

MINUTES OF MEETINGS  
of the  
FEDERAL ADVISORY COUNCIL  
1961

MINUTES OF MEETINGS  
of the  
FEDERAL ADVISORY COUNCIL

February 20-21, 1961

May 15-16, 1961

September 18-19, 1961

November 20-21, 1961

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1961

OFFICERS:

President, Homer J. Livingston  
Vice President, Gordon Murray  
Director, Ostrom Enders  
Director, George A. Murphy  
Director, Reuben B. Hays  
Secretary, Herbert V. Prochnow  
Assistant Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

Homer J. Livingston  
Gordon Murray  
Ostrom Enders  
George A. Murphy  
Reuben B. Hays

MEMBERS:

Ostrom Enders	District No. 1
George A. Murphy	District No. 2
Howard C. Petersen	District No. 3
Reuben B. Hays	District No. 4
Robert B. Hobbs	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 of 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 20, 1961

REPORT OF THE SECRETARY

OF THE

FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1960

Balance on hand, December 31, 1959 . . . . .	\$ 9,005.05	Salaries . . . . .	\$ 5,000.00
		Printing and Stationery . . . . .	546.24
Assessments— 12 Federal Reserve Banks . . . . .	5,400.00	Balance on hand, December 31, 1960 . . . . .	8,858.81
	<u>\$14,405.05</u>		<u>\$14,405.05</u>

Chicago, Illinois  
February 1, 1961

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, 1960, 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 20, 1961

The first and organizational meeting of the Federal Advisory Council for the year 1961 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on February 20, 1961, at 9:30 A.M.

## Present:

Ostrom Enders	District No. 1
George A. Murphy	District No. 2
Howard C. Petersen	District No. 3
Reuben B. Hays	District No. 4
Robert B. Hobbs	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. Elmo Thompson, Alternate	District No. 10
I. F. Betts	District No. 11
Charles F. Frankland	District No. 12
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary

## Absent:

R. Otis McClintock	District No. 10
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Mr. Howard C. Petersen was elected Chairman *pro tem* and Mr. Herbert V. Prochnow acted as 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 1961.

The following officers were nominated and unanimously elected:

- Homer J. Livingston, President
- Gordon Murray, Vice President
- Ostrom Enders, Director
- George A. Murphy, Director
- Reuben B. Hays, Director
- Herbert V. Prochnow, Secretary
- William J. Korsvik, Assistant Secretary

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 1960, 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 15-16, 1960; May 16-17, 1960; September 14-15, 1960; November 14-15, 1960, and the mimeographed notes of the meeting held November 14-15, 1960, 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 1961 and to draw upon them 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 and 10.

The meeting adjourned at 12:25 P.M.

HERBERT V. PROCHNOW  
Secretary

WILLIAM J. KORSVIK  
Assistant Secretary

# MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 20, 1961

At 2:30 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, George A. Murphy, Howard C. Petersen, Reuben B. Hays, Robert B. Hobbs, General John C. Persons; Messrs. Norfleet Turner, Gordon Murray, R. Elmo Thompson, Alternate for Mr. R. Otis McClintock; Messrs. I. F. Betts and Charles F. Frankland.

Absent: Mr. R. Otis McClintock.

Drs. Woodlief Thomas and Ralph Young, Economic Advisers to the Board, and members of the Board's staff of the Division of Research and Statistics, participated in an audio-visual presentation on economic growth.

HERBERT V. PROCHNOW  
Secretary

WILLIAM J. KORSVIK  
Assistant Secretary

# MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 20, 1961

At 10:05 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, George A. Murphy, Howard C. Petersen, Reuben B. Hays, Robert B. Hobbs, General John C. Persons; Messrs. Norfleet Turner, Gordon Murray, R. Elmo Thompson, Alternate for Mr. R. Otis McClintock; Messrs. I. F. Betts, Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. R. Otis McClintock.

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 and 10, listing the agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 11:45 P.M. on February 20, 1961.

The meeting adjourned at 10:50 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 FEBRUARY 21, 1961

1. What are the views of the Council regarding the current business situation and prospects for the next six months and for the remainder of the year? Are there any indications as yet that the recession is approaching bottom or that recovery is beginning to develop? If neither of these indications is yet evident, when would the Council anticipate that such signs might appear?

Business currently is continuing to decline moderately, and the members of the Council anticipate some further contraction. Despite the present trend, most members of the Council believe that the recession is approaching bottom and that recovery should be under way in the last half of the year.

