Minutes for September 18, 1962

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 WM

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. King

Gov. Mitchell

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 Tuesday, September 18, 1962, at 10:30 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary

Messrs. Enders, Murphy, Petersen, Hays, Hobbs, McRae, Zwiener, Maestre, Moorhead, Breidenthal, and Betts, Members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, and Eleventh Federal Reserve Districts, respectively

Mr. Charles de Bretteville, President, The Bank of California National Association, San Francisco, California

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

In the absence of Mr. McAllister, Member of the Council from the Twelfth District, Mr. de Bretteville represented that District at this meeting.

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

1. What are the observations of the Council regarding (a) the performance of the economy thus far this year, and (b) the business outlook for the remainder of this year and early 1963? In reviewing recent developments, what factors are considered of most significance by the members of the Council?

The performance of the economy this year has been somewhat below expectations. Despite this development, and the fact that our labor force and productive facilities have not been fully utilized, the members of the Council believe that the year as a whole as measured by most of the indicators of aggregate economic activity, including income, employment and production, will prove to be good. They expect that business for the remainder of this year and early 1963 will continue to follow an irregular though slightly rising trend.

Among significant recent developments, the members of the Council have been particularly impressed by the demonstrated resiliency of the economy following the sharp decline in stock prices around mid-year. This resiliency has been most evident in the persistence of consumer buying, the high volume of construction activity, and the surveys of businessmen and consumers which give no indication of a cutback in buying or investment plans.

In comments supplementing the Council's statement, President Murphy said that a spirit of optimism prevailed among the membership of the Council. All members were impressed by the fact that the economy had weathered a couple of rough spots quite successfully within the past few months. The steel price episode seemed to have been taken more or less in stride, and the repercussions from the stock market break appeared to have been relatively modest.

In connection with the market break, President Murphy said the New York Clearing House banks were inclined to regard Regulation U as a fairly important factor in enabling the banks to get over this rough spot with no great distress. An informal poll indicated that the number of loans called by New York City banks was extremely modest, with the dollar volume of called loans too small to mention. In addition to the effects of Regulation U, an element of self-discipline was indicated.

Mr. Petersen agreed that the ability of the economy to absorb severe shocks such as the stock market decline and the steel price episode seemed highly significant. In looking at the characteristics of the economy during the period of recovery from recession, he thought that the relatively small amount of inventory accumulation was worthy of note. This could be regarded as a favorable sign, in that further inventory accumulation could still occur, but it could also be viewed as reflecting a lack of confidence on the part of the business community. In comparison with previous recovery periods, he thought it fair to say that on the whole public spending had played a larger part this time. Among businessmen and bankers, uncertainty and differences of opinion existed as to future prospects, although there was almost a unanimity of opinion that the immediate prospect was for slight improvement. While it was rather difficult to judge why this uncertainty existed, a good deal of it might stem from the international situation. It was hard to assess the impingement of the international situation on domestic activity, but in any event there was a high level of business activity in this country. Sometimes he was inclined to feel that a tendency existed to worry too much about the whole situation.

Mr. Enders reported an underlying attitude of apprehension in the First District, in the face of a good economic performance. It was difficult to find any specific cause for this apprehension, which seemed to result from a number of factors.

Mr. Hobbs commented that there seemed to be a lot of loose talk about the sluggishness of the economy. Actually, he did not think that the performance of the economy had been so sluggish as such talk might suggest. Developments in the Fifth District appeared to be about in line with the rest of the country, and on the whole he felt that the economy had been giving a fairly good account of itself.

President Murphy summarized comments received in an informal poll of sentiment in several centers within the Second District, the prevailing tone being one of moderate optimism about the current business situation and future prospects.

Question was raised as to the extent to which the maintenance of lower inventory levels might be due to improved technology. From the comments made with regard to this question, it seemed rather generally agreed that there may have been a permanent shift in inventory levels relative to sales as the result of technical improvements. However, several other factors tending toward the maintenance of lower inventories also were cited. These included excess productive capacity in many lines and the readiness with which inventory could be replenished; the increased sophistication of the retailer, who realized the cost of carrying substantial quantities in stock and was able to obtain quick deliveries as needed; the relative stability of prices; and the speed of modern-day transportation.

