FR 609
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Minutes for May 16, 1961

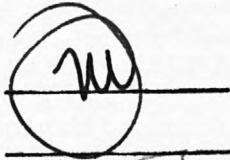
To: Members of the Board

From: Office of the Secretary

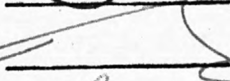
Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date. 1/

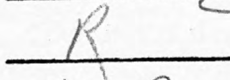
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

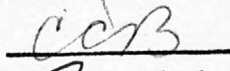
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only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

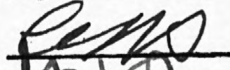
Chm. Martin 

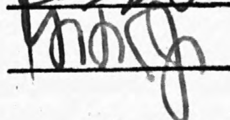
Gov. Szymczak

Gov. Mills 

Gov. Robertson 

Gov. Balderston 

Gov. Shepardson 

Gov. King 

1/ Meeting with the Federal Advisory Council.

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A meeting of the Board of Governors of the Federal Reserve System and the Federal Advisory Council was held in the Board Room of the Federal Reserve Building in Washington, D. C., on Tuesday, May 16, 1961, at 10:30 a.m.

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

Mr. Kenyon, Assistant Secretary

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

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

President Livingston stated that all of the members of the Council were present at the meeting of the Council yesterday. General Persons, Member of the Council from the Sixth Federal Reserve District, had had to leave Washington last night because of a pressing engagement. However, he joined generally in the replies of the Council to all of the questions included on the agenda for this meeting.

Before this meeting there had been distributed copies of a memorandum setting forth the topics suggested for discussion and the comments of the Council on the respective topics. The topics, the statement of the Council with respect to each, and the discussion at this meeting were as follows:

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1. What are the views of the Council regarding the current business situation and prospects for the remainder of the year? What indications are there that recovery is progressing? What elements in the situation seem most likely to advance or to retard recovery during the remainder of this year? Does it appear that recovery in this period will be rapid (as in 1958) or slow (as in 1954)? Is the unemployment situation showing signs of improvement?

The members of the Council believe that the economy has passed its low point and that business is improving. It is expected that this trend will continue. Prospects for the remainder of the year are consequently increasingly favorable. Evidence that the recovery is progressing is reflected in the slow but steady rise in new orders, stepped-up production schedules, and the lengthening of the workweek. Important factors which are likely to advance recovery during the remainder of the year include an increase in Federal expenditures, a probable switch in inventory policy from liquidation to accumulation, and a moderate rise in capital spending by business.

The relatively high level of unemployment and narrow profit margins are likely to be retarding economic influences in the months ahead. The expectations of the business community and the members of the Council are for a moderate rather than a rapid rate of expansion. The Council does not perceive any significant sign of improvement in the unemployment situation although the anticipated expansion in business activity will contribute to the amelioration of this problem.

In response to a question President Livingston said that, as indicated by the Council's statement, it was the composite view of the Council that pace of the recovery would be moderate rather than vigorous. However, some members of the Council, of whom he was one, were inclined to feel that the recovery might be a little more rapid. Personally, he thought there were increasing indications that the shape of the recovery might lie somewhere between a V-type and a saucer-type movement.

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Mr. Murphy commented that there might be differences depending upon the areas at which one looked, and in illustration he cited the variations in conditions in different parts of the Second District. His own preference, he said, would be for a recovery that was more gradual than V-shaped because such a recovery would be likely to be more enduring.

President Livingston noted that this had been a rather shallow recession and that at present the economy was not too far away from what might be considered a rather complete recovery. The estimate of future trends, he noted, had a considerable bearing on judgments as to monetary policy.

The discussion then turned to the unemployment situation and, in reply to a question, President Livingston expressed the view that a good deal of the unemployment was of the so-called structural variety. He also referred to the increased rate of additions to the labor force and to the discussion at the February meeting of the Board and the Council regarding the effects of automation. While there was a natural reluctance to say that the result of automation would be a permanent displacement of employees, nevertheless, he said, he would be somewhat less than candid if he did not express the feeling that increased automation was likely to result in a diminution of the use of labor in the broadest sense.