2. What are the Council's views on prospects for early solution or important amelioration of the unemployment problem? Is business investment in new plant and equipment and the rapid adoption of technological advances helping or hurting the unemployment situation?

Even with a considerable improvement in business activity, which would expand employment and lessen unemployment, the Council does not expect an early solution of the unemployment problem, which is of course aggravated by the substantial annual additions to the labor force. A part of this problem reflects fundamental changes in some areas of the economy such, for example, as the coal industry. Another part of the problem results from rapid and far-reaching technological advances. A third contributing factor is the relative immobility of labor and industry. This is further complicated by the lack of labor skills required in new and expanding industries. Over the long run, these developments do not cause permanent unemployment. However, the required adjustments—the movement of industry and labor, and the training necessary to acquire new skills—do require time, with the result that there is a lag in employment.

3. What is the current situation in the housing field? Is activity being restrained by financial factors (availability of credit, interest rates, down payments, and maturities), by failure of builders to judge accurately and to meet consumer wants in housing, or by a general market saturation that may persist for some time?

The members of the Council believe that there is at present a surplus in housing in many areas of the country. Activity in this field is not being restrained by financial factors. However, high costs of construction may be an inhibiting influence. The saturation that currently exists seems likely to prevent any important expansion in this field in the months immediately ahead.

4. Is the demand for credit increasing or decreasing as compared with last November and with a year ago? Are demands for funds to carry business inventories showing signs of rising or falling more than seasonally? Are business inventory positions satisfactory or too high or too low? Is mortgage credit more available, and at lower rates, than it was six months ago?

Most members of the Council report that the demand for credit is decreasing as compared with last November and with a year ago. There is general agreement that the demand for funds to carry business inventories is falling more than seasonally.

Some further moderate liquidation of inventories is probable, although the inventory position has been substantially strengthened. Mortgage credit is more available than it was six months ago, and rates are moderately lower.

5. To what extent has bank liquidity been replenished? Are banks likely to lengthen the maturity structure of their investment portfolios this spring? Are seasonal repayments of business loans of banks likely to be greater than usual this winter and spring? Has the competitive position of banks in attracting savings improved in the last six months relative to that of alternative savings outlets?

Bank liquidity has been replenished to a considerable extent. The members of the Council see no indication that banks will lengthen the maturity structure of their investment portfolios this spring. Seasonal repayments of business loans are likely to be greater than usual this winter and spring. The competitive position of banks in attracting savings has not improved in the last six months relative to that of alternative savings outlets.

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

The Council is in accord with recent monetary and credit policy and believes the present degree of ease has been appropriate.

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

February 21, 1961

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., J. L. Robertson and Chas. N. Shepardson; 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, George A. Murphy, Howard C. Petersen, Reuben B. Hays, Robert B. Hobbs, General John C. Persons; Messrs. Norfleet Turner, Gordon Murray, R. Elmo Thompson, Alternate for Mr. R. Otis McClintock; Messrs. I. F. Betts, Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. R. Otis McClintock.

President Livingston 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 and 10 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 President then read the second item and the conclusions of the Council. There followed a discussion on the unemployment problem including, among other things, the immobility of labor. Chairman Martin observed that the question of the level of unemployment that should be regarded as tolerable presented a real problem.

President Livingston read the third item, and the conclusions of the Council. In the comments which followed, the question was raised of the ability of the government to be helpful in stimulating home building in view of the relatively weak demand for houses. President Livingston also cited the reluctance of potential buyers to commit themselves for mortgage payments because of the unemployment situation.

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 the President. There was considerable comment in the discussion which followed on the recent decision of one New York City bank to issue negotiable certificates of deposit to corporations.

President Livingston read the fifth item, and the conclusions of the Council. Mr. Murphy discussed the problem faced by commercial banks in competing for the savings dollar. He observed that the commercial banks were losing the battle for the savings dollar and that they would continue to do so, as long as rate, tax, and other differentials were permitted.

The President of the Council then read the sixth item and the conclusions of the Council. President Livingston observed that the Council's response to this topic was prepared before the members learned of the recent announcement of the Federal Open Market Committee authorizing System Account transactions in longer term government securities. (A copy of the announcement made on February 20, 1961 by the Manager of the System Open Market Account appears on page 13 of these minutes.)

In discussing credit conditions, Chairman Martin noted that it had always been his view that the Federal Reserve should consider the domestic economy first as long as money could contribute to an improvement of domestic economic conditions. This view, however, now was complicated by a balance of payments situation. He added that a domestic recovery would not necessarily correct the balance of payments problem although this was the assumption of many people. This, he concluded, was the dilemma which confronted the System.