A further question related to corporate liquidity, and the view was expressed that by and large corporations appeared to be highly liquid at the present time. This was reflected by the demand for certificates of deposit, the demand for Treasury bills, and the ability of corporations to undertake certain expansion programs without borrowing.

A comment was made to the effect that one of the major factors in the inventory situation had to do with profit margins. Until fairly recently it was possible for merchandisers who made errors to dispose of left-over stocks at sale prices without great penalty, but the currently reduced profit margins presented a significant test for management.

Governor Mitchell referred, as a vulnerable spot in the current and prospective economic picture, to the sluggishness of private investment, apparently traceable in most cases ultimately to the fact that little point was seen in expanding capacity in the light of prevailing levels of demand. This presented the question whether final demand could be strengthened sufficiently to bring about a greater utilization of capital. One of the factors was the volume of unemployment, and profits had not responded vigorously enough to encourage plant expansion. He inquired whether members of the Council sensed the same sentiment that he did about the intentions of businessmen to spend for new plant and equipment, or even for replacement purposes.

President Murphy replied that he thought everyone saw the same signs. True, many firms with excess capacity would be quick to admit that some of the excess capacity was not particularly economical and efficient. However, one of the basic current problems was the problem of excess capacity and the rather weak prospect of ability to utilize it. This tied in directly with the problem of employment and unemployment.

In further comments on developments in the various Reserve Districts, Mr. Betts said an opinion survey in the Eleventh District would no doubt elicit the same kind of sentiment that Mr. Murphy's poll had revealed in the Second District. This sentiment might be referred to as modest optimism. Mr. Moorhead reported that, with the exception of a few weak spots, the Ninth District was in excellent condition. The level of consumer purchasing did not indicate any loss of consumer confidence following the stock market break, and it might ultimately require the construction of additional plant. Mr. de Bretteville reported that developments in the Twelfth District were similar to the pattern described elsewhere, although the situation might be a little different due to the rapid growth of population in a number of areas. Manufacturers apparently had not found it necessary, in the light of developments this year, to change their previous capital expenditure plans, whether such plans were oriented toward reducing production costs within existing capacity or whether they were designed for expansion. Mr. Zwiener reported that the profit squeeze was a major topic of discussion among businessmen, with the level of corporate taxes appearing to be a significant deterrent to many capital expenditure programs because of the lack of prospect for sufficient profits.

Inquiry was made whether the Council saw evidence of a demand for loans in anticipation of capital financing, and members of the Council indicated that only a modest demand seemed to exist. One member said he saw about as much borrowing for the purpose of buying other companies as for expansion.

2. How does the Council appraise the current and prospective strength of the automobile and housing markets? Does the high proportion of multi-family housing starts appear to be solidly based or mainly speculative?

Although automobile sales in the next year may not equal the volume of 1962, the members of the Council expect that the demand will continue relatively good with firm used car prices, one of the essentials of a strong new car market. The large replacement market is also one of the underlying factors of strength supporting automobile sales.

The extent to which multi-family housing starts appear to be solidly based or mainly speculative varies not only from district to district but also within districts. Several members reported overbuilding, but the types of construction in which there was overbuilding varied. Furthermore, sales of older houses and rentals of older apartments are slow in some areas. The high proportion of multi-family housing starts appears to be strongly influenced by the ready availability of funds for the full financing of such projects. In some instances, the absence of the need for equity financing is encouraging speculative construction.

During a discussion of this topic, Chairman Martin inquired whether members of the Council detected any shortage of mortgage money, and the responses indicated that mortgage money was readily available. President Murphy commented that he could not imagine that there was any builder with a worth-while project who could not get it financed.

As to the housing market by Reserve Districts, Mr. Hobbs said it was his impression that in the Fifth District multi-unit housing projects had gone up in most cases because of a definite need for them. Apparently there was a substantial demand in the area for modern low-cost housing. He did not believe there had been excessive speculative building in the Fifth District, although this may have occurred elsewhere.