In reply to questions raised by Governor Shepardson regarding the prospect for improved mobility of labor, comments were made by

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members of the Council on some of the factors tending against more improvement in that respect. Along these lines, Mr. Murphy discussed the possibility of moving industries into communities having an excess labor supply as an alternative to endeavoring to induce excess labor to move to other areas, and stated reasons why it appeared that in some instances, at least, the former method offered better possibilities. Reference also was made to psychological factors inhibiting the movement of labor, except perhaps in the younger age groups, and in this connection Mr. Hays cited as an example the apparent reluctance of employees of a large enterprise to move out of the Cincinnati area to take advantage of employment opportunities elsewhere with the same company.

2. Are business plans for plant and equipment expenditures showing any tendency to increase beyond earlier intentions? Are businesses showing any interest in increasing inventories or is inventory contraction likely to continue?

The members of the Council have not seen any substantial evidence that business expects to increase its plant and equipment expenditures beyond earlier intentions.

Although the Council anticipates some inventory accumulation before the end of the year, business currently is showing little interest in increasing inventories, with the result that contraction continues.

President Livingston commented that the situation referred to by the Council was not an uncommon phenomenon, since a continuing inventory contraction is frequently observed for some time after business starts to improve. In reply to a question, he confirmed that

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due to technical developments there appeared to have been some change in the inventory levels previously considered normal. The use of computers, he noted, had tended to make it possible for businesses to exercise more precise control over inventories. This did not bear particularly on the continued inventory contraction noted by the Council at the present time. However, it was felt that in the future total inventories might be somewhat lower in relation to sales than had been the case in the past. Improvement of transportation facilities was cited by one member of the Council as an additional contributing factor.

3. What are the prospects for an expansion in home building or in other construction activity? What is the state of the market for existing real estate? Has there been any notable change recently in the demand for mortgages for investment, in the available supply of mortgage funds, or in interest rates on mortgages? What would be the effect on the demand for housing if mortgage maturities on low-cost new homes and on loans for modernization and additions were lengthened?

The members of the Council do not believe the prospects for important expansion in homebuilding are bright, although the outlook for other types of construction appears more favorable. In general, the market for existing homes continues relatively slow. There are more funds available for mortgages and as a consequence mortgage rates have eased slightly. The Council believes that a further significant lengthening of mortgage maturities on low-cost new homes would result in some increase in demand, but doubts the wisdom of such action and believes that private lenders would be reluctant to supply the required funds on such terms. A moderate lengthening in the maturities on loans for modernization and additions would result in an increase in this type of construction.

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President Livingston said the Council had discussed this topic at some length, particularly the last question. It seemed rather obvious that if downpayments were reduced and maturities lengthened more people could buy homes. However, this had to be considered within the context of funds that lenders would be willing to commit.

There followed a discussion at the instance of Governor Shepardson concerning the possibilities of providing adequate housing through modernization of existing structures, particularly for those in the lower income brackets. Members of the Council pointed out certain deterrents, including high land values and rates of taxation in metropolitan areas, the cost of upkeep of older homes, and the desire of families to move into newer suburban areas for various reasons, including the availability of more modern school facilities.

With regard to the broader aspects of the housing problem, Chairman Martin commented on the evidences of overbuilding in many areas, the announced desire of the Administration to bring about lower interest rates on mortgage money, and the difficulties involved in endeavoring by administrative action to produce lower rates for a particular type of credit. Despite the limitations that might exist in this regard, he noted that the Administration clearly intended to press through whatever means were available to exert a downward influence on mortgage rates.

4. Are demands for credit--short-term or long-term--increasing or decreasing as compared with earlier this year? What are the expectations of the Council with respect to demands for bank

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loans relative to the usual seasonal pattern? Is there any evidence from the demands for bank loans that would throw light on recent changes in business inventories? Are banks in a position to meet qualified demands for credit?

There are conflicting trends in the various districts in the demands for credit--short-term or long-term--as compared with earlier this year. The members of the Council anticipate that the demand for bank loans will follow a seasonal pattern but that demand will increase moderately as business activity accelerates. There is little evidence from bank loan demand that would indicate changes in inventory policies. Banks generally are in a position to meet qualified demands for credit as the increase in their investment portfolios has been largely limited to short-term securities. However, any sizeable increase in the loans of banks in the principal cities would soon raise loan-deposit ratios above the high levels prevailing a year ago.

