

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
1960

MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

February 15-16, 1960

May 16-17, 1960

September 14-15, 1960

November 14-15, 1960

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1960

OFFICERS:

President, Homer J. Livingston
Vice President, Casimir A Sienkiewicz
Director, John J. McCloy
Director, Reuben B. Hays
Director, Gordon Murray
Secretary, Herbert V. Prochnow
Assistant Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

Homer J. Livingston
Casimir A. Sienkiewicz
John J. McCloy
Reuben B. Hays
Gordon Murray

MEMBERS:

Ostrom Enders	District No. 1
John J. McCloy	District No. 2
Casimir A. Sienkiewicz	District No. 3
Reuben B. Hays	District No. 4
John S. Alfriend	District No. 5
General John C. Persons	District No. 6
Homer J. Livingston	District No. 7
Norfleet Turner	District No. 8
Gordon Murray	District No. 9
R. Otis McClintock	District No. 10
I. F. Betts	District No. 11
Charles F. Frankland	District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

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

ARTICLE II. PRESIDENT AND VICE PRESIDENT

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

ARTICLE III. SECRETARY

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

ARTICLE IV. EXECUTIVE COMMITTEE

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

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

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

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

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

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

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

ARTICLE VI. MEETINGS

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

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

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

ARTICLE VII. ALTERNATES

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

ARTICLE VIII. AMENDMENTS

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

February 15, 1960

REPORT OF THE SECRETARY
OF THE
FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1959

Balance on hand, December 31, 1958	\$ 9,150.87	Salaries	\$ 5,000.00
		Printing and Stationery	543.12
Assessments— 12 Federal Reserve Banks	5,400.00	Postage, Telegrams and Telephone	2.70
		Balance on hand, December 31, 1959	9,005.05
	<u>\$14,550.87</u>		<u>9,005.05</u>
	<u>\$14,550.87</u>		<u>\$14,550.87</u>

Chicago, Illinois
February 1, 1960

To the Federal Advisory Council:

I have audited the books, vouchers and accounts of the Secretary of the Federal Advisory Council for the year ended December 31, 1959, and certify that the above statement agrees therewith.

Respectfully,

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

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 15, 1960

The first and organizational meeting of the Federal Advisory Council for the year 1960 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on February 15, 1960, at 9:30 A.M.

Present:

Ostrom Enders	District No. 1
John J. McCloy	District No. 2
Casimir A. Sienkiewicz	District No. 3
Reuben B. Hays	District No. 4
John S. Alfriend	District No. 5
General John C. Persons	District No. 6
Herbert V. Prochnow, Alternate	District No. 7
Norfleet Turner	District No. 8
Gordon Murray	District No. 9
R. Otis McClintock	District No. 10
I. F. Betts	District No. 11
Charles F. Frankland	District No. 12
William J. Korsvik	Assistant Secretary

Absent:

Homer J. Livingston	District No. 7
---------------------	----------------

Mr. Herbert V. Prochnow was elected Chairman *pro tem* and Mr. William J. Korsvik, Secretary *pro tem*.

The Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1960.

The following officers were nominated and unanimously elected:

- Homer J. Livingston, President
- Casimir A. Sienkiewicz, Vice President
- John J. McCloy, Director
- Reuben B. Hays, Director
- Gordon Murray, Director
- Herbert V. Prochnow, Secretary
- William J. Korsvik, Assistant Secretary

Mr. Casimir A. Sienkiewicz, Vice President of the Council, presided in the absence of President Livingston.

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

The Secretary presented his financial report for the year 1959, which had been audited by Mr. J. Carl Sommer, Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the printed minutes for the meetings of the Council held on February 16-17, 1959; April 27-28, 1959; September 14-15, 1959; November 16-17, 1959, and the mimeographed notes of the meeting held November 16-17, 1959, copies of which had been sent previously to the members of the Council, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Secretary to ask each Federal Reserve bank to contribute \$450.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1960 and to draw upon it for that purpose.

A complete list of the items on the agenda for the meeting and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 9, 10 and 11.

The meeting adjourned at 12:25 P.M.