President Murphy commented on an almost unprecedented number of new apartment houses and office buildings having been constructed in New York City, reflecting partly the filing of a large volume of permit applications in advance of the effective date of a new regulation. Even so, no particular signs of distress were seen. Apartments were available, in some cases at negotiated prices, but the buildings appeared to have been soundly financed. There had been, of course, some movement of tenants from older apartments into the new buildings. In suburban areas, Mr. Murphy noted in some cases an excessive number of homes on the market, seemingly reflecting a movement from larger houses into homes of more modest size or into apartment houses in order to escape taxes, maintenance costs, and servicing requirements.

Mr. Hays likewise noted a trend away from high-cost suburban living into apartment houses. As a possible indication of overbuilding in the Cincinnati area, he cited two instances where an insurance company had insisted that an apartment house be at least 70 per cent rented before it would issue a firm take-out commitment.

Mr. Betts reported instances in the Eleventh District where insurance companies were said to have been free in granting permanent financing for apartment houses because the projects were fully insured through the Federal Housing Administration.

Question was raised with respect to shopping centers and motels, and the replies of members of the Council were somewhat varied. Some of the members reported that in their areas the volume of construction of shopping centers and motels had been large and the supply appeared adequate for current needs. Therefore, it was felt that additional construction projects might be of a more modest nature. Some indications of reticence on the part of lenders to finance further projects of these types also was indicated. On the other hand, there were reports of the construction of shopping centers and motels continuing actively in other areas, with financing readily available.

President Murphy concluded the discussion of this topic with comments on the volume of construction of office buildings in New York City. Despite the heavy volume of such construction, he reported that the new buildings appeared to be filling up satisfactorily, with few signs of any substantial problems. Banks, however, were understood to be increasingly cautious about making loans without firm take-out commitments.

3. What is the Council's judgment regarding the probable effect on business capital decisions of the recent Bulletin F changes? What effects would be envisaged from enactment of the proposed investment tax credit provision?

The Council is doubtful that the over-all volume of business investment will be significantly increased as the result of the recent changes in Bulletin F or by the enactment of the proposed investment tax credit. Insofar as the changes in Bulletin F prove to be beneficial, they are likely to be more helpful to small business concerns than to large enterprises. The possibility of earning an adequate profit is the motivating and determining factor in reaching investment decisions.

In explanation of the Council's statement about Bulletin F, Mr. Petersen said many larger manufacturers were already enjoying a depreciation rate equal to or in excess of that provided by the bulletin. There was not too much enthusiasm for the tax credit, and he did not feel that it was going to impel a lot of investments. Nevertheless, according to Treasury estimates the Bulletin F changes were going to result in an annual loss of revenue to the Government of some $1.5 billion; and if the House version of the tax credit should be enacted, the Treasury was estimating a loss of revenue of about $700 million. Hence, it would seem that these measures, taken together, should be helpful to businesses. On the other hand, since there was quite clearly no lack of funds for capital investment at present, the question was whether these measures were likely to result in more investment.

President Murphy said he felt Mr. Petersen's remarks reflected the general view of the Council members. He quoted a Buffalo banker as expressing the opinion that businessmen were not going to invest simply to obtain a tax credit. They must feel that the investment was going to be profitable. At the same time, the Bulletin F changes and the tax credit would constitute a plus factor, because businessmen were going to have the option to do certain things. While there might not be any significant immediate impact on the economic situation, it was well to have as many plus factors as possible.

4. What are the prospects for loan demand at banks during the next several months, including the demand for real estate and consumer loans?

Most members of the Council believe that loan demand at banks during the next several months will rise seasonally, while some expect the expansion will be slightly stronger. Modest increases in consumer and real estate loans are anticipated.

In comments supplementing the Council's statement, President Murphy noted the relatively high current volume of loans outstanding.