The meeting adjourned at 12:25 P.M.

HERBERT V. PROCHNOW  
Secretary

WILLIAM J. KORSVIK  
Assistant Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

For immediate release

February 20, 1961

Below is a copy of a statement issued in New York today, for immediate release.

At the direction of the Chairman of the Open Market Committee of the Federal Reserve System, the following announcement was made today by the Manager of the System Open Market Account for the information of the public and all participants in the market for Government securities:

"The System Open Market Account is purchasing in the open market U. S. Government notes and bonds of varying maturities, some of which will exceed 5 years.

"Price quotations and offerings are being requested of all primary dealers in U. S. Government securities. Determination as to which offerings to purchase is being governed by the prices that appear most advantageous, i.e., the lowest prices. Net amounts of all transactions for System account will be shown as usual in the condition statements issued every Thursday.

"During recent years transactions for the System Account, except in correction of disorderly markets, have been made in short-term U. S. Government Securities. Authority for transactions in securities of longer maturity has been granted by the Open Market Committee of the Federal Reserve System in the light of conditions that have developed in the domestic economy and in the U. S. balance of payments with other countries."

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 20, 1961, 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. McClintock. Mr. R. Elmo Thompson attended as an Alternate for Mr. McClintock.

Mr. Howard C. Petersen was elected Chairman pro tem and Mr. Herbert V. Prochnow acted as Secretary pro tem.

The following officers were nominated and unanimously elected:

Homer J. Livingston, President  
Gordon Murray, Vice President  
Ostrom Enders, Director  
George A. Murphy, Director  
Reuben B. Hays, Director  
Herbert V. Prochnow, Secretary  
William J. Korsvik, Assistant Secretary

The by-laws were approved.

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 1960, 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 \$450 for the secretarial and incidental expenses of the Federal Advisory Council for the year 1961.

The Council approved the Secretary's notes for the meeting of November 14-15, 1960. The printed minutes for all the 1960 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 PROSPECTS FOR THE NEXT SIX MONTHS AND FOR THE REMAINDER OF THE YEAR? ARE THERE ANY INDICATIONS AS YET THAT THE RECESSION IS APPROACHING BOTTOM OR THAT RECOVERY IS BEGINNING TO DEVELOP? IF NEITHER OF THESE INDICATIONS IS YET EVIDENT, WHEN WOULD THE COUNCIL ANTICIPATE THAT SUCH SIGNS MIGHT APPEAR?

Livingston read Item I and suggested that in place of a general report on the business outlook in each district, that the members of the Council address their comments to the specific questions noted in the Agenda. A general discussion followed and members of the Council participated.

2.

It was concluded that business currently was continuing to decline moderately and that some further contraction was anticipated by the members of the Council. Despite this trend, however, most members of the Council were of the opinion that the recession was approaching the bottom and that recovery should be underway in the last half of the year.

#### ITEM II

WHAT ARE THE COUNCIL'S VIEWS ON PROSPECTS FOR EARLY SOLUTION OR IMPORTANT AMELIORATION OF THE UNEMPLOYMENT PROBLEM? IS BUSINESS INVESTMENT IN NEW PLANT AND EQUIPMENT AND THE RAPID ADOPTION OF TECHNOLOGICAL ADVANCES HELPING OR HURTING THE UNEMPLOYMENT SITUATION?

Livingston read Item II and observed that despite an expansion in employment that is likely to come with the expected improvement in business, the unemployment problem is likely to remain. Other members of the Council in turn commented on this item. In general, the Council concluded that an early solution of the unemployment problem, which is aggravated by the substantial annual additions to the labor force, was not likely even with a considerable improvement in business activity. The Council noted that a part of this problem reflects fundamental changes in some areas of the economy such, for example, as the coal industry, Rapid and far-reaching technological advances, the lack of skills required in expanding industries, together with the relative immobility of labor and capital also are contributing to the problem. The adjustments required, including the movement of industry and labor and the training necessary to acquire new labor skills, are time consuming and this results in lagging employment.

#### ITEM III

WHAT IS THE CURRENT SITUATION IN THE HOUSING FIELD? IS ACTIVITY BEING RESTRAINED BY FINANCIAL FACTORS (AVAILABILITY OF CREDIT, INTEREST RATES, DOWN PAYMENTS, AND MATURITIES), BY FAILURE OF BUILDERS TO JUDGE ACCURATELY AND TO MEET CONSUMER WANTS IN HOUSING, OR BY A GENERAL MARKET SATURATION THAT MAY PERSIST FOR SOME TIME?