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 15, 1960

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

Present: Mr. Casimir A. Sienkiewicz, Vice President; Messrs. Ostrom Enders, John J. McCloy, Reuben B. Hays, John S. Alfriend; General John C. Persons; Mr. Herbert V. Prochnow, Alternate for Mr. Homer J. Livingston; Messrs. Norfleet Turner, Gordon Murray, R. Otis McClintock, I. F. Betts, Charles F. Frankland, and William J. Korsvik, Assistant Secretary.

Absent: Mr. Homer J. Livingston.

Dr. Woodlief Thomas, Economic Adviser to the Board, and members of the Board's staff of the Division of Research and Statistics, participated in an audio-visual presentation "Entering 1960".

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 15, 1960

At 9:35 P.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

Present: Mr. Casimir A. Sienkiewicz, Vice President; Messrs. Ostrom Enders, John J. McCloy, Reuben B. Hays, John S. Alfriend; General John C. Persons; Mr. Herbert V. Prochnow, Alternate for Mr. Homer J. Livingston; Messrs. Norfleet Turner, Gordon Murray, R. Otis McClintock, I. F. Betts, Charles F. Frankland, and William J. Korsvik, Assistant Secretary.

Absent: Mr. Homer J. Livingston.

The Council reviewed its conclusions regarding the items on the agenda, and sent to the office of the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 9, 10 and 11, listing the agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 12:15 A.M. on February 16, 1960.

The meeting adjourned at 11:15 P.M.

WILLIAM J. KORSVIK
Assistant Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 16, 1960

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

The members of the Council report that the over-all economy has returned to a high level of activity following the settlement of the steel strike. Production, employment and income are at record levels. Consumer spending, capital investment, and the replenishment of inventories are major factors accounting for the present high volume of business. To the extent that inventories are rebuilt, the demand for goods for this purpose will diminish, with the possibility that some curtailment of production will result. In these circumstances the expansion of capital investment may not be as large as was expected.

In general, the current outlook for business for the first six months of the year is favorable. However, the probable further decline in farm income, the drop in prices of common stocks, and the less than anticipated sales of new automobiles with the consequent increase in automobile inventories have given rise to some uncertainty as to the months ahead.

2. How does current demand for bank credit compare with demands at this season in recent years of high activity? Is demand for bank loans and other credit likely to rise during the spring of 1960? What is the outlook for consumer installment credit? Are banks tending to limit their commitments in any areas of demand? If so, in what areas?

The current demand for bank credit compared with demand at this season in recent years of high activity varies by districts with the majority reporting a stronger demand. The usual seasonal pattern probably will characterize the demand for bank loans and other credit during the spring of 1960, with a likely increase in total credit.

The Council anticipates a further substantial increase in consumer instalment credit, the extent of the increase depending largely on the volume of automobile sales.

Banks are tending to limit new commitments in the areas of term loans, mortgage warehouse credits, and lines to finance companies.

3. Have the members of the Council noted any recent change in the attitude of the public in general and of businessmen in particular toward the question of inflation? Specifically, has the publicity given to the adverse balance of payments of the United States, the wage settlement in the steel industry, and the Federal Government's budget prospect for fiscal 1960-61 appeared to affect views as to (1) whether inflationary pressures will continue strong during 1960 and (2) what actions by banks and by Government should be taken to help prevent depreciation of the value of the currency?

The members of the Council believe that the publicity given to the adverse balance of payments of the United States, the wage settlement in the steel industry, and the Federal Government's budget prospect for fiscal 1960-61 have made the public, as well as businessmen, increasingly aware of the nation's monetary and fiscal problems. Although many persons continue to believe that the long-term underlying trend is inflationary, recent events including our adverse balance of payments and the prospect of a Federal budget surplus have tended to lessen inflationary pressures during 1960.