President Livingston said the members of the Council found it difficult to relate loan demands, particularly at the larger banks, to inventory changes. Some large concerns were borrowing now when ordinarily they would not borrow until October or November; loans were being made to steel warehousing companies that ordinarily would not be made at this time of the year. It might be that inventories were not moving or, as seemed to be indicated by conversations with borrowers, that some inventory accumulation was occurring. However, it was still difficult to identify the demands for bank loans with changes in inventories.

5. To what extent have time certificates of deposit in large denominations been responsible for recent increases in time deposits at banks? If the volume of such certificates should increase substantially, how might that affect the portfolio management of banks?

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> Time certificates of deposits have accounted for a considerable increase in time deposits of the larger banks, although savings of individuals have also continued to increase.
>
> The permanence of time certificates of deposit will be determined largely by the interest rate on alternative short-term investments. In the event that rates on these investments rise above the three per cent interest ceiling, these deposits will tend to move out of the banks. Consequently, the maturity pattern of the investment portfolio must anticipate this possibility.

President Livingston commented that there was at present no reliable source of information on the total amount of time certificates of deposit outstanding. Without doubt, however, the total amount was substantial. A pertinent question was whether the banks would be able to retain these deposits if the rate on Treasury bills should rise to a level above the maximum time deposit rate prescribed by Regulation Q, Payment of Interest on Deposits. The time certificates of deposit that had been created thus far would tend to cluster around a particular maturity pattern, and this accentuated the problem. If it should develop that at the maturity of those certificates Treasury bills were a more attractive investment, considerable money might move out of the banking system at about the same time.

Mr. Murphy expressed the view that the time certificates had been helpful in bringing back into the banking stream money that was flowing in other directions. He noted that the New York Clearing House Association had recently begun to compile reports on the volume of time certificates at banks in that area, from which it appeared that the

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volume was rather substantial and increasing. However, as President Livingston had indicated, the maximum permissible rates under Regulation Q were a matter of concern. At present it was advantageous for corporations to place money with the banks in the form of time certificates of deposit, but the question was what would happen if rates on bills and other short-term investments were to rise above the Regulation Q ceiling. With this question in mind, the New York City banks were perhaps moving a little more slowly than they otherwise would. In his opinion, the use of the time certificates had been a desirable development, but flexibility was needed to make the program work. Without such flexibility, money would be available to the banking system when it was not needed; conversely, when money was needed it would not be available.

In response to a question by Chairman Martin as to whether he would favor complete removal of the maximum rates of interest on time deposits, Mr. Murphy said he would be just as happy if ceiling rates were maintained and the Board met the problem of the banks, as time went on, by providing the flexibility that was needed. However, if it was a choice between complete elimination of the ceilings or leaving them in their present status, he would favor their elimination. The total problem, he said, extended to the question of foreign time deposits and related matters; it was difficult to talk about the subject without going into the problem as a whole, which included the flow of gold, the movement of short-term capital, and the balance

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of payments. In general, however, the money represented by the outstanding time certificates appeared to represent funds not currently needed by corporations in their day-to-day business. It behooved the banking community to work out a method of encouraging the placement of such funds with the banks, but the problem would be difficult unless adequate rate flexibility could be provided.

In further comments, Mr. Murphy pointed out that for many years banks had operated well within the ceiling rates and there was no problem. In time certificates of deposit, the banks today were operating under the ceiling. Should the ceiling be removed entirely, it was his opinion that bankers would police the situation adequately. Therefore, he felt that removal of the ceiling rates might provide the simplest answer to the problem.

Asked whether he had intended to distinguish between time and savings deposits, Mr. Murphy replied that there were a lot of problems in that respect.

President Livingston commented on the difficulty of generalizing about Regulation Q. What was right in one case might be harmful in another, and it was important to be precise about what should be done. If the question was one of distinguishing between time certificates and thrift accounts, then he would prefer to have no ceilings at all. In his opinion, the banking business was able to police itself. It would not be advisable, he thought, for the Board to attempt to adjust the ceiling rates frequently and in small amounts in an endeavor to provide flexibility.

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In further discussion, Chairman Martin commented to the effect that the fundamental problem was one of generating savings, for it was not desirable to be dependent on bank credit in substitution for savings. In times of expansion, he noted, the role of the central bank is to endeavor to minimize such substitution. Personally, he continued to have some question regarding Regulation Q, and that question applied across the board to all types of deposits. Essentially, the problem was the same.

