MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 15, 1961

The second statutory meeting of the Federal Advisory Council for 1961 was convened in Room 1032 of the Mayflower Hotel, Washington, D. C., on May 15, 1961, at 9:00 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. 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 held on February 20-21, 1961, copies of which had been sent 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 17, 18, and 19.

The meeting adjourned at 12:00.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

# MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 15, 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. Otis McClintock, I. F. Betts and Charles F. Frankland.

Dr. Woodlief Thomas, Adviser to the Board of Governors of the Federal Reserve System, spoke on the requisites for economic growth. Copies of his remarks were 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

May 15, 1961

At 8:15 P.M., the Federal Advisory Council reconvened in Room 1032 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. Otis McClintock, I. F. Betts, Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

President Livingston read a memorandum from Mr. Kenneth Kenyon, Assistant Secretary of the Board of Governors, regarding H. R. 6900 which had been introduced into the House of Representatives by Congressman Multer of New York. The bill would eliminate the requirement that Federal Reserve banks maintain certain reserves in gold certificates against their deposit and note liabilities. The bill also would permit domestic banks to pay interest on time deposits of foreign governments at rates differing from those applicable to domestic depositors.

Mr. Kenyon's memorandum noted that Chairman Martin was scheduled to testify on this bill on Thursday, May 18. As a consequence, the Board would appreciate having any views that the Council might care to express.

An extended discussion followed in which it was agreed that the Council would limit its response to the personal verbal comments of the members.

The Secretary of the Council then read a statement which he had received from Governor Mills in which he outlined his opposition to the provisions of the Multer Bill which would eliminate the gold reserve requirement. The statement had been submitted by Governor Mills to the Board and he had sent on a copy to the Council inasmuch as he was to be out of the city when the Council was to meet with the Board of Governors.

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 17, 18, and 19, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 11:30 P.M. on May 15, 1961.

The meeting adjourned at 10:45 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 MAY 16, 1961

1. What are the views of the Council regarding the current business situation and prospects for the remainder of the year? What indications are there that recovery is progressing? What elements in the situation seem most likely to advance or to retard recovery during the remainder of this year? Does it appear that recovery in this period will be rapid (as in 1958) or slow (as in 1954)? Is the unemployment situation showing signs of improvement?

The members of the Council believe that the economy has passed its low point and that business is improving. It is expected that this trend will continue. Prospects for the remainder of the year are consequently increasingly favorable. Evidence that the recovery is progressing is reflected in the slow but steady rise in new orders, stepped-up production schedules, and the lengthening of the workweek. Important factors which are likely to advance recovery during the remainder of the year include an increase in Federal expenditures, a probable switch in inventory policy from liquidation to accumulation, and a moderate rise in capital spending by business.

The relatively high level of unemployment and narrow profit margins are likely to be retarding economic influences in the months ahead. The expectations of the business community and the members of the Council are for a moderate rather than a rapid rate of expansion. The Council does not perceive any significant sign of improvement in the unemployment situation although the anticipated expansion in business activity will contribute to the amelioration of this problem.

2. Are business plans for plant and equipment expenditures showing any tendency to increase beyond earlier intentions? Are businesses showing any interest in increasing inventories or is inventory contraction likely to continue?

The members of the Council have not seen any substantial evidence that business expects to increase its plant and equipment expenditures beyond earlier intentions.

Although the Council anticipates some inventory accumulation before the end of the year, business currently is showing little interest in increasing inventories, with the result that contraction continues.

3. What are the prospects for an expansion in home building or in other construction activity? What is the state of the market for existing real estate? Has there been any notable change recently in the demand for mortgages for investment, in the available supply of mortgage funds, or in interest rates on mortgages? What would be the effect on the demand for housing if mortgage maturities on low-cost new homes and on loans for modernization and additions were lengthened?

The members of the Council do not believe the prospects for important expansion in homebuilding are bright, although the outlook for other types of construction appears more favorable. In general, the market for existing homes continues relatively slow. There are more funds available for mortgages and as a consequence mortgage rates have eased slightly. The Council believes that a further significant lengthening of mortgage maturities on low-cost new homes would result in some increase in demand, but doubts the wisdom of such action and believes that private lenders would be reluctant to supply the required funds on such terms. A moderate lengthening in the maturities on loans for modernization and additions would result in an increase in this type of construction.

4. Are demands for credit—short-term or long-term—increasing or decreasing as compared with earlier this year? What are the expectations of the Council with respect to demands for bank loans relative to the usual seasonal pattern? Is there any evidence from the demands for bank loans that would throw light on recent changes in business inventories? Are banks in a position to meet qualified demands for credit?

There are conflicting trends in the various districts in the demands for credit—short-term or long-term—as compared with earlier this year. The members of the Council anticipate that the demand for bank loans will follow a seasonal pattern but that demand will increase moderately as business activity accelerates. There is little evidence from bank loan demand that would indicate changes in inventory policies. Banks generally are in a position to meet qualified demands for credit as the increase in their investment portfolios has been largely limited to short-term securities. However, any sizeable increase in the loans of banks in the principal cities would soon raise loan-deposit ratios above the high levels prevailing a year ago.