The pursuit of sound monetary and fiscal policies by Government and a broad and intensive program of public education in support of these policies by banks and by Government are two areas for continued and expanded action to help maintain the value of the currency. The program of education might include the objective analysis and the publication of a study on the attainment in a free society of economic growth without inflation. An increased public understanding of the expansion in nondefense expenditures in the Federal budget as well as a critical review of outlays for defense are essential in furthering sound fiscal policies. There is also the need for a clearer recognition of the fact that sound monetary and fiscal policies are an integral part of an adequate national defense.

The Federal Reserve System is to be commended for the constructive position it has taken in the maintenance of sound monetary policy. The Council is in full accord with this policy.

4. The Board would appreciate having the observations of the members of the Council regarding changes in the level of farm land prices during recent months and the significance of such changes.

The Council understands that farm land prices recently have shown little or no increase in contrast to the rather inflated appreciation which has characterized farm land prices for a number of years. Furthermore the return on farm proprietors' equities in 1959 was the lowest rate for many years, and the outlook is for a continued decline. Growing Government restrictions, increased operating costs and the higher return on alternative investments have made the purchase of farm land less attractive. These developments suggest that the purchase of farm lands as a hedge against inflation may have lessened.

5. The Council would like to review again with the Board the subject of the maximum permissible interest rates on time and/or time and savings deposits which the Board and the Council discussed at the September 1959 meeting.

The Council would like to review orally with the Board the subject of the maximum permissible interest rates on time and/or time and savings deposits.

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

February 16, 1960

At 10:30 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Vice Chairman C. Canby Balderston; Governors M. S. Szymczak, A. L. Mills, Jr., J. L. Robertson, Chas. N. Shepardson, and G. H. King, Jr.; also Mr. Merritt Sherman, Secretary, and Mr. Kenneth A. Kenyon, Assistant Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Casimir A. Sienkiewicz, Vice President; Messrs. Ostrom Enders, John J. McCloy, Reuben B. Hays, John S. Alfriend; General John C. Persons; Mr. Herbert V. Prochnow, Alternate for Mr. Homer J. Livingston; Messrs. Norfleet Turner, Gordon Murray, R. Otis McClintock, I. F. Betts, Charles F. Frankland, and William J. Korsvik, Assistant Secretary.

Absent: Mr. Homer J. Livingston.

In the absence of Mr. Homer J. Livingston, President of the Council, Vice President Sienkiewicz presided.

Vice President Sienkiewicz read the first item on the Agenda and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, as printed on pages 9, 10 and 11 of these minutes. Various members of the Board of Governors and the Federal Advisory Council participated in a general discussion on the business outlook.

The Vice President then read the second item, and the conclusions of the Council. In the discussion which followed, it was generally concluded that there was a little more caution in the business community than heretofore.

Vice President Sienkiewicz read the third item, and the conclusions of the Council. In the discussion which followed, various educational programs addressed to the problems of economic growth and inflation were outlined.

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

Vice President Sienkiewicz read the fifth item on the Agenda and the conclusions of the Council as expressed in the *Confidential Memorandum*. Governor Balderston acknowledged that this was a perplexing problem and was under study continuously by the Board and had been under study much of the time since the maximum rate was increased to 3 per cent at the beginning of 1957.

There followed an extended discussion on various subjects including the appro-

priateness of current Federal Reserve policy. Vice President Sienkiewicz indicated that the members of the Council concurred with the recent policy of restraint.

Attention was then directed to the request of the Administration for legislation that would remove the existing $4\frac{1}{4}$ per cent limitation on the rate of interest that may be paid on United States government securities having a maturity of more than five years. The Council reiterated the unanimous view, expressed at the September, 1959 meeting, that the interest rate ceiling on Treasury bonds should be removed.

The Council decided that its views be communicated by the Board of Governors to the Secretary of the Treasury. Accordingly, the following letter was sent to the Secretary of the Treasury over the signature of the Chairman of the Board of Governors on February 18, 1960:

"The Federal Advisory Council, a statutory body provided for under section 12 of the Federal Reserve Act, has just concluded its regular quarterly meeting with the Board of Governors. During this meeting the Council raised the question of removal of the $4\frac{1}{4}$ per cent limitation on the rate of interest that may be paid on U. S. Government securities having a maturity of more than five years, and it reiterated a view previously expressed unanimously by the members of the Council that this interest rate ceiling should be removed."