Mr. Murphy then made the observation that looking ahead over a period of time he foresaw a furtherance of the tendency for the commercial banks' share of the savings dollar to dwindle in relation to the shares of their competitors. At present, although there had been some increase in total savings, the commercial banks were not keeping pace. The saver was looking more and more for the best return, and the commercial banks were faced with a severe competitive problem. To him the trend was unmistakable.

In conclusion, President Livingston pointed out that he had expressed himself heretofore as favoring complete elimination of the maximum rates of interest. He noted, however, that if a poll were taken of bankers engaged in the maintenance of thrift accounts the result no doubt would be overwhelmingly against such a move.

6. Are there any indications of changes in the attitude of banks toward the distribution of their assets according to liquidity or maturity?

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The members of the Council believe that most banks have increased their liquidity by shortening the maturities of their portfolios of Government securities.

Mr. Hays observed that country banks in the Fourth District were moving more and more into mortgages and instalment credit in their lending activities. It was true, however, that their investment portfolios had been shortened in maturity.

7. What are the prospects for an early resumption of growth in consumer installment credit? Is the expansion of such credit, when it comes, likely to be mild or vigorous? To what extent are downpayment and maturity standards changing or likely to change?

The members of the Council anticipate an early resumption in the growth of consumer installment credit. The expansion of such credit is likely to parallel closely the recovery of business in general, which is currently expected to be moderate. The Council does not expect any important changes in downpayment and maturity standards, especially in view of the recent trend toward a somewhat larger loss experience of the finance companies.

In amplification of the statement of the Council, President Livingston cited figures for all finance companies, except small and obscure companies, which showed that in 1960 charge-offs net of recoveries were at the rate of 1.71 per cent. To find a comparable rate it was necessary to go back to 1955, and to find a higher rate it was necessary to go back to 1938. In the present circumstances, he said, the possibility of a reduction of downpayments or lengthening of maturities seemed quite remote.

8. What are the views of the Council with respect to recent developments in the stock market? Have these developments mainly reflected or anticipated economic recovery, or are there indications that a resurgence of inflationary expectations is also an

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important factor? Is there evidence of growth of speculative fever in markets for capital assets generally, including urban and rural real estate as well as the stock market? Would a break in the stock market, should one occur, be likely to have a significant effect on economic recovery by damaging business confidence and affecting business decisions to purchase new plant and equipment?

The recent developments in the stock market are a matter of concern to many members of the Council. While the anticipation of economic recovery undoubtedly has been a factor, the Council is unable to offer a complete explanation for the behavior of the market. The members of the Council believe it reflects a high degree of speculation combined with a resurgence of inflationary expectations.

There is evidence of growth of speculative fever in markets for capital assets, generally, including urban and rural real estate as well as the stock market. Should a major break occur in the stock market, it would probably have a serious effect on the confidence of businessmen and adversely affect their decisions to purchase new plant and equipment.

In response to a question by Chairman Martin, President Livingston said that there were among the members of the Council some who were inclined to feel that an increase in margin requirements might be appropriate. However, he did not feel that way himself. He did not believe that the volume of credit going into the stock market was substantial enough to warrant such action or that an increase of margin requirements to as high as 90 per cent would be particularly effective. The stock market, he noted, was in a sensitive condition, and he would welcome a gradual decline to realistic levels. In the present circumstances, however, he felt that an increase in margin requirements might constitute an action going somewhat beyond the scope of the Board's statutory responsibility. He would prefer to see adjustments come

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about through normal channels, and there was the possibility that a manifestation of concern on the part of the Board might have consequences different from those intended.

Mr. Murray noted the concern in his area about the tendency for unsophisticated investors to go into dollar stocks. He did not know whether a great deal of credit was actually involved and, therefore, whether the mechanism of margin requirements would provide an effective control. Many of these purchases apparently were not being made on margin. At the same time, if enough investors got hurt there was bound to be a considerable protest.