His bank anticipated somewhat more than a seasonal pick-up during the rest of the calendar year, and he thought this was also the general sentiment around the Second District. However, some members of the Council felt that the pick-up would be little, if any, larger than seasonal.

Mr. Enders brought out that the average loan-deposit ratio in the First District already was high. However, the banks did not anticipate that loan demands in the forthcoming months would be unusually strong.

Mr. Hobbs said he found it difficult to predict any substantial increase in loan demand unless inventories were built up beyond present levels, while Mr. Zwiener forecast a loan demand of no more than seasonal strength in the Seventh District.

The discussion concluded with a report by President Murphy concerning views expressed in a recent informal survey of bankers in several Second District cities, their comments reflecting a tendency to feel that the trend of loan demand was upward.

5. What are the Council's views regarding the degree of liquidity of the banking system?

The members of the Council are in general agreement that the liquidity of the banking system has declined this year. Although the loan-deposit ratio is below recent high levels, there has been a significant increase in the holdings of municipal securities and mortgages. Moreover, lengthening of maturities has been another factor lessening liquidity of the banking system.

Commenting in amplification of the statement, President Murphy said the Council members had concluded that, despite the appearance from statistics that the banking system was quite liquid, this appearance of liquidity could fade away rather quickly. Because of the higher rates of interest paid on savings accounts, many banks had gone more heavily into municipal securities and mortgages, and had lengthened maturities. Also, it had been mentioned in Council discussion that the day of the simple loan was past. With these factors in the picture, the liquidity of the banking system could deteriorate fast if there should be a strong upsurge of loans. Personally, he did not envisage a strong upsurge, and he thought that the banking system had adequate liquidity at present. If the banks had more funds at their disposal, he was not sure how they would be used.

President Murphy also noted that banks in some areas were receiving additional appeals from abroad for loans of certain types, and this seemed likely to continue. Many of these appeals were tied in with present business contacts, and many offered guarantees. Nevertheless, such loans had an impact from the standpoint of bank liquidity. In his opinion, the underlying structure of bank portfolios had undergone something of a change.

Comments of other members of the Council supported the points made by President Murphy. Mr. Moorhead agreed, in view of the composition of bank assets at the present time, that the position of the banking system could tighten quickly in the event of an upsurge in loan demand. Mr. Zwiener commented on the change from two years ago in the holdings of municipals by Seventh District banks in relation to capital accounts. Taking into account also the increase in mortgages, he appraised the banking system's position as less liquid than it had been up to this time. Mr. Enders brought out that First District Banks had not gone as far as banks in other Districts in lengthening maturities and purchasing municipal bonds. Where this had occurred, the assets were held against true savings funds.

President Murphy said that in the Second District the banks that had gone most heavily into municipal securities and mortgages were the so-called retail banks with many branches and a large volume of savings accounts. He saw nothing wrong in that. Conversely, if a bank did not have a large volume of small savings accounts, it should not take on a heavy volume of municipal bonds or a heavy volume of small longer term mortgages. President Murphy added that there was pressure today on the banks, with expenses moving up and with demand deposits having levelled off. The new money they got was mostly high-priced money. Banks were looking at their portfolios closely to be sure they were doing the best possible job for their depositors, in terms of safety, and for their shareholders in terms of earnings.

Governor Balderston referred to the large number of securities issued by smaller political units in the Third District and raised the question of their marketability in time of crisis.

President Murphy agreed that such securities would tend to have a rather limited market if it became necessary to sell them. In recent years the experience had been favorable, but there was the experience of the '30s to remember. He doubted a repetition. On the other hand, some subdivisions were under political pressure and might find it difficult to service their indebtedness.