Livingston read Item III. In the discussion which followed the members of the Council concluded that there is at present a surplus in housing in many areas of the country and that activity in this field is not being restrained by financial factors. As a consequence, any important expansion in housing in the months immediately ahead seems rather unlikely.

#### ITEM IV

IS THE DEMAND FOR CREDIT INCREASING OR DECREASING AS COMPARED WITH LAST NOVEMBER AND WITH A YEAR AGO? ARE DEMANDS FOR FUNDS TO CARRY BUSINESS INVENTORIES SHOWING SIGNS OF RISING OR FALLING MORE THAN SEASONALLY? ARE BUSINESS INVENTORY POSITIONS SATISFACTORY OR TOO HIGH OR TOO LOW? IS MORTGAGE CREDIT MORE AVAILABLE, AND AT LOWER RATES, THAN IT WAS SIX MONTHS AGO?

Livingston read Item IV. After evaluating the credit situation in the various districts, members of the Council concluded that the demand is decreasing as compared with last November and with a year ago. There was general agreement that the demand for funds to carry business inventories was falling more than seasonally. Some further moderate liquidation of inventories is anticipated although the inventory position has been strengthened substantially. Most members of the Council believe that mortgage credit is more available than it was six months ago and that rates are moderately lower.

ITEM V

TO WHAT EXTENT HAS BANK LIQUIDITY BEEN REPLENISHED? ARE BANKS LIKELY TO LENGTHEN THE MATURITY STRUCTURE OF THEIR INVESTMENT PORTFOLIOS THIS SPRING? ARE SEASONAL REPAYMENTS OF BUSINESS LOANS OF BANKS LIKELY TO BE GREATER THAN USUAL THIS WINTER AND SPRING? HAS THE COMPETITIVE POSITION OF BANKS IN ATTRACTING SAVINGS IMPROVED IN THE LAST SIX MONTHS RELATIVE TO THAT OF ALTERNATIVE SAVINGS OUTLETS?

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Livingston read Item V and invited members of the Council to comment. It was concluded that bank liquidity had been replenished to a considerable degree. The members of the Council saw no indication that banks would lengthen the maturity structure of their investment portfolios this spring. The repayment of seasonal business loans is likely to be greater than usual this winter and spring.

The Council concluded that the competitive position of banks in attracting savings had not improved in the last six months. There was some discussion about noting in the Council's reply that the competitive position of banks, vis-a-vis alternative savings institutions, could not improve until conditions under which the two groups operate were made more nearly equitable. It was finally decided that this situation and an enumeration of the factors involved would be mentioned orally, by the President and various members of the Council, at the meeting with the Board.

ITEM VI

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

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Livingston read Item VI, and the conclusions of the Council. The Council was in accord with recent monetary and credit policy and believed that the degree of ease had been appropriate.

The meeting adjourned at 12:25 P.M.

4.  
THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M. ON FEBRUARY 20, 1961. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. MC CLINTOCK. MR. R. ELMO THOMPSON ATTENDED AS AN ALTERNATE FOR MR. MC CLINTOCK.

Members of the Board Staff, Division of Research and Statistics, participated in an audio-visual presentation on economic growth. Messrs. Woodlief Thomas and Ralph Young, Economic Advisers to the Board of Governors, also were present. An outline of the presentation will be sent to the members of the Council upon its receipt from the Board staff.

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THE COUNCIL RECONVENED AT 10:05 P.M. ON FEBRUARY 20, 1961, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. MC CLINTOCK. MR. R. ELMO THOMPSON ATTENDED AS ALTERNATE FOR MR. MC CLINTOCK.

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 21, 1961. The Memorandum was delivered to the Federal Reserve Building at 11:45 P.M. on February 20.

The meeting adjourned at 10:50 P.M.

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Immediately preceding the above meeting, Chairman Martin mentioned an announcement made earlier in the day at his direction, by the Manager of the System Open Market Account. A copy of the release is attached. In it the Manager indicated that the System Open Market Account is purchasing in the open market U. S. government notes and bonds of varying maturities, some of which will exceed five years. This change in System policy was not known to the Council at the time it considered the items on the Agenda and prepared its Confidential Memorandum to the Board of Governors.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS  
FROM THE  
FEDERAL ADVISORY COUNCIL  
RELATIVE TO THE AGENDA FOR THE JOINT MEETING  
ON FEBRUARY 21, 1961

1. What are the views of the Council regarding the current business situation and prospects for the next six months and for the remainder of the year? Are there any indications as yet that the recession is approaching bottom or that recovery is beginning to develop? If neither of these indications is yet evident, when would the Council anticipate that such signs might appear?

