MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 14, 1960

The fourth statutory meeting of the Federal Advisory Council for 1960 was convened in Room 932 of the Mayflower Hotel, Washington, D. C. on November 14, 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
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
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on September 14-15, 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 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 30, 31 and 32 of these minutes.

The meeting adjourned at 12:15 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 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, 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.

Mr. Guy E. Noyes, Director of Division of Research and Statistics, assisted by members of the Board staff, presented a round-up on the economic situation. Messrs. Woodlief Thomas and Ralph Young, Advisers to the Board of Governors, also were present. An outline of the remarks was distributed to members of the Council.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 14, 1960

At 8:00 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* which follows on pages 30, 31 and 32, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 10:45 P.M. on November 14, 1960.

The meeting adjourned at 9:45 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON NOVEMBER 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 impressions of members of the Council as to expectations of the business community and as to the outlook for capital expenditures, inventories, and consumer expenditures would be appreciated.

The members of the Council report that the current economic situation is spotty both with respect to industries and geographical areas. The course of business in the months immediately ahead, which is more than usually obscure, will probably be sidewise or slightly downward. The attitude of the business community is neither one of optimism nor of pessimism, but rather one of concern about the future level of business. This concern is heightened by the declining margin of profits.

The members of the Council believe that capital expenditures will show some decline. Although there has been a shift in inventory policy during the year from substantial accumulation to liquidation, the members of the Council see no conclusive evidence indicating important inventory accumulation in the months ahead. The Council anticipates that consumer expenditures, as in recent periods of business decline, will remain at relatively high levels.

2. How does the current demand for credit compare with the demand at this season of other recent years? Are there indications that the demand for bank loans and other credit will strengthen?

Although the total loans of the banking system are above the level of the preceding year, the current seasonal demand is not as great as it was at this season in most other recent years. The members of the Council have seen little evidence indicating that the demand for bank loans and other credit will strengthen significantly in the months immediately ahead. However, a substantial reduction in bank loans is not anticipated.

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

Although the Council recognizes the problems inherent in increasing reserves at a time when this country has a substantial balance-of-payments deficit, it concurs with recent monetary and credit policy which provides the reserves required for the holiday season and at the same time permits the counting of all vault cash and eliminates the differential in reserve requirements between central reserve and reserve cities.

4. Would the Council care to express any views on the questions contained in the letter from Chairman Hardy that was distributed at the meeting of the Board and the Council in September?

The members of the Council have reviewed the questions contained in the letter from Chairman Hardy and the replies of the Board of Governors. The comments of the President of the Council on questions 1 and 2, contained in his letter of October 8, 1960, to the Chairman of the Board of Governors, are approved by the Council. A copy of the letter is attached.

The Council believes the Board should have the right to exercise the customary prerogatives, including the right to use its discretion in determining the propriety of its expenses and especially the compensation of its staff. Furthermore, the Council strongly urges that consideration be given to a generally higher scale of salaries for members of the staff in responsible positions. These individuals discharge responsibilities of great importance, and it is essential that the System attract and retain highly qualified personnel.

5. Comments on the Balance of Payments.

On various occasions in the past, the Board and the Council have discussed the relationship between monetary and credit policy and the balance-of-payments deficit. The members of the Council recognize the difficulty of formulating monetary policy which meets the requirements of the domestic economy and at the same time does not aggravate the problem of the balance of payments.

It is not possible within the scope of this memorandum fully to discuss and evaluate the numerous proposals which have been advanced to ameliorate this vexing problem. Some of these proposals, such as a reduction in overseas military expenditures and the extent of foreign aid, are clearly outside the authority and responsibility of the Board of Governors.

The members of the Council do not believe that such suggestions as a general increase in tariffs, the imposition of quotas, the curtailment of tourist expenditures and U. S. investments overseas, or the embargo of gold provide real solutions to our balance-of-payments problem. The devaluation of the dollar, which undoubtedly would not be unilateral, would be repugnant at best and also would not be a solution.

In substance, the Council does not believe there is any single, easy, quick solution to this compiex problem.

The Council believes that the first and essential step in solving the balance-of-payments problem is responsible fiscal policy and public support of sound monetary and credit policies. Under such conditions, even a moderate but progressive decline in the deficit, would clearly demonstrate to the world the determination of the United States to redress the balance-of-payments deficit and to maintain the value of the dollar.