Further comments by members of the Council reflected the view that banks must use discretion in acquiring issues of smaller communities and political subdivisions, particularly insofar as such holdings were thought of as assets that could be realized upon readily in case of need. While the point was made that issues of smaller political units could be of as good quality as those of large municipalities, and were likely to provide a better yield, other comments brought out circumstances that might cause issues of smaller political units to get into trouble. Further, it was pointed out that in the maturity range up to ten years, such issues were held primarily by banks, so that the market could be narrow in event of need by banks to sell such securities. Some of the members of the Council indicated that their banks regarded municipal holdings as loans and treated them accordingly. It seemed generally agreed that the larger banks were apt to move judiciously in this area, maintaining an appropriate relationship between their portfolio of municipals and mortgages, on the one hand, and savings accounts on the other. It was the smaller banks, under pressure for earnings due to the increased rates paid on savings accounts, that seemed more likely to encounter difficulty.

President Murphy summarized by saying he thought none of the Council members would consider the problem too serious as long as banks realized that there could be a problem. He referred to the pressure on banks for income, particularly in view of interest costs, but went on to allude to the fact that loan volume was higher than last year. With loan rates holding as well as they had been, he felt that the banking system would be able to offset the higher costs of operation and that net earnings this year would prove to be close to those of 1961, which was the second best year in history. He agreed that the principal problem, to the extent one existed, was in the smaller banks across the country.

Question was raised whether the Council members had any indications of a lesser degree of stability recently in savings deposits, but the members appeared to feel that on the whole the build-up of savings accounts was solidly based. Additionally, with the higher permissible rates of interest fixed under Regulation Q at the beginning of this year, foreign time deposits should show greater stability, and this stability should be increased with the enactment of pending legislation that would remove the time deposits of foreign central banks and governments from the purview of the Regulation. Doubt was expressed that the recent pace of time deposit increase could be expected to accelerate, although an upward trend might continue.

6. What are the Council's observations concerning the recent and prospective trend of savings and other time deposits, and the effects from the standpoint of bank portfolio management?

Members of the Council report that the volume of savings and other time deposits continues to increase. The rate of growth, however, while more rapid than last year, is less than it was in the early months of 1962. The Council believes that the volume of savings and other time deposits will grow but at a decreasing rate. The squeeze on bank profit margins has resulted in an increase in the holdings of municipal securities and in the expansion of real estate and consumer loans. It also has resulted in a more critical analysis of operations and costs, including interest expense.

It was noted that this question had been covered rather completely in the discussion of the preceding topic.

7. What are the views of the Council with respect to the impact of current monetary and credit policy? Would the Council be inclined to place relatively more weight on domestic considerations or on international considerations?

Current monetary and credit policy has had a generally favorable impact on the economy. Despite the progress that has been made in our international payments position, the improvement has not been sufficient in the opinion of the Council to warrant placing more weight on domestic considerations in the determination of monetary policy.

President Murphy said it was the view of the Council that the degree of ease afforded by System monetary policy had been appropriate and adequate. If more money was made available, he was not sure how it could be utilized constructively. It was the general feeling of the Council that it would be difficult to improve on what had happened.

Mr. Hobbs said he felt that, if anything, the first sentence of the Council's statement was not strong enough. All in all, he thought monetary policy had exerted a satisfactory and solid impact on the economy.

Chairman Martin then commented that this topic went to the heart of today's agenda. There was a good deal of discussion going on at present in somewhat the following terms. Suppose that funds were available today at 1/2 per cent less. Would that be helpful or harmful to the economy? At the center of the debate was the question whether the unemployment problem could be cured or aided by easier money. He had maintained that at some point easy money becomes self-defeating, but there was a considerable body of disagreement.

As to the balance of payments situation, the Chairman noted that some progress was being made. In his view, the balance of payments problem and the domestic problem were not separate and distinct. Instead, they were one and the same.

Chairman Martin went on to refer to the lack of expansion of the money supply in recent months, which led to questions concerning the liquidity of the economy and the impact on business conditions.

This was the crux of the problem under discussion at present. The question was not whether monetary policy had been appropriate but what should be done now. While business was generally good throughout the country, there seemed to be more uneasiness and apprehension than had existed for some time. There was dissatisfaction with the level of unemployment, the rate of economic growth, and the balance of payments situation. In these circumstances, some people were asking why the commercial banks did not reduce the prime rate. They brought out that loan growth had been below expectations and theorized that lower interest rates would lead to more loans, which would be helpful to economic growth.