5. To what extent have time certificates of deposit in large denominations been responsible for recent increases in time deposits at banks? If the volume of such certificates should increase substantially, how might that affect the portfolio management of banks?

Time certificates of deposits have accounted for a considerable increase in time deposits of the larger banks, although savings of individuals have also continued to increase.

The permanence of time certificates of deposit will be determined largely by the interest rate on alternative short-term investments. In the event that rates on these investments rise above the three per cent interest ceiling, these deposits will tend to move out of the banks. Consequently, the maturity pattern of the investment portfolio must anticipate this possibility.

6. Are there any indications of changes in the attitude of banks toward the distribution of their assets according to liquidity or maturity?

The members of the Council believe that most banks have increased their liquidity by shortening the maturities of their portfolios of Government securities.

7. What are the prospects for an early resumption of growth in consumer installment credit? Is the expansion of such credit, when it comes, likely to be mild or vigorous? To what extent are downpayment and maturity standards changing or likely to change?

The members of the Council anticipate an early resumption in the growth of consumer installment credit. The expansion of such credit is likely to parallel closely the recovery of business in general, which is currently expected to be moderate. The Council does not expect any important changes in downpayment and maturity standards, especially in view of the recent trend toward a somewhat larger loss experience of the finance companies.

8. What are the views of the Council with respect to recent developments in the stock market? Have these developments mainly reflected or anticipated economic recovery, or are there indications that a resurgence of inflationary expectations is also an important factor? Is there evidence of growth of speculative fever in markets for capital assets generally, including urban and rural real estate as well as the stock market? Would a break in the stock market, should one occur, be likely to have a significant effect on economic recovery by damaging business confidence and affecting business decisions to purchase new plant and equipment?

The recent developments in the stock market are a matter of concern to many members of the Council. While the anticipation of economic recovery undoubtedly has been a factor, the Council is unable to offer a complete explanation for the behavior of the market. The members of the Council believe it reflects a high degree of speculation combined with a resurgency of inflationary expectations.

There is evidence of growth of speculative fever in markets for capital assets, generally, including urban and rural real estate as well as the stock market. Should a major break occur in the stock market, it would probably have a serious effect on the confidence of businessmen and adversely affect their decisions to purchase new plant and equipment.

9. What are the views of the Council regarding current monetary and credit policy?

The Council believes that current monetary and credit policy has resulted in maintaining an appropriate degree of ease in the money markets.

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

May 16, 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 Chas. N. Shepardson and G. H. King, Jr.; also 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, Norfleet Turner, Gordon Murray, R. Otis McClintock, I. F. Betts, Charles F. Frankland, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: General John C. Persons.

The President 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 17, 18, and 19. A brief discussion on the business outlook followed.

President Livingston then read the second item, and the conclusions of the Council. He added that it was not uncommon for inventory contraction to continue for a time after business starts to improve.

The third item, and the conclusions of the Council were then read by President Livingston. There followed a discussion at the instance of Governor Shepardson concerning the possibilities of providing adequate housing through modernization of existing structures, particularly for those in the lower income brackets. The members of the Council cited the deterrents to this possibility. Chairman Martin concluded the discussion by pointing out the difficulties in endeavoring, by administrative action, to produce lower housing mortgage rates.

President Livingston read the fourth item on the agenda, and the conclusions of the Council.

The fifth item, and the Council's conclusions were then read by the President. An extended discussion followed. Mr. Murphy expressed the view that negotiable time certificates of deposit had been helpful in bringing back into the banking stream, money that had been flowing in other directions. He added, however, that Regulation Q limits the flexibility of this technique. Chairman Martin commented that he personally continued to have some question regarding Regulation Q. President Livingston concluded the conversation by noting that if a poll were taken of commercial bankers who operate savings departments, the result would be overwhelmingly against the elimination of maximum rates of interest.

The sixth and seventh items on the agenda, and the conclusions of the Council were then read by President Livingston.

The President of the Council then read the eighth item on the agenda, and the conclusions of the Council as expressed in the *Confidential Memorandum* to the Board. There followed an extended discussion on developments in the stock market. Chairman Martin observed that it was important to bear in mind that domestic stocks were relatively cheap, generally speaking, in comparison with foreign issues and that a world-wide speculation in equities was in progress.

The ninth item on the agenda, and the conclusions of the Council were then read by President Livingston. He noted that the members of the Council generally would approve a restoration of the "bills preferably" policy. In the discussion that followed, Chairman Martin asked for the Council's views as to an appropriate Federal Reserve credit policy if the recovery should turn out to be sharp. President Livingston indicated that the Council was unanimously of the belief that there should be no tightening of credit at this time. The Chairman then presented a hypothetical situation where the Federal Reserve made no change in the current policy but the forces of credit demand in the economy grew so fast as to cause a definite tightening. In such circumstances, should the system endeavor to prevent a rise in interest rates by supplying reserves liberally? President Livingston replied that he would not favor such action. Other members of the Council indicated their agreement with this view.