A downward trend in the deficit might be established by a series of steps including, for example, a more equitable sharing of the costs of aid to the underdeveloped nations, some reductions in overseas military outlays for dependents, and the elimination of any remaining discrimination against dollar goods.

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

November 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, A. L. Mills, Jr., and J. L. Robertson; 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. Alfriend; General John J. 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 30, 31 and 32. He added that there was some difference of opinion among members of the Council with respect to the inventory situation. Some argued that inventories were high at the present time and that as a consequence business was not likely to move strongly upward in the immediate future. General Persons then responded suggesting that he considered the inventory situation an element of strength rather than weakness, pointing out that many industries had already reduced their inventories substantially.

President Livingston read the second item on the Agenda and observed that loans at many money center banks were at or close to their all-time high and that the demands upon the larger banks had been heavy. In response to an inquiry from Governor Mills, President Livingston reported that a decrease in loans which one would expect to accompany the decline in business had not yet developed and this was causing him some concern. Mr. McCloy observed that although the Council's statement reflected a mixture of optimism and pessimism, nothing in the economic system seemed to be pointing to a substantial recession.

The third item was then read by President Livingston. Chairman Martin asked whether a greater availability of money would achieve the desired result of stimulating the economy. He added that there was a grave question whether monetary policy could push the string under all circumstances. He added that in his judgment the biggest shadow on the domestic picture was cast by the balance of payments problem.

President Livingston said that the members of the Council were convinced that there were more houses for sale than there were buyers. In these circumstances, he did not believe that business would be helped by making more money available.

The President of the Council then read the fourth item on the Agenda and the conclusions of the Council.

President Livingston read the fifth item on the Agenda. He added that the Council had considered it desirable to record its views on the balance of payments problem.

Mr. McCloy mentioned the possibility of increasing the maximum rate of interest payable by member banks on foreign owned time deposits as one technique that might be employed in an effort to stem the flow of funds abroad. Chairman Martin replied that the whole question of maximum permissible rates of interest on time and savings deposits continued to be discussed regularly by the Board.

The meeting adjourned at 12:15 P.M.

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 November 14, 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.

The Council approved the Secretary's notes for the meeting of September 14-15, 1960.

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 IMPRESSIONS OF MEMBERS OF THE COUNCIL AS TO EXPECTATIONS OF THE BUSINESS COMMUNITY AND AS TO THE OUTLOOK FOR CAPITAL EXPENDITURES, INVENTORIES, AND CONSUMER EXPENDITURES WOULD BE APPRECIATED.

Livingston read Item I. Before asking individual members of the Council to comment, he suggested they address themselves directly to the questions contained in the Agenda item. This would mean, he noted, commenting more on attitudes and expectations rather than on the level of specific indicators. An extended discussion followed, each member of the Council responding to the Agenda.

The consensus was that the current economic situation was spotty both with respect to industries and geographical areas. It was generally agreed that the course of business in the months immediately ahead will probably be sideways or slightly downward. The attitude of the business community, the Council concluded, was neither one of optimism nor pessimism, but one of concern about the future level of business. A number of members reported a concern among businessmen about the declining margin of profits. There was a strong feeling that capital expenditures would show some decline. Despite the shift in inventory policy which has taken place during the year, the majority of the members of the Council saw no conclusive evidence indicating substantial inventory accumulation in the months ahead. One member, however, was of the opinion that inventories had been depleted to such an extent that inventories were an element of strength in the economy rather than one of weakness. Members of the Council were of the opinion that consumer expenditures will remain at relatively high levels in the months immediately ahead.

ITEM II

HOW DOES THE CURRENT DEMAND FOR CREDIT COMPARE WITH THE DEMAND AT THIS SEASON OF OTHER RECENT YEARS? ARE THERE INDICATIONS THAT THE DEMAND FOR BANK LOANS AND OTHER CREDIT WILL STRENGTHEN?

Livingston read Item II and observed that although total loans of the banking system are above the level of the preceding year, the current seasonal demand is not as great as it was at this season in most recent years. General agreement with this point of view was expressed by the other members of the Council in the brief discussion that followed.

Members of the Council reported seeing little evidence indicating that the demand for bank loans and other credit would strengthen significantly in the period ahead. On the other hand, the Council did not anticipate a substantial reduction in loan totals.

ITEM III

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

Livingston read Item III. An extended discussion followed.

The Council concurred with recent monetary and credit policy which will provide the reserves required for the holiday season and at the same time will permit the counting of all vault cash and eliminate the differential in reserve requirements between central reserve and reserve cities. It was decided also to acknowledge the problem inherent in releasing reserves at a time when this country has a substantial balance of payments deficit.