In further comments, the Chairman presented the question whether, if one expected a downturn in business in the fourth quarter, the first approach should be through a substantially easier monetary policy. No one, of course, could be sure at this stage what the fourth quarter held. The Council seemed to be optimistic, and he (Chairman Martin) also was optimistic. On the other hand, there were those who held that the economy was heading for recession. There were some, the Chairman continued, who took what might be called a common sense approach and asked whether there was any evidence of a shortage of money. Over the years he had maintained that there is a certain point beyond which easier money tends to hurt rather than help. The difficulty, however, was in knowing when that point had been reached.

President Murphy commented in reply that if monetary policy was changed substantially, resulting in a great deal more money being pushed into the banks, he did not know how the banks would use it. The money would be of no value to the economy sitting in the banks--only if the banks put it to use constructively. At present, he knew of no instances where people wanted money and could not get it. Loan demands were being met. More than ever before in his experience, banks were trying to find ways of making loans; they were under pressure for earnings. As he had said, he did not know what the banks would do with more money from the standpoint of benefiting the economy. In fact, he felt that more money would do more harm than good. Even new entrepreneurs were able to obtain financial backing in one way or another. The banks were stepping up and trying to help the small businessman who had not yet proven himself to the community.

President Murphy also commented that the banks were feeling more and more pressure from abroad for loans. Foreigners knew that funds were available, and at attractive rates. In his opinion, any lowering of interest rates would simply complicate the international situation further, without helping the domestic economy. There would be more demands from abroad, most of them coupled with existing relationships in such a way that the banks would find it difficult to deny the requests.

Mr. Breidenthal said he could not see that lower rates would generate any business that was not being generated at the present time. Money was available, and there was competition to put it to work. A lowering of rates by some banks would simply result in taking business away from others and would not create new business. In his judgment, no borrower was out of the market at present because of the rate factor, and lower rates would not bring anyone into the market.

Mr. Hays indicated that he thought more in terms of the availability of funds than in terms of the rate structure, although the two factors were interrelated to a certain extent. He did not think that, within reason, the rate made a great deal of difference in terms of determining whether a business firm or builder was going to go ahead with a project. Without question, funds were available today to finance any legitimate project.

Mr. Enders said he knew of no case where lower rates would develop any new business. Neither did he know of any case where a business firm had dropped plans for any proper purpose because of the prevailing level of interest rates. In his opinion, rates today were not steep, and lower rates would not increase the rate of economic growth.

Mr. Petersen also expressed the view that the availability of money was more important than its cost. He felt that money was relatively cheap today, and that this was one of the nation's problems. The demands on banks for foreign loans were increasing, to judge from the experience of Philadelphia banks, and this trend seemed likely to continue. Capital could be borrowed in this country by foreigners more cheaply than in their local areas, where the demands for capital tended to be large. Referring to the question that had been presented to the Council whether relatively more weight should be placed on domestic or on international problems in the formulation of monetary policy, Mr. Petersen suggested that such a question could hardly be answered satisfactorily because the two problems were so interwoven. In his view, one of the problems lay in the tendency for monetary policy to be oversold. Monetary policy was much more effective, in his judgment, on the restraining side than on the side of encouragement.

Mr. Moorhead said he saw no evidence that lower rates would stimulate the demand for loans. In fact, he saw a tendency in the opposite direction. People are most inclined to seek credit when they think interest rates are going higher.

Chairman Martin commented at this point that he had been following developments in the mortgage field closely since the stock market break, because it had been his experience that within several months after such a break there are likely to be some real estate adjustments. Thus far, however, there had been practically none as far as he could detect. He was heartened by the apparent soundness of the realty picture, generally speaking. However, he was not convinced from his investigations that mortgage money had not been overly plentiful, that in some situations conditions in the real estate industry had not been hurt by the availability of mortgage funds, at least in terms of the longer run picture.

