrowing privilege in effect, would be about \$3.5 to \$4 billion, and the probable actual borrowings would be relatively small. However, because of the possibility of wide and unpredictable swings that could be destabilizing and costly in terms of monetary control, the Committee had been reluctant to go too far.

Mr. Still said that as he read the report he had received the impression that the proposed arrangements were too complicated and cumbersome to attract member banks to use the discount window. It appeared to him that borrowing banks would be subject to more administrative surveillance than at present, and that alone might discourage many of the banks, particularly the smaller ones. Assuming that the real objective was to attract banks to the window, he wondered why the basic facility must be called a privilege instead of a right. If banks were in fact discouraged from using the window, some of them might question whether continued membership in the System was worth while.

Governor Mitchell observed that it had seemed to the Committee that the basic borrowing privilege involved a very simple formula. If the basic privilege was liberalized, he noted, the fewer the questions that would be asked, but the greater the risk of a weakening of monetary control.

Mr. Moore commented that the amount limitation circumscribed the usefulness of the basic privilege to a bank such as his own. If the ranges were not higher, the facility would be of virtually no use to such a bank.

Governor Mitchell replied that the proposed ranges might well be too low and that they could be extended if the need was made evident. In order to judge this and other questions, it would be necessary to obtain and study the views of the banking industry.

In further discussion Mr. Prochnow referred to portions of a memorandum that had been sent to him by the bank whose chief executive officer, Mr. Kennedy, was the Council member from the Seventh District. Among other things the memorandum referred to the fact that the money market had been relied upon to carry out the reserve allocation process. The Steering Committee's report suggested that a larger part of this process was to be effected through the discount window. Some reservations were expressed about shifting the locus of control from the Open Market Desk to the discount window. The idea was not opposed fundamentally, but it was felt that more information was needed.

President Mayer observed that banks in New York, and perhaps in Chicago, obtained prompt benefits from open market operations. He was not sure that the rest of the banks did; it took quite a while for the effects to filter through the banking system.

Mr. Nason asked why the Steering Committee had chosen capital and surplus as the basis for establishing the basic borrowing privilege instead of total capital funds, and Governor Mitchell indicated that the simplicity of the formula had appealed to the Committee. Mr. Larkin noted that in making allocations in its financing operations the Treasury had shifted to capital, surplus, and undivided profits, and Governor Mitchell said that the point should perhaps be reexamined.

Governor Robertson then requested comments from the Council regarding ways and means of obtaining reactions to the report.

President Mayer said that two possibilities had occurred to the Council. The first was submission of the report to the research committee of the American Bankers Association, or perhaps to an ad hoc committee of specialists designated by the Association. Such an approach seemed to have merit because the committee members would be closer to day-to-day banking operations, from which the Council members were somewhat removed. A second approach might be to encourage the discount officers at the Reserve Banks to initiate discussions in depth with the member banks in their districts.

Question was raised whether the discount officers were brought together periodically, and Governor Mitchell said that telephone conferences were now held about every 3 weeks. Governor Robertson pointed out that this would be helpful in implementing policies once they were established, but that the more immediate question was how to complete the review of the report and enable the System to reach policy decisions.

Governor Mitchell observed that the report had had rather full review within the System. It would soon be desirable to make it generally available. While he agreed that groups such as President Mayer had mentioned should be brought into the picture, he wondered if they would adequately represent the small banks and provide geographic coverage.

Mr. Moore expressed the view that the ABA could be expected to bring in representation of the small banks. Mr. Still reiterated the suggestion that field meetings should be held by the respective Reserve Banks, and President Mayer agreed that that would be desirable in starting a dialogue between the System and its member banks.

Mr. Nason asked if the report in its present form would be used for this next stage of discussion, and Governor Mitchell indicated that it had already been found that some changes would be necessary for purposes of clarification. To facilitate the work of special study groups, a digest of the research papers prepared in connection with the discount study could also be furnished.

Question was raised whether there were people at all of the Reserve Banks who could explain clearly the features of the report such as the basic borrowing privilege and its implications. The reply given was that competent advice would be available from each Reserve Bank at least by the time the report was distributed and discussions of it were desired.

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Mr. Moore commented that he anticipated U.S. banks would improve this year on their targets under the foreign credit restraint program, and by a sizable figure.

Governor Robertson agreed that such a result seemed in prospect. He then asked Mr. Moore whether the latter expected that Eurodollar borrowings would increase dramatically over the next few months, and Mr. Moore replied that there were too many uncertainties to make any prediction. Much would depend on what happened domestically. Governor Robertson inquired whether Mr. Moore foresaw limitations on the ability of the banks to bring in Eurodollars, and the latter replied that this would depend on whether world markets stayed as calm as at this particular moment. The Eurodollar market was presently more calm than it had been. As a guess, he thought that U.S. banks were likely to bring in more Eurodollars.

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It was agreed that the next meeting of the Federal Advisory Council would be held on September 16-17, 1968.

The meeting then adjourned.

Secretary