Mr. Murphy commented that over a period of time people had become disciplined to the realization that the margin regulations were in the background and governed their dealings with the market. However, he did not feel that it made a great deal of difference whether the margin requirements were set at 50 per cent, 70 per cent, or 90 per cent. He went on to say that the financial community sometimes was puzzled when a shift in margin requirements was made, for it did not see any strong upsurge of demand for credit in the market, but such changes were generally taken in stride. Certainly this was not a time to reduce margin requirements, and he did not feel that an upward adjustment would make much difference unless it was an increase to 100 per cent. In further comments, Mr. Murphy referred to the heavy volume of trading in unlisted stocks and in issues of low-priced stocks of small corporations, whereas shares of some established corporations did not seem to be of too much interest to the buying public.

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Mr. Petersen referred to rapid price movements that had occurred in certain issues of high quality, including shares of public utilities, apparently accounted for at least in part by institutional buying. Such buying contributed to a scarcity in the supply of high-quality equities, and the tax structure constituted a deterrent from liquidation. There seemed to be very broad investment in the stock market, and he doubted whether a change in margin requirements would affect the situation too much one way or the other.

Mr. Turner noted that many professionals were attributing much of the recent market movement to fears of inflation and were forecasting a continuation of that trend on the same basis. The fear of inflation, he said, was given to him more than anything else as a reason for recent developments in the market.

In further discussion, Chairman Martin commented that it was important to bear in mind that domestic stocks were relatively cheap, generally speaking, in comparison with foreign issues. A world-wide speculation in equities was now occurring. After citing some of his observations in this regard, the Chairman said that he was not prepared to suggest what could be done. Certainly, however, the problem should not be overlooked, including the effect on the market for fixed-income securities.

On the latter point, Mr. Murphy noted that ordinarily a shifting of investments might be expected when yields on common stocks fell substantially below yields on bonds. However, that was not seen

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at the present time. This lack of shifting was noted even in the case of trust and pension funds, which apparently would rather retain equities in spite of the lower yield. Underlying this was an attitude that caused one to sit back and to think. The answer, it seemed to him, was basically a fear of inflation.

There followed additional comments in regard to the apparent dearth in the supply of equities, during the course of which Mr. Betts said he thought, like others who had expressed themselves in similar vein, that the supply and demand situation was one of the important factors in the current situation, along with speculative fever and an expectation of inflation. Many high-grade stocks were being placed in pension and similar funds and were being retained permanently in those portfolios. This situation had significant repercussions on the stock market situation as a whole.

9. What are the views of the Council regarding current monetary and credit policy?

The Council believes that current monetary and credit policy has resulted in maintaining an appropriate degree of ease in the money markets.

President Livingston commented that the previous meeting of the Council occurred on a rather significant date (February 20, 1961), for on that day the decision of the Federal Open Market Committee to initiate transactions in longer-term Government securities was announced. The members of the Council, he said, would generally approve a restoration of the "bills preferably" policy.

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Chairman Martin indicated that he would appreciate having the views of the Council as to what would constitute appropriate Federal Reserve policy if the recovery should turn out to be sharp, that is, if the index of industrial production should move upward in a dramatic way in the next couple of months.

In response, President Livingston noted that the next meeting of the Council was not scheduled to be held until mid-September, and that conditions might change considerably in the interim. As of now, however, the Council was unanimously of the belief that there should be no tightening of credit. The industrial production index and other indicators tended to demonstrate that the economy was on its way up, but it was thought advisable to be surer of the course of the economy than one could be today before changing the posture of monetary policy. He doubted that the resurgence of business would be sharp enough between now and September to indicate any significant change in policy, and he felt strongly that it would be a mistake to change posture at this point and tighten.

Chairman Martin then presented a hypothetical situation where the Federal Reserve made no change in current policy but the forces of credit demand in the economy grew so fast as to cause a definite tightening along the line. He asked whether in such circumstances it was felt that the System should resist the trend actively by striving to maintain the present degree of ease. To put it another way, his question was whether, in the face of a tightening created by an

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increasing demand for credit, the System should endeavor to prevent a rise in interest rates by supplying reserves liberally.

President Livingston replied that he would not favor such a course. In other words, he would not try to keep interest rates down in a situation such as Chairman Martin described.

