

Minutes for September 15, 1960

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date. 1/

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

Gov. Szymczak

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

The image shows handwritten initials and signatures on lines next to the names of the Board members. The initials are: a circled 'W' for Chm. Martin; a signature for Gov. Szymczak; a signature for Gov. Mills; a signature for Gov. Robertson; 'CCRB' for Gov. Balderston; a signature for Gov. Shepardson; and a signature for Gov. King.

1/ Meeting with the Federal Advisory Council

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the offices of the Board of Governors in Washington on Thursday, September 15, 1960, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Szymczak  
Mr. Robertson  
Mr. Shepardson  
Mr. King

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary

Messrs. Enders, McCloy, Sienkiewicz, Hays, Alfriend, Persons, Livingston, Turner, Murray, McClintock, Betts, and Frankland, Members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively

Mr. Prochnow and Mr. Korsvik, Secretary and Assistant Secretary of the Federal Advisory Council, respectively

Before this meeting the Federal Advisory Council had submitted to the Board a memorandum setting forth its views on the subjects to be discussed. The topics, the Council's views, and the discussion were as follows:

1. What are the views of the Council regarding the current economic situation and prospects for business activity during the next six months? The Council's impressions as to expectations of the business community and the general public and the impact thereof on capital expenditures, inventory policies, and consumer expenditures would be appreciated.

The members of the Council report that although business currently is at a high level as indicated by the total expenditures of consumers, business, and government, weaknesses are

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evident in the economy. Residential construction is substantially below previous high levels. The steel industry is presently operating at slightly over 50 per cent of capacity. Despite comparatively large automobile sales, the inventory of new 1960 model cars is substantial. Although total retail sales are above last year's volume, they are currently below the level of last spring. Many businesses are experiencing narrowing profit margins. Employment is at near record levels, although approximately 5 per cent of the labor force continues to be unemployed.

All members of the Council believe that a modest seasonal increase in business activity will tend to sustain the economy in the fourth quarter, but there is increasing concern about the outlook after the first of the year.

The Council believes that a downward trend in capital expenditures is probable, and that some further liquidation of inventories is likely during the next six months. Consumers are also demonstrating some hesitancy in their buying, and as a consequence their expenditures may lag.

In line with the procedure followed at recent meetings of the Board and the Council, detailed reports by individual members of the Council on business and financial developments in their respective areas were omitted. However, members of the Council commented on regional developments, and also expressed opinions from the overall standpoint, in response to questions raised during a general discussion based upon the Council's statement on this topic and remarks by President Livingston in amplification thereof. Developments to which particular attention was given included the strength of the seasonal increase in business activity that might be anticipated this year; the status of the demand for housing, including new construction and older houses; the trend in farm land prices; and the situation in respect to manufacturers' inventories. Views also were expressed concerning prospects for business activity in the first part of 1961.

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2. With respect to the demand for credit: (a) How does the current situation compare with the situation at this season of other recent years? (b) Are there indications that the demand for bank loans and other credit will strengthen over the remainder of this year? (c) How have borrowers responded to the recent change in the prime rate? (d) Have the demands for consumer credit and mortgage credit improved?

(a) Although the total volume of bank credit outstanding is above a year ago, the current demand in most districts does not seem as strong as it has been at this season in other recent years.

(b) The Council anticipates a seasonal increase in bank loans and other credit in the fourth quarter, but most members believe the rise may be less than usually occurs at this time of the year.

(c) Up to the present time the members of the Council have observed no discernible response on the part of borrowers to the reduction in the prime rate.

(d) Most districts report that they do not observe any noticeable increase in the demands for consumer and mortgage credit.

A general discussion based on the several parts of this topic, and the Council's statements with respect thereto, included views of members of the Council who found the credit situation in their respective areas consistent with the Council's overall statement and comments by Council members from districts where conditions seemed to fall somewhat outside the general pattern. With respect to the question relating to the change in the prime rate, it was pointed out that in general there had been no reduction in secondary and tertiary rates; it was further stated that judgments of the Council with respect to the prospective demand for credit were not based upon actual or possible interest rate changes. Consideration also was given

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during the course of the discussion to trends in corporate liquidity and the relationship thereof to money market developments.