The meeting concluded with the suggestion by Mr. McCloy that the Board should act under the existing legislation with respect to member bank reserve requirements to abolish the central reserve city classification.

The meeting adjourned at 12:45 P.M.

WILLIAM J. KORSVIK
Assistant Secretary

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

H. V. P.

W. J. K.

The Secretary's notes of the meeting of the Federal Advisory Council on February 15, 1960, at 9:30 A. M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present, except Mr. Livingston who was absent because of illness. Mr. Herbert V. Prochnow served as an alternate from the seventh district.

Mr. Herbert V. Prochnow was elected Chairman pro tem and Mr. William J. Korsvik was elected Secretary pro tem.

The following officers were nominated and unanimously elected:

Homer J. Livingston, President
Casimir A. Sienkiewicz, Vice President
John J. McCloy, Director
Reuben B. Hays, Director
Gordon Murray, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion, duly made and seconded, the by-laws were approved.

Mr. Casimir A. Sienkiewicz, Vice President of the Council, presided in the absence of President Livingston.

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

The Secretary presented the financial report for the year 1959, which had been audited by Mr. J. Carl Sommer, Auditor of The First National Bank of Chicago. The report was approved and placed on file. It will be printed and included in the formal printed minutes.

A motion was adopted authorizing the Secretary to draw upon each Federal Reserve Bank for \$450 for the secretarial and incidental expenses of the Federal Advisory Council for the year 1960.

The Council approved the Secretary's notes for the meeting of November 16-17, 1959. The printed minutes for all the 1959 meetings of the Council, copies of which had been sent previously to members of the Council, also were approved.

ITEM I

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

Sienkiewicz read Item I and asked the individual members of the Council to comment on the business situation in their respective districts and the prospects for business activity during approximately the next six months.

An extended discussion followed in which members of the Council reported that the over-all economy had returned to a high level of activity following the settlement of the steel strike. Although production, employment and income are currently at record levels, several members of the Council stated that the tempo of business is not as brisk as was predicated and anticipated. Several members of the Council noted that the inventory accumulation was a major factor in the present buoyant situation. Later in the year, after inventories are rebuilt, some curtailment of production is possible. The feeling among the members of the Council, however, was that the general outlook for business for the first six months of the year is favorable. Mention also was made of the continued anticipated decline in farm income, the drop in the prices of common stocks, and the less than anticipated sales of new automobiles.

ITEM II

HOW DOES CURRENT DEMAND FOR BANK CREDIT COMPARE WITH WITH DEMANDS AT THIS SEASON IN RECENT YEARS OF HIGH ACTIVITY? IS DEMAND FOR BANK LOANS AND OTHER CREDIT LIKELY TO RISE DURING THE SPRING OF 1960? WHAT IS THE OUTLOOK FOR CONSUMER INSTALMENT CREDIT? ARE BANKS TENDING TO LIMIT THEIR COMMITMENTS IN ANY AREAS OF DEMAND? IF SO, IN WHAT AREAS?

Sienkiewicz read Item II and a brief discussion followed.

The current demand for bank credit varied by districts, although the majority reported that current demand is stronger than it was at this season in recent years of high activity. Most members expect that the demand for bank credit will increase in the months ahead. There was wide agreement that consumer instalment credit will increase substantially, but would be influenced by the volume of automobile sales. The members of the Council were of the opinion that most banks are tending to limit new commitments in the areas of term loans, mortgage warehouse credits and lines to finance companies.

ITEM III

HAVE THE MEMBERS OF THE COUNCIL NOTED ANY RECENT CHANGE IN THE ATTITUDE OF THE PUBLIC IN GENERAL AND OF BUSINESSMEN IN PARTICULAR TOWARD THE QUESTION OF INFLATION? SPECIFICALLY, HAS THE PUBLICITY GIVEN TO THE ADVERSE BALANCE OF PAYMENTS OF THE UNITED STATES, THE WAGE SETTLEMENT IN THE STEEL

INDUSTRY, AND THE FEDERAL GOVERNMENT'S BUDGET PROSPECT FOR FISCAL 1960-61 APPEARED TO AFFECT VIEWS AS TO (1) WHETHER INFLATIONARY PRESSURES WILL CONTINUE STRONG DURING 1960 AND (2) WHAT ACTIONS BY BANKS AND BY GOVERNMENT SHOULD BE TAKEN TO HELP PREVENT DEPRECIATION OF THE VALUE OF THE CURRENCY?

