

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 14, 1960

The third statutory meeting of the Federal Advisory Council for 1960 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on September 14, 1960, at 9:30 A.M.

Present:

Ostrom Enders	District No. 1
Casimir A. Sienkiewicz	District No. 3
Reuben B. Hays	District No. 4
John S. Alfried	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

Absent:

John J. McCloy	District No. 2
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On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on May 16-17, 1960, copies of which had been sent previously to the members of the Council, were approved.

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 24 and 25 of these minutes.

The meeting adjourned at 12:20 P.M.

HERBERT V. PROCHNOW  
Secretary

WILLIAM J. KORSVIK  
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 14, 1960

At 2:15 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C.

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

Absent: Mr. John J. McCloy.

Dr. Arthur W. Marget, Director, Division of International Finance of the Board staff, spoke on "Gold and the U. S. Balance of Payments." A copy of his remarks was distributed to each member of the Council.

HERBERT V. PROCHNOW  
Secretary

WILLIAM J. KORSVIK  
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 14, 1960

At 8:15 P.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

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

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 to the Board of Governors from the Federal Advisory Council*, which follows on pages 24 and 25, listing the agenda items with the conclusions reached by the Council. The Memorandum was delivered to the Federal Reserve Building at 11:25 P.M. on September 14, 1960.

The meeting adjourned at 9:55 P.M.

HERBERT V. PROCHNOW  
Secretary

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 SEPTEMBER 15, 1960

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

September 15, 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:

Chairman Wm. McC. Martin, Jr.; Vice Chairman C. Canby Balderston; Governors M. S. Szymczak, 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. Homer J. Livingston, President; Messrs. Ostrom Enders, John J. McCloy, Casimir A. Sienkiewicz, Reuben B. Hays, John S. Alfried; General John C. Persons; Messrs. Norfleet Turner, Gordon Murray, R. Otis McClintock, I. F. Betts, Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

President Livingston read the first item on the Agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council* as printed on pages 24 and 25 of these minutes. Members of the Council then commented on regional developments in the general discussion which followed.

The President read the second item on the Agenda, and the conclusions of the Council. In response to a question relating to a possible change in the prime rate, it was pointed out that in general there had been no reduction in secondary and tertiary rates.

The third and fourth items on the Agenda and the Council's conclusions were then read by President Livingston.

President Livingston read the fifth item and the conclusions of the Council.

There were distributed to members of the Council at the beginning of this meeting copies of a letter dated June 10, 1960, addressed to the Board by the Subcommittee on Foreign Operations and Monetary Affairs of the House Government Operations Committee, along with copies of the answers to several of the questions therein that had been sent by the Board to the Subcommittee.

Chairman Martin added that the Board would welcome comments from the Council on these questions and the replies to them.

The meeting adjourned at 12:00.

HERBERT V. PROCHNOW  
Secretary

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 September 14, 1960, at 9:30 A.M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Council were present except Mr. McCloy who was enroute from abroad and was unable to be present at the morning session.

The Council approved the Secretary's notes for the meeting of May 16-17, 1960.

Livingston briefly discussed a ruling of the Board of Governors of the Federal Reserve System dated August 4, 1960 prohibiting the absorption of exchange charges by member banks. He explained that the members of the New York Clearing House Association had suggested certain changes in this new interpretation of Regulation Q and had outlined them in a letter dated August 26, 1960 addressed to Mr. Alfred Hayes, President of the Federal Reserve Bank of New York. A copy of Mr. Hayes' letter was distributed to members of the Council.

Mr. Livingston indicated that the Chicago Clearing House is preparing a similar letter and that he believed eventually the matter would come up for discussion at one of the Council's meetings with the Board.

A brief discussion followed.

#### ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL REGARDING THE CURRENT ECONOMIC SITUATION AND PROSPECTS FOR BUSINESS ACTIVITY DURING THE NEXT SIX MONTHS? THE COUNCIL'S IMPRESSIONS AS TO EXPECTATIONS OF THE BUSINESS COMMUNITY AND THE GENERAL PUBLIC AND THE IMPACT THEREOF ON CAPITAL EXPENDITURES, INVENTORY POLICIES, AND CONSUMER EXPENDITURES WOULD BE APPRECIATED.

Livingston read Item I, and asked the individual members of the Council to comment on the business situation in their districts and the prospects for the next six months.

In the discussion which followed members of the Council reported that business was moving sideways at a high level. Residential construction was substantially below previous high levels, although many members reported that the volume of commercial and industrial building was being sustained. It was reported that the steel industry, currently operating at just over 50 per cent of capacity, looks for some pickup in the months ahead. Despite comparatively large automobile sales, most members confirmed the report of substantial inventories of 1960 model cars. Retail sales were above the volume of a year ago but in most districts were below the level of last spring. Many members reported that profit margins of business corporations are continuing to narrow. The agricultural situation appeared to be satisfactory with the outlook in the Ninth District for the next six months particularly bright. All members of the Council anticipate a seasonal increase in business activity between now and the year end and that this will tend to sustain present levels. Many, however, expressed concern about the outlook

after the first of the year. In view of these developments the Council concluded that a downward trend in capital expenditures is probable and that some further liquidation of inventories is likely during the next six months. Consumers also appeared to be demonstrating some hesitancy in buying, particularly the "big ticket" items, and as a consequence, their expenditures may lag.