In the discussion on monetary and credit policy, the Council devoted considerable attention to the balance of payments deficit and the growing pressures on the gold reserves of the United States. In view of the importance of this matter it was unanimously decided that a brief statement of the Council's views should be attached to the Confidential Memorandum submitted to the Board.

ITEM IV

WOULD THE COUNCIL CARE TO EXPRESS ANY VIEWS ON THE QUESTIONS CONTAINED IN THE LETTER FROM CHAIRMAN HARDY THAT WAS DISTRIBUTED AT THE MEETING OF THE BOARD AND THE COUNCIL IN SEPTEMBER?

Livingston read Item IV, and added that following the last meeting of the Council he had submitted comments on questions 1 and 2 of Chairman Hardy's letter to the Board of Governors.

The Council approved these comments and suggested that they be made a part of the Confidential Memorandum to the Board of Governors.

The Council also decided to state that it believed the Board should have the right to exercise the customary management prerogatives, including the right to use its discretion in determining the propriety of its expenses and especially the compensation of its staff. The Council also urged that consideration be given to a generally higher scale of salaries for members of the staff as they discharge responsibilities of great importance.

Livingston at this point reported on the tempoary change in Regulation Q which will permit member banks to disregard and absorb, as trivial, exchange charges in amounts aggregating not more than $2.00 for any one depositor in any calendar month or any regularly established period of thirty days.

Livingston also reported that a survey is being undertaken to obtain additional information on various aspects of the relation between exchange charges and the payment of interest on deposits. Upon completion of the survey the Board will reconsider the matter of absorption of exchange charges. Mr. Livingston noted that he had received a letter from Carl E. Allen, President of the Federal Reserve Bank of Chicago, dated November 10, 1960, describing the survey in some detail. A copy of this letter was distributed to each member of the Council.

There followed a brief discussion on the possibility of raising the 3 per cent ceiling on interest paid on time deposits of foreign governments and/or central banks. It was pointed out that permitting U. S. banks to pay a higher rate might slow the movement of foreign owned funds from the United States. It was decided not to include this subject in the Confidential Memorandum to the Board but rather to bring it up informally during the discussion between the Council and the Board.

The meeting adjourned at 12:15 P.M.

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

Mr. Guy E. Noyes, Director of Division of Research and Statistics, assisted by members of the Board staff, presented a round-up on the economic situation. Messrs. Woodlief Thomas and Ralph Young, Advisers to the Board of Governors, also were present.

The Board's staff is to make copies of its presentation available to the members of the Council. These will be distributed upon their receipt.

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THE COUNCIL CONVENED AT 8:00 P.M. ON NOVEMBER 14, 1960, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

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 November 15, 1960. The Memorandum was delivered to the Federal Reserve Building at 10:45 P.M. on November 14, 1960.

The meeting adjourned at 9:45 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON NOVEMBER 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 impressions of members of the Council as to expectations of the business community and as to the outlook for capital expenditures, inventories, and consumer expenditures would be appreciated.

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2. How does the current demand for credit compare with the demand at this season of other recent years? Are there indications that the demand for bank loans and other credit will strengthen?

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

Although the Council recognizes the problems inherent in increasing reserves at a time when this country has a substantial balance-of-payments deficit, it concurs with recent monetary and credit policy which provides the reserves required for the holiday season and at the same time permits the counting of all vault cash and eliminates the differential in reserve requirements between central reserve and reserve cities.

4. Would the Council care to express any views on the questions contained in the letter from Chairman Hardy that was distributed at the meeting of the Board and the Council in September?

The members of the Council have reviewed the questions contained in the letter from Chairman Hardy and the replies of the Board of Governors. The comments of the President of the Council on questions 1 and 2, contained in his letter of October 8, 1960, to the Chairman of the Board of Governors, are approved by the Council. A copy of the letter is attached.

The Council believes the Board should have the right to exercise the customary prerogatives, including the right to use its discretion in determining the propriety of its expenses and especially the compensation of its staff. Furthermore, the Council strongly urges that consideration be given to a generally higher scale of salaries for members of the staff in responsible positions. These individuals discharge responsibilities of great importance, and it is essential that the System attract and retain highly qualified personnel.