Sienkiewicz read Item III and a general discussion followed.

The members of the Council concluded that although many persons continue to believe that the long-term trend in the United States is inflationary, our adverse balance of payments and the prospect of a federal budget surplus have tended to lessen inflationary pressures during 1960. There was general agreement that the efforts of the Federal Reserve authorities and certain businessmen and bankers to acquaint the public with the nation's monetary and fiscal problems have been helpful. However, it was concluded that an extensive program of public education in support of sound monetary and fiscal policies is desirable. It was suggested that the program of education include a study of the attainment in a free society of economic growth without inflation. It was observed that the objective of sound fiscal policies could be furthered with greater public understanding of the expansion that has occurred in nondefense expenditures in the federal budget. A critical review of outlays for defense also is needed.

ITEM IV

THE BOARD WOULD APPRECIATE HAVING THE OBSERVATIONS OF THE MEMBERS OF THE COUNCIL REGARDING CHANGES IN THE LEVEL OF FARM LAND PRICES DURING RECENT MONTHS AND THE SIGNIFICANCE OF SUCH CHANGES.

Sienkiewicz read Item IV and asked members of the Council from the predominantly agricultural districts to comment.

In the discussion which followed it was reported that farm prices recently have shown little or no increase in contrast to a rather sharp appreciation which characterized farm land prices in the postwar period. It was observed that growing government restrictions, increased operating costs, and the higher return on alternative investments have made the purchase of farm lands less attractive. There was some opinion that the purchase of farm lands as a hedge against inflation may have lessened.

ITEM V

THE COUNCIL WOULD LIKE TO REVIEW AGAIN WITH THE BOARD THE SUBJECT OF THE MAXIMUM PERMISSIBLE INTEREST RATES ON TIME AND/OR TIME AND SAVINGS DEPOSITS WHICH THE BOARD AND THE COUNCIL DISCUSSED AT THE SEPTEMBER, 1959 MEETING.

Sienkiewicz read Item V. After considerable discussion, it was concluded that the Council would not prepare written comments on this item but instead would review the matter orally with the Board. It was contended that an increase in the maximum interest rate on time and/or savings deposits would not significantly increase the volume of savings. The problem of competing effectively for foreign time deposits also was briefly discussed.

The meeting adjourned at 12:25 P. M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. AT 2:30 P. M., ON FEBRUARY 15, 1960. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. LIVINGSTON. MR. HERBERT V. PROCHNOW SERVED AS AN ALTERNATE.

Dr. Woodlief Thomas, Economic Adviser to the Board, and members of the Board's staff of the Division of Research and Statistics participated in an audio-visual presentation "Entering 1960".

THE COUNCIL CONVENED AT 9:35 P.M. ON FEBRUARY 15, 1960, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. LIVINGSTON. MR. HERBERT V. PROCHNOW ATTENDED AS AN ALTERNATE.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on February 16, 1960. The Memorandum was delivered to the Federal Reserve Building at 12:15 A.M. on February 16, 1960.

The meeting adjourned at 11:15 P.M.

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 16, 1960

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

The members of the Council report that the over-all economy has returned to a high level of activity following the settlement of the steel strike. Production, employment and income are at record levels. Consumer spending, capital investment, and the replenishment of inventories are major factors accounting for the present high volume of business. To the extent that inventories are rebuilt, the demand for goods for this purpose will diminish, with the possibility that some curtailment of production will result. In these circumstances the expansion of capital investment may not be as large as was expected.