#### ITEM II

WITH RESPECT TO THE DEMAND FOR CREDIT: (a) HOW DOES THE CURRENT SITUATION COMPARE WITH THE SITUATION AT THIS SEASON OF OTHER RECENT YEARS? (b) ARE THERE INDICATIONS THAT THE DEMAND FOR BANK LOANS AND OTHER CREDIT WILL STRENGTHEN OVER THE REMAINDER OF THIS YEAR? (c) HOW HAVE BORROWERS RESPONDED TO THE RECENT CHANGE IN THE PRIME RATE? (d) HAVE THE DEMANDS FOR CONSUMER CREDIT AND MORTGAGE CREDIT IMPROVED?

Livingston read Item II. The members of the Council commented on credit conditions in their respective districts. It was concluded that although the total volume of bank credit outstanding is above a year ago, the current demand in most districts does not seem as strong as it was at this season in other recent years. All members anticipate a seasonal increase in bank loans in the fourth quarter but some members believe that the rise will be less than what usually occurs at this time of the year. The members of the Council have observed no discernible response on the part of borrowers to the recent reduction in the prime rate. Most members also reported no significant increase in the demands for consumer and mortgage credit.

#### ITEM III

IN RECENT WEEKS THERE HAVE BEEN LARGE DIFFERENCES BETWEEN SHORT-TERM INTEREST RATES IN THE UNITED STATES AND THOSE IN OTHER COUNTRIES. THERE HAS ALSO BEEN SOME INCREASE IN THE OUTFLOW OF GOLD FROM THIS COUNTRY. THE BOARD WOULD BE GLAD TO HAVE ANY VIEWS THE MEMBERS OF THE COUNCIL MIGHT CARE TO EXPRESS ON THIS SUBJECT, PARTICULARLY WITH REGARD TO THE RELATIONSHIP BETWEEN THE INTERNATIONAL SITUATION AND CURRENT MONETARY POLICY.

Livingston read Item III and invited comments from members of the Council. In the discussion which followed, it became increasingly clear that this item was closely related to recent monetary and credit policy, Item IV of the Agenda. The Council concluded that the difference between short-term interest rates in the United States and in other countries probably has contributed to the outflow of gold. However, the increase in short-term dollar claims of foreigners suggests that confidence in the dollar is being maintained. The Council observed that while interest rates are an important factor in international gold movements, responsible fiscal policy, a reasonable balance in international payments, and a vigorous and sound economy are of the highest importance.

#### ITEM IV

THE BOARD WOULD BE GLAD TO HAVE THE VIEWS OF THE COUNCIL REGARDING THE APPROPRIATENESS OF RECENT MONETARY AND CREDIT POLICY.

Livingston read Item IV and observed that this was one of the most important items on the Agenda and that it might be wise to devote a considerable part of the discussion time with the Board to a consideration of it.

In the extended discussion which followed, the Council unanimously agreed that recent monetary and credit policy has been appropriate in view of the evidences of weakness in the domestic economy and the lessening of inflationary pressures. The Council concluded that, in the present situation, the monetary authorities were correct in putting primary emphasis on domestic conditions.

ITEM V

WOULD IT BE DESIRABLE TO AMEND SECTION 9 (b) OF REGULATION F "USE IN CONDUCT OF BUSINESS OF TRUSTEE BANK," TO PLACE NATIONAL BANKS IN A COMPARABLE POSITION WITH STATE BANKS IN REGARD TO THE RECEIPT OF DEPOSITS FROM TRUST DEPARTMENTS.

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Livingston read Item V and asked Mr. Hayes to comment.

Hayes pointed out that under Regulation F the trust funds of national banks must be secured by government securities. In the State of Ohio the trust funds of state banks must not be so secured. As a consequence, certain banks in his district had asked that the Council consider the possibility of suggesting an amendment to Section 9 (b) of Regulation F so as to place national banks in a comparable position.

In the discussion which followed it became apparent that in most states, the statute governing deposits in state banks is similar to Regulation F. It was decided, therefore, that it would be more desirable to deal with this matter at the state level rather than to suggest an amendment to Regulation F.

The meeting adjourned at 12:20 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:15 P.M. ON SEPTEMBER 14, 1960. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. MC CLOY.

Dr. Arthur W. Marget, Director, Division of International Finance of the Board staff, spoke on Gold and the U. S. Balance of Payments. A copy of Dr. Marget's remarks is attached.

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THE COUNCIL CONVENED AT 8:15 P.M. ON SEPTEMBER 14, 1960, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

The session opened with a brief discussion of the August 4 ruling of the Board of Governors relating to the absorption of exchange charges by member banks. It was decided not to bring up the matter with the Board of Governors at this time.

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 September 15. The Memorandum was delivered to the Federal Reserve Building at 11:25 P.M. on September 14.

The meeting adjourned at 9:55 P.M.

CONFIDENTIAL

MEMORANUIUM TO THE BOARD OF GOVERNORS  
FROM THE  
FEDERAL ADVISORY COUNCIL  
RELATIVE TO THE AGENDA FOR THE JOINT MEETING  
ON SEPTEMBER 15, 1960

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ON SEPTEMBER 15, 1960, AT 10:15 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.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS SZYMCAK, 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 12:00.

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The next meeting of the Council will be held November 14-15, 1960.