Mr. Murphy expressed the view that one must measure the matter against the background of the type of recession that had occurred. This had not been a terribly serious recession; looking at the economy as a whole, he liked to think of it as a mild dip. This being so, he felt that the Federal Reserve could be a little more active in leaning against the wind than if the recession had been deeper. The Federal Reserve could make a mistake by waiting too long to lean against the wind, just as it could by acting too early. He continued to be concerned about the prospect of inflation and still felt that this was one of the country's major problems. If it appeared that the economy was going ahead in a free-wheeling manner and the System could contribute to a saucer rather than a V-shaped movement, he felt that would be all to the good. In saying this, he appreciated that a translation of this thinking into specific action was difficult.

Mr. Murphy also made the comment that he thought a reduction in the prime rate of the commercial banks would be the worst mistake that could be made at this particular juncture.

Mr. Petersen referred to the substantial underutilization of plant and productive capacity and to the unemployment problem. These

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factors, he suggested, reduced the threat of inflation even though there might be a fairly rapid recovery. Therefore, he would be inclined not to lean too strongly against the recovery.

President Livingston then commented that, as he understood it, Chairman Martin had not presented the question in terms of tightening at this time. Instead, the question was whether, assuming a strong increase in the demand for credit, the Federal Reserve should endeavor to keep interest rates down.

Mr. Petersen replied that he would let interest rates rise in those circumstances.

In further discussion, President Livingston pointed out that in spite of the recession the loan-deposit ratios of the larger banks continued at a high level, which would pose a problem in the event of a V-shaped recovery. Their rather fully invested position had caused banks to place more securities in the short-term area, and if the banks were willing not to worry too much about their loan-deposit ratios they should be able to take care of some increase in credit demand. Nevertheless, the loan-deposit ratios could climb substantially unless there should be a greater growth of deposits than might normally be expected. Also, as noted previously at today's meeting, if the outstanding time certificates of deposit proved to be temporary money the banks would be subject to a substantial withdrawal of funds.

This concluded the discussion of the topics that had been listed on the agenda for the joint meeting. However, the Board had advised

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the Council yesterday that it would appreciate having any views the Council might care to express with regard to H.R. 6900, a bill introduced by Congressman Multer which would eliminate the requirement that Federal Reserve Banks maintain certain gold reserves against deposit and note liabilities. The bill also would permit domestic banks to pay interest on time deposits of foreign governments and central banks at rates differing from those applicable to domestic depositors.

President Livingston opened the discussion by stating that the Council would prefer not to make a collective response. There had not been an opportunity to sound out opinions in the respective districts, and it had been decided that each member of the Council would express his own views.

With respect to the portion of the bill that would eliminate from the interest rate ceiling time deposits of foreign governments and central banks, President Livingston noted that the Council had heretofore gone on record as favoring an increase in the maximum rates applicable to that type of deposit. As to domestic thrift accounts, the Council had expressed heretofore a unanimous opinion against an increase in the current maximum. He thought he reflected accurately the feeling of all of the Council members when he said that enactment of the provisions of the current bill would be favored. There were some who would raise the question whether the provisions of the bill should not be expanded, but he would simply say at this point that the Council approved that part of the bill.

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On the provisions of the bill that would eliminate the statutory gold cover against Federal Reserve note and deposit liabilities, President Livingston said there was a considerable difference of opinion among the members of the Council. As for himself, he would have preferred that the matter not come up at this particular time. However, the bill having been introduced, he would not like to see it rejected because of implications that would be unfortunate. He had long held the belief that the gold cover should be removed. Thus, although the timing might not be perfect, as long as the bill had been introduced he would be inclined to support that part of it. One concern about the matter, he noted, had to do with the reaction of the man on the street. In this connection he read an editorial from the Chicago Tribune which, like a recent editorial in the Wall Street Journal, expressed an adverse viewpoint.

President Livingston also noted that there had been brought to the attention of the members of the Council a letter from Governor Mills which enclosed a memorandum expressing his point of view.

Mr. Petersen indicated that he wished to associate himself with the view expressed by President Livingston. He did not feel that the gold reserve requirements imposed an effective discipline; if sound policies were followed the gold cover was not needed, and if sound policies were not followed the statutory requirements could not be tolerated. Now that the matter had been brought up in the form of a bill, he felt that it would be appropriate to eliminate the current requirements. The possibility of public criticism, domestically, was always present, and in this sensitive area there was

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little true knowledge but considerable public interest. However, he thought it likely that the matter would soon be forgotten, and therefore he would not be deterred too much by the psychological aspects. Internationally speaking, the enactment of the legislation would constitute a sign that the country was being realistic about its international obligations.