In general, the current outlook for business for the first six months of the year is favorable. However, the probable further decline in farm income, the drop in prices of common stocks, and the less than anticipated sales of new automobiles with the consequent increase in automobile inventories have given rise to some uncertainty as to the months ahead.

2. How does current demand for bank credit compare with demands at this season in recent years of high activity? Is demand for bank loans and other credit likely to rise during the spring of 1960? What is the outlook for consumer installment credit? Are banks tending to limit their commitments in any areas of demand? If so, in what areas?

The current demand for bank credit compared with demand at this season in recent years of high activity varies by districts with the majority reporting a stronger demand. The usual seasonal pattern probably will characterize the demand for bank loans and other credit during the spring of 1960, with a likely increase in total credit.

The Council anticipates a further substantial increase in consumer instalment credit, the extent of the increase depending largely on the volume of automobile sales.

Banks are tending to limit new commitments in the areas of term loans, mortgage warehouse credits, and lines to finance companies.

3. Have the members of the Council noted any recent change in the attitude of the public in general and of businessmen in particular toward the question of inflation? Specifically, has the publicity given to the adverse balance of payments of the United States, the wage settlement in the steel industry, and the Federal Government's budget prospect for fiscal 1960-61 appeared to affect views as to (1) whether inflationary pressures will continue strong during 1960 and (2) what actions by banks and by Government should be taken to help prevent depreciation of the value of the currency?

The members of the Council believe that the publicity given to the adverse balance of payments of the United States, the wage settlement in the steel industry, and the Federal Government's budget prospect for fiscal 1960-61 have made the public, as well as businessmen, increasingly aware of the nation's monetary and fiscal problems. Although many persons continue to believe that the long-term underlying trend is inflationary, recent events including our adverse balance of payments and the prospect of a Federal budget surplus have tended to lessen inflationary pressures during 1960.

The pursuit of sound monetary and fiscal policies by Government and a broad and intensive program of public education in support of these policies by banks and by Government are two areas for continued and expanded action to help maintain the value of the currency. The program of education might include the objective analysis and the publication of a study on the attainment in a free society of economic growth without inflation. An increased public understanding of the expansion in nondefense expenditures in the Federal budget as well as a critical review of outlays for defense are essential in furthering sound fiscal policies. There is also the need for a clearer recognition of the fact that sound monetary and fiscal policies are an integral part of an adequate national defense.

The Federal Reserve System is to be commended for the constructive position it has taken in the maintenance of sound monetary policy. The Council is in full accord with this policy.

4. The Board would appreciate having the observations of the members of the Council regarding changes in the level of farm land prices during recent months and the significance of such changes.

The Council understands that farm land prices recently have shown little or no increase in contrast to the rather inflated appreciation which has characterized farm land prices for a number of years.

Furthermore the return on farm proprietors' equities in 1959 was the lowest rate for many years, and the outlook is for a continued decline. Growing Government restrictions, increased operating costs and the higher return on alternative investments have made the purchase of farm land less attractive. These developments suggest that the purchase of farm lands as a hedge against inflation may have lessened.

5. The Council would like to review again with the Board the subject of the maximum permissible interest rates on time and/or time and savings deposits which the Board and the Council discussed at the September 1959 meeting.

The Council would like to review orally with the Board the subject of the maximum permissible interest rates on time and/or time and savings deposits.

ON FEBRUARY 16, 1960, AT 10:30 A. M., THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. LIVINGSTON. MR. HERBERT V. PROCHNOW SERVED AS AN ALTERNATE.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT:

VICE CHAIRMAN BALDERSTON, GOVERNORS SZYMCAK, MILLS, ROBERTSON, SHEPARDSON AND KING. MR. SHERMAN, SECRETARY AND MR. KENYON, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS, ALSO WERE PRESENT.

The minutes of the joint meeting are being prepared in the office of the Secretary of the Board of Governors of the Federal Reserve System. Their content will be compared with the notes of the Secretary of the Council. Assuming they are in substantial agreement, they will be distributed to the members of the Council.

The meeting adjourned at 12:45 P. M.

* * * * *

The next meeting of the Council will be held May 16-17, 1960