3. In recent weeks there have been large differences between short-term interest rates in the United States and those in other countries. There has also been some increase in the outflow of gold from this country. The Board would be glad to have any views the members of the Council might care to express on this subject, particularly with regard to the relationship between the international situation and current monetary policy.

The large differences in recent weeks between short-term interest rates in the United States and those in other countries may have been a factor contributing to the increase in the outflow of gold from this country and is one that must be continually kept in view. The increase in the short-term dollar claims of foreigners over the past year suggests confidence in the dollar. Although interest rates are an important factor in international gold movements, responsible fiscal policy, a reasonable balance in international payments, and a vigorous and sound economy are of the highest importance.

Comments relating specifically to this question were limited to an amplification of the views set forth in the Council's statement, but there was further discussion of the balance-of-payments problem in connection with the topic having to do with monetary and credit policy.

4. The Board would be glad to have the views of the Council regarding the appropriateness of recent monetary and credit policy.

The Council believes that, in view of some evidences of weakness in the domestic economy and the lessening of inflationary pressures, recent monetary and credit policy has been appropriate.

The views of the Council on recent monetary and credit policy, as expressed in its statement and supplemented by comments at this meeting,

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led to a rather extensive discussion of factors that would appear to have a bearing upon the course of Federal Reserve policy. Since the foreign trade balance of the United States and the overall balance-of-payments problem, including the gold outflow, were among the factors to which it appeared that more than the usual consideration must be given at the present time, developments in these respects were reviewed at some length, and in this connection Chairman Martin and Mr. McCloy both presented views reflecting in part their recent observations in European countries. Consideration also was given to the extent to which any additional efforts on the part of the Federal Reserve toward encouraging an increase in the money supply would be likely to be effective under current and prospective economic conditions.

5. Would it be desirable to amend Section 9(b) of Regulation F, "Use in Conduct of Business of Trustee Bank," to place national banks in a comparable position with State banks in regard to the receipt of deposits from trust departments?

The Council believes it would be desirable to deal with this matter at the State level rather than to suggest the amendment of Section 9(b) of Regulation F.

The supplementary comments of the Council on this topic indicated a conclusion that an approach to the matter through a change in the statutory provisions on which Regulation F is based would not be advisable.

This concluded the discussion of the topics that had been listed on the agenda for this meeting.

Chairman Martin then referred to distribution that had been made to the members of the Council at the beginning of this meeting of copies of a

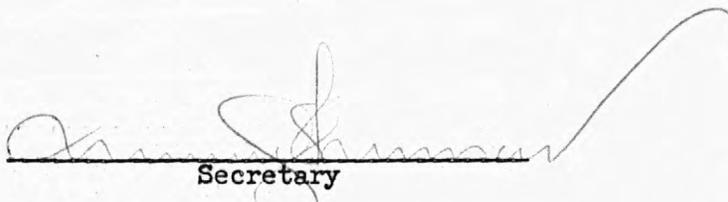
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letter dated June 10, 1960, addressed to the Board by the Subcommittee on Foreign Operations and Monetary Affairs of the House Government Operations Committee, along with copies of the answers to several of the questions therein that had been sent by the Board to the Subcommittee. The Chairman indicated that the Board would welcome comments from the Council or any of its members on these questions and the replies to them, which he pointed out should not be given publicity or circulated outside the Federal Reserve System unless and until they were released by the Subcommittee. He also stated that the Board would be glad to discuss any of the Subcommittee's questions at the next joint meeting of the Board and the Council, but that the Board might formulate replies to the remaining questions before that date and therefore would be glad to have comments from members of the Council at any time.

It was agreed that the next meeting of the Federal Advisory Council would be held on November 14, 1960, with a joint meeting of the Board and the Council on the following day.

The meeting then adjourned.

  
Secretary