Mr. Petersen went on to say that he would personally favor the removal of all interest rate ceilings, but that this view was not representative of his district.

There followed references to a resolution adopted recently by the officers of the American Bankers Association in favor of extending the elimination of interest rate ceilings to time deposits of foreign private banks and individuals as well as foreign governments and central banks. The comments on this phase of the matter included an indication by President Livingston that he was somewhat concerned as to how such an extension of the proposed legislation would work out and that he would have to know more than he did at present about the proposal to say that he would favor it.

Mr. Betts then commented that on the part of the bill that would eliminate the gold cover, there had not been time to clear the necessary committees of the American Bankers Association and arrive at an official position. However, the members of the Administrative Committee had been contacted in the past few days to obtain an opinion with regard to a personal statement that was proposed to be filed by the President of the Association. This statement would favor removal

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of the gold reserve requirements. As a member of the Administrative Committee, he had voted in favor of supporting the President of the Association in his position, and he had been informed that there was only one dissenting vote from the entire statement that the President proposed to file.

Mr. Betts said that his only point of reservation was with regard to the timeliness of the proposal, coming as it did after a period of substantial gold outflow. This might create an opinion in the minds of the public of the nature set forth in the editorial read by President Livingston. However, he was inclined to feel that the average person was not close enough to this subject to have strong views, while passage of the bill would accomplish something that very probably would be in the best interest of the country from an international standpoint.

In response to a question, it was stated that the tone of the proposed statement by the President of the American Bankers Association was to the general effect that the removal of the gold cover was a minor thing, the important factor being fiscal responsibility. Therefore, if the Administration, the Treasury, and the Federal Reserve in their considered judgment believed that the removal of the statutory requirements would facilitate efforts to maintain confidence in the dollar and would be helpful in dealing with the basic balance-of-payments problem, he would not object to the removal of the gold reserve requirements.

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Mr. Murphy pointed out that there were two psychological reactions to be considered, one if the bill were passed and the other if it were not passed. There might be an adverse psychological impact abroad if the bill were defeated, while there might be a psychological reaction at home if it were passed. He was not sure which should be accorded the greater weight as far as the national well-being was concerned. Personally, he saw no objection to elimination of the gold reserve requirements, which he regarded as a heritage of the past. In this country, he noted, there seemed to be an inclination to cling to the past and pressure often was necessary to accomplish changes. Few members of the public were actually in a position to appraise the current proposal meaningfully. Basically, the best approach would seem to be to dispose of the matter promptly, and the worst thing would be continued debate. It seemed somewhat unfortunate that the introduction of the bill came on the heels of a period of concern about the balance of payments and the gold outflow. However, the outflow of gold had eased in recent weeks, and perhaps this was as good a time as any.

As to the provisions of the bill that would eliminate the interest rate ceiling on time deposits of foreign governments and central banks, Mr. Murphy expressed disappointment that the bill did not go further, for he thought it was a mistake to limit the proposal to deposits of foreign governments and central banks. He suggested that there were always ways

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of getting around restrictive legislation and added that the real source of foreign time deposits was not always known. Looking at the bill as it stood, however, he would still favor its enactment.

Mr. Petersen withdrew from the meeting at this point because of another engagement.

Mr. Hays indicated that he would favor removal of the ceiling rates on time deposits of foreign governments and central banks and that he would like to see provisions added to remove the ceiling rates on time certificates of deposit. As to the gold cover provisions, he noted that before coming to Washington for this meeting of the Council he had been approached by three businessmen who raised unsolicited questions. From these questions and other indications, he sensed a rather widespread fear of inflation, and he thought there would be a feeling of despair, certainly in a large part of the midwest, if the gold reserve requirements were removed. Psychologically, these requirements were regarded as a bulwark, even though there might be a question whether this was actually true. The only reason he could see for their removal was that in some manner this might ease the balance-of-payments problem. However, this would not be a real remedy. If factors inherent in the economy should continue to create a gold outflow, sooner or later the issue would have to be faced. With the gold reserve requirements in effect it would be necessary to face up to the issue while a considerable gold reserve was still available. Thus, he would not like to see the disciplinary influence of the gold reserve requirements removed, certainly

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at this particular time. As to the attitude abroad, he did not consider himself in a position to comment. However, judging from remarks that he had heard on an earlier occasion regarding the concern in foreign quarters about a rather modest adjustment within this country's financial structure, he supposed that the same kind of concern might be voiced, although to a much greater extent, about a move such as the elimination of the gold cover. In substance, he felt that this was not the time to do any tinkering with the gold reserve.