Further, there was no question in his mind but that this country had become a target for foreigners who wanted loans. The question whether the availability of funds for foreign use could be restricted without damage to the domestic economy was one with which the Federal Reserve System had been dealing for some time. It was a particularly difficult problem in view of factors such as the degree of unemployment and the lack of more vigorous growth in the domestic economy.

Mr. McRae expressed the feeling that there was going to be an improvement in economic circumstances and a more aggressive attitude on the part of the business community. From his conversations within the Sixth District, it seemed generally agreed that business was quite good. While there were overtones of apprehension, people appeared rather surprised to find business as good as it was. It was his theory that businessmen would gradually build up confidence. With more specific regard to the question presently under discussion, he concurred in the view that lower interest rates would not generate any new business. He knew of no instances where potential borrowers had not gone ahead with projects because of the rate of interest.

Mr. Betts also concurred in the view that the availability of money was more important than its cost. In his view, a lowering of interest rates to induce borrowing would not work satisfactorily.

Mr. Zwiener expressed the view that anyone could find money readily and that the existing rate structure was not an impediment. In his opinion, the tax structure deserved attention more than any other area. The tax structure today was such that productive men were willing to retire rather than work, due to the lack of dollar incentive. To undertake projects, businessmen must have some motivation over and above favorable interest rates. As to the availability of credit, he knew of no situation in his area that was not being taken care of adequately. Mortgage money was plentifully available in the Chicago area, with a good deal of shopping around on a rate basis. As to the prime rate, he was convinced that if it were reduced by 1/4 or even 1/2 per cent, that would not stimulate any appreciable amount of additional borrowing, except if money was made available for speculative or extremely marginal purposes.

Mr. Maestre agreed that the availability of money was the important factor. When business conditions are poor, low-cost money does not help people very much. Conversely, in a boom the raising of rates is not an important deterrent to borrowing. If money was advertised tomorrow at a prime rate of 4 per cent, he did not think new loans would be developed.

Summing up, President Murphy said the members of the Council felt that the availability of money and the expectation of profit were the important factors. If a company did not foresee profits, it would not borrow at any price. There was hardly a discussion with businessmen today that did not bring in the tax structure and the possibility of some improvement. If the tax structure was revised in a sensible manner, it was his guess that the Government would wind up with more revenue. Businessmen would have more incentive to move ahead.

Question was raised by a member of the Council with regard to the weight given by the Board to the increase in time and savings deposits in considering the money supply.

Chairman Martin replied that personally, as he had often stated, he did not profess to understand the workings of the money supply. In response to the question, however, some members of the Board's staff were inclined to feel that around 50 per cent of the increase in time and savings deposits could reasonably be regarded as representing a shift from demand deposits. The volume of near-money substitutes must also be taken into account. Thus, there were a number of elements to be considered in appraising the money supply.

The Chairman admitted to a certain distrust of statistics. He preferred to look for empirical evidence in assessing the demand for and supply of money at any given point of the cycle. Recently, for example, he had talked with several smaller concerns in New York City that for the first time had been solicited by more than one bank. If that situation was typical, he found it hard to believe there was a shortage of money. Nevertheless, it was a fact that the money supply, as conventionally defined, was receding. To some people, this was an indication of dire consequences.

Governor Mills commented that during the past year there had been a substantial increase in bank loans and investments. A large part of that was financed out of the rise in time and savings deposits, however, and there had not been a creation of new demand deposits through the lending function. The result was a downward pressure on the money supply, which had been static or decreasing. The concern of the economists was that if the money supply did not expand, at some point this would exert a contractive pressure that would constitute a drag on the economy.

This concluded the discussion of the topics listed on the agenda for today's meeting.

As an additional item, Chairman Martin noted that the Board was in receipt of a request from a Committee of the Congress for its views on proposed legislation that would permit commercial banks to underwrite and deal in revenue bonds. He indicated that the Board would be glad to have the views of the Council.

The responses indicated that the members of the Council would favor the enactment of such legislation.

It was agreed that the next meeting of the Federal Advisory Council would be held on November 19-20, 1962.

The meeting then adjourned.

Secretary