5. Comments on the Balance of Payments.

On various occasions in the past, the Board and the Council have discussed the relationship between monetary and credit policy and the balance-of-payments deficit. The members of the Council recognize the difficulty of formulating monetary policy which meets the requirements of the domestic economy and at the same time does not aggravate the problem of the balance of payments.

It is not possible within the scope of this memorandum fully to discuss and evaluate the numerous proposals which have been advanced to ameliorate this vexing problem. Some of these proposals, such as a reduction in overseas military expenditures and the extent of foreign aid, are clearly outside the authority and responsibility of the Board of Governors.

The members of the Council do not believe that such suggestions as a general increase in tariffs, the imposition of quotas, the curtailment of tourist expenditures and U.S. investments overseas, or the embargo of gold provide real solutions to our balance-of-payments problem. The devaluation of the dollar, which undoubtedly would not be unilateral, would be repugnant at best and also would not be a solution.

In substance, the Council does not believe there is any single, easy, quick solution to this complex problem.

The Council believes that the first and essential step in solving the balance-of-payments problem is responsible fiscal policy and public support of sound monetary and credit policies. Under such conditions, even a moderate but progressive decline in the deficit, would clearly demonstrate to the world the determination of the United States to redress the balance-of-payments deficit and to maintain the value of the dollar.

A downward trend in the deficit might be established by a series of steps including, for example, a more equitable sharing of the costs of aid to the underdeveloped nations, some reductions in overseas military outlays for dependents, and the elimination of any remaining discrimination against dollar goods.

FEDERAL ADVISORY COUNCIL

(FEDERAL RESERVE SYSTEM)

OFFICE OF THE PRESIDENT

c/o THE FIRST NATIONAL BANK OF CHICAGO
P. O. BOX A
CHICAGO 90, ILLINOIS

October 8, 1960

Mr. William McC. Martin, Chairman
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Bill:

At the last meeting of the Council and the Board you handed out Congressman Hardy's letter of June 10 to the Board and said you would welcome any comments any Council member might wish to make concerning the answers to questions 1 and 2. For what they may be worth, I am enclosing comments on both of these questions.

Sincerely,

President

1. Whether it would not be of economic advantage to the Treasury, without substantial detriment to the banking community, to reduce the "float" by raising the maximum deferment time for check credits so that it more nearly coincides with the time required to complete the mechanical steps involved.

It would be possible to reduce "float", as suggested by the question, if the deferment time for check credits were increased. However, it is doubtful whether this would result in economies either to the Treasury or to the Federal Reserve System. Neither can it be expected to have any real effect on monetary policy, for the size of the "float" is, with reasonable accuracy, estimated by the Board of Governors and thus taken into account in open market operations and their designed effect on the System's reserves. Hence, there would appear to be a net advantage in retaining the present mechanism on the grounds that the banking community is accustomed to it. Moreover, with greater mechanization and with the increasing rapidity of communication and transportation, the difference in the actual collection time and the maximum deferment time should disappear.

2. Whether it would not be of economic advantage to the Treasury and the Federal Reserve System to reduce the varieties of United States currency, in particular through replacing the twelve issues of Federal Reserve Notes with one central issue.

While it may not appear to be the case, the Federal Reserve Notes issued by each of the Federal Reserve Banks actually comprise a homogeneous central issue. The notes all originate in Washington where they are printed and engraved, so that the designation of the name of the Federal Reserve Bank through which they are issued to the commercial banks serves as a desirable administrative and control device. Such a procedure would be desirable even if we had but one central bank, with branches strategically located around the country. The large geographical area of the United States makes the present district system highly desirable, and in practice the system has operated effectively. Control over note issue, and sensitive response to regional needs for currency, make it desirable that notes be issued through the district or branch banks and that the issuing agency be designated in some way on the face of the note. In much the same manner our coins bear the stamp of the Philadelphia or Denver mint. The homogeneity of Federal Reserve Notes is further evident by the fact that since 1954, one Federal Reserve Bank may pay out the notes of another Bank which have been received in the course of business. This change in the law effected a savings for the System of nearly $1,000,000.

The homogeneity of the Federal Reserve Notes is further emphasized in the consolidated statements of the Federal Reserve System in which these notes appear as a single liability irrespective of the particular District Bank which issued them. Ultimate limitation on the total note issue is the gold reserve in the Treasury - a limit which is legislatively established by the Congress.

ON NOVEMBER 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 SZYMCZAK, MILLS AND ROBERTSON. 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 12:15 P.M.

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The next meeting of the Council will be held February 20-21, 1961.