Mr. Turner made the comment that before coming to Washington and discussing the matter in more detail he had felt that the proposed legislation would be quite undesirable. Similarly, he believed that people in the Eighth District, generally speaking, would feel much as Mr. Hays had indicated. Thus, the result of enactment of the legislation might be to create a feeling of lack of confidence internally when the objective was to try to create a feeling of confidence abroad.

Mr. Frankland said that although he had not had an opportunity to discuss the matter with others in the Twelfth District, it was his feeling that the timing of the proposed legislation was unfortunate, both from the political standpoint and in terms of the impact on the economy generally. His reflections on the matter were principally in the domestic area. Psychologically speaking, however, he felt that it would be almost a catastrophe to have confidence shaken further in this country as the result of a bill of this kind being enacted at this

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particular time. Considering all of the problems and uncertainties now existing, he would counsel moving cautiously.

In further discussion, President Livingston pointed out that the purchasing power of the dollar had decreased at an average rate of about 2 per cent a year over the past ten years while the gold reserve requirements were in existence. He went on to say that a point of concern to him in the past was whether the reaction of the man on the street to elimination of the gold cover would lead to substantial withdrawals from the banking system. He did not think that that would be the case; otherwise, he would not say that he favored the bill.

Mr. Hobbs said that he had no opinions to report from the Fifth District. However, he felt personally that the weight of evidence was in favor of removing the gold reserve requirements. If a further loss of gold was in prospect, he believed it would be better to take the step now than to wait until a time when the matter might become crucial. He concurred in the view that the interest rate ceiling on foreign time deposits should be removed, and he thought the attitude in the District would generally be favorable to that part of the bill.

President Livingston stated that General Persons had indicated that he would like to be recorded against removal of the gold cover but in favor of elimination of the ceiling rates on foreign time deposits.

Mr. McClintock said he felt, like Mr. Turner, that people would wonder whether the removal of the gold cover represented a

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step toward inflation. Personally, however, he would be inclined to go along with whatever judgment was reached by those who had studied the matter more closely. As to removal of the ceiling on interest rates on foreign time deposits, he thought that people in the Tenth District would ask why more interest should be paid to foreigners than to domestic depositors. If a vote were taken across the country, he felt that the result would be against such a move. If the ceiling rates on all time deposits were removed, there would not be the question of this distinction.

Mr. Hays noted that this was one reason why he favored removal of the ceiling on rates payable on time certificates of deposit. On the other hand, President Livingston expressed the thought that this might hurt the chances of the bill rather than help. The appearance would be one of favoring not only foreign depositors but also the rich.

Mr. Murray said that he felt the interest rate ceiling on foreign deposits should be removed. Personally, he would favor such removal across the board, but that would not be popular in the Ninth District. He would go along with an extension of the current proposal in the manner suggested by Mr. Hays; this would tend to counteract the argument that foreign depositors were being favored. While he recognized the point Mr. Livingston had raised, he would not be quite as much concerned by it.

As to the gold cover, Mr. Murray said that he was in somewhat the same position as Mr. Turner. When he first heard of the

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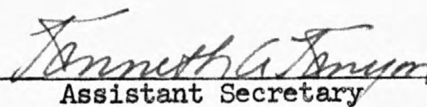
proposal, he was not in favor of it, and he was rather concerned about public reaction. However, the bill had been introduced and if it were felt that its defeat would be harmful as far as foreign confidence in the dollar was concerned, he would probably favor its enactment.

There followed a period of informal discussion during which Chairman Martin commented upon matters relevant to monetary policy against the background of impressions gained in the course of his recent European trip.

It was agreed that the next meeting of the Federal Advisory Council would be scheduled for September 18-19, 1961, with a meeting of the Board and the Council on the latter date.

The meeting then adjourned.



Assistant Secretary

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