Business currently is continuing to decline moderately, and the members of the Council anticipate some further contraction. Despite the present trend, most members of the Council believe that the recession is approaching bottom and that recovery should be under way in the last half of the year.

2. What are the Council's views on prospects for early solution or important amelioration of the unemployment problem? Is business investment in new plant and equipment and the rapid adoption of technological advances helping or hurting the unemployment situation?

Even with a considerable improvement in business activity, which would expand employment and lessen unemployment, the Council does not expect an early solution of the unemployment problem, which is of course aggravated by the substantial annual additions to the labor force. A part of this problem reflects fundamental changes in some areas of the economy such, for example, as the coal industry. Another part of the problem results from rapid and far-reaching technological advances. A third contributing factor is the relative immobility of labor and industry. This is further complicated by the lack of labor skills required in new and expanding industries. Over the long run, these developments do not cause permanent unemployment. However, the required adjustments--the movement of industry and labor, and the training necessary to acquire new skills--do require time, with the result that there is a lag in employment.

3. What is the current situation in the housing field? Is activity being restrained by financial factors (availability of credit, interest rates, down payments, and maturities), by failure of builders to judge accurately and to meet consumer wants in housing, or by a general market saturation that may persist for some time?

The members of the Council believe that there is at present a surplus in housing in many areas of the country. Activity in this field is not being restrained by financial factors. However, high costs of

construction may be an inhibiting influence. The saturation that currently exists seems likely to prevent any important expansion in this field in the months immediately ahead.

4. Is the demand for credit increasing or decreasing as compared with last November and with a year ago? Are demands for funds to carry business inventories showing signs of rising or falling more than seasonally? Are business inventory positions satisfactory or too high or too low? Is mortgage credit more available, and at lower rates, than it was six months ago?

Most members of the Council report that the demand for credit is decreasing as compared with last November and with a year ago. There is general agreement that the demand for funds to carry business inventories is falling more than seasonally.

Some further moderate liquidation of inventories is probable, although the inventory position has been substantially strengthened. Mortgage credit is more available than it was six months ago, and rates are moderately lower.

5. To what extent has bank liquidity been replenished? Are banks likely to lengthen the maturity structure of their investment portfolios this spring? Are seasonal repayments of business loans of banks likely to be greater than usual this winter and spring? Has the competitive position of banks in attracting savings improved in the last six months relative to that of alternative savings outlets?

Bank liquidity has been replenished to a considerable extent. The members of the Council see no indication that banks will lengthen the maturity structure of their investment portfolios this spring. Seasonal repayments of business loans are likely to be greater than usual this winter and spring. The competitive position of banks in attracting savings has not improved in the last six months relative to that of alternative savings outlets.

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

The Council is in accord with recent monetary and credit policy and believes the present degree of ease has been appropriate.

C O P Y

BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM

For immediate release

February 20, 1961

Below is a copy of a statement issued in New York today, for immediate release.

At the direction of the Chairman of the Open Market Committee of the Federal Reserve System, the following announcement was made today by the Manager of the System Open Market Account for the information of the public and all participants in the market for Government securities:

"The System Open Market Account is purchasing in the the open market U. S. Government notes and bonds of varying maturities, some of which will exceed 5 years.

"Price quotations and offerings are being requested of all primary dealers in U. S. Government securities. Determination as to which offerings to purchase is being governed by the prices that appear most advantageous, i.e., the lowest prices. Net amounts of all transactions for System account will be shown as usual in the condition statements issued every Thursday.

"During recent years transactions for the System Account, except in correction of disorderly markets, have been made in short-term U. S. Government Securities. Authority for transactions in securities of longer maturity has been granted by the Open Market Committee of the Federal Reserve System in the light of conditions that have developed in the domestic economy and in the U. S. balance of payments with other countries."

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ON FEBRUARY 21, 1961, 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. MC CLINTOCK.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS SZYMCAK, MILLS, ROBERTSON AND SHEPARDSON. 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 reproduced and distributed to members of the Council.

The meeting adjourned at 12:25 P.M.

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The next meeting of the Council will be May 15-16, 1961.