There followed a discussion of H. R. 6900, a Bill introduced by Congressman Multer in which the members of the Council indicated their personal views on its provisions.

The meeting adjourned at 12:55 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 May 15, 1961, at 9:00 A.M., in Room 1032 of the Mayflower Hotel, Washington, D. C. All members of the Council were present.

The Council approved the Secretary's notes for the meeting of February 20-21, 1961.

## ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL REGARDING THE CURRENT BUSINESS SITUATION AND PROSPECTS FOR THE REMAINDER OF THE YEAR? WHAT INDICATIONS ARE THERE THAT RECOVERY IS PROGRESSING? WHAT ELEMENTS IN THE SITUATION SEEM MOST LIKELY TO ADVANCE OR TO RETARD RECOVERY DURING THE REMAINDER OF THIS YEAR? DOES IT APPEAR THAT RECOVERY IN THIS PERIOD WILL BE RAPID (AS IN 1958) OR SLOW (AS IN 1954)? IS THE UNEMPLOYMENT SITUATION SHOWING SIGNS OF IMPROVEMENT?

Livingston read Item I and asked the members of the Council to comment, suggesting that they address their remarks only to the questions, thus limiting their comments because of the length of the Agenda. A general discussion followed in which all members participated.

There was general agreement that the economy had passed its low point and that business was improving. This trend was expected to continue and that as a consequence prospects for the remainder of the year were favorable. Indicators of the progress of the recovery are the steady but slow rise in new orders, the step-up in production schedules, and the lengthening of the workweek. An increase in federal expenditures, a probable switch in inventory policy from liquidation to accumulation, and a moderate rise in capital spending were, in the opinion of the Council, likely to contribute importantly to the advance in recovery during the remainder of the year. On the other hand, the relatively high level of unemployment and narrow profit margins were likely to be retarding economic influences. The members of the Council, like the business community in general, anticipated a moderate rather than a rapid rate of expansion. The Council did not foresee any significant sign of improvement in the unemployment situation although the anticipated expansion in business was expected to contribute to the amelioration of the problem.

## ITEM II

ARE BUSINESS PLANS FOR PLANT AND EQUIPMENT EXPENDITURES SHOWING ANY TENDENCY TO INCREASE BEYOND EARLIER INTENTIONS? ARE BUSINESSES SHOWING ANY INTEREST IN INCREASING INVENTORIES OR IS INVENTORY CONTRACTION LIKELY TO CONTINUE?

Livingston read Item II and observed that he had seen no evidence that business was planning to increase its capital expenditures beyond earlier intentions, nor was business, in his judgment, showing any interest in increasing inventories.

A brief discussion followed in which the members of the Council voiced their agreement with Mr. Livingston's observations.

A number of members mentioned the uncertainty of the Administration's tax programs as a factor that might cause businessmen to delay their expansion programs until this matter had been clarified.

ITEM III

WHAT ARE THE PROSPECTS FOR AN EXPANSION IN HOME BUILDING OR IN OTHER CONSTRUCTION ACTIVITY? WHAT IS THE STATE OF THE MARKET FOR EXISTING REAL ESTATE? HAS THERE BEEN ANY NOTABLE CHANGE RECENTLY IN THE DEMAND FOR MORTGAGES FOR INVESTMENT, IN THE AVAILABLE SUPPLY OF MORTGAGE FUNDS, OR IN INTEREST RATES ON MORTGAGES? WHAT WOULD BE THE EFFECT ON THE DEMAND FOR HOUSING IF MORTGAGE MATURITIES ON LOW-COST NEW HOMES AND ON LOANS FOR MODERNIZATION AND ADDITIONS WERE LENGTHENED?

Livingston read Item III. In the discussion which followed the members of the Council indicated that the prospects for an important expansion in home building were not very bright but that the outlook for other types of construction was more favorable. The market for existing homes continued to be relatively slow in almost all districts. The Council concluded from their discussion that more funds were available for mortgages and that as a consequence mortgage rates had eased slightly. While a further significant lengthening of mortgage maturities on low-cost new homes would increase demand, the Council doubted the wisdom of such action and believed that private lenders would be reluctant to supply the required funds on such terms. A moderate lengthening of the maturities on loans for modernizations and additions would, in the Council's judgment, result in an increase in this type of construction activity.

ITEM IV

ARE DEMANDS FOR CREDIT -- SHORT-TERM OR LONG-TERM -- INCREASING OR DECREASING AS COMPARED WITH EARLIER THIS YEAR? WHAT ARE THE EXPECTATIONS OF THE COUNCIL WITH RESPECT TO DEMANDS FOR BANK LOANS RELATIVE TO THE USUAL SEASONAL PATTERN? IS THERE ANY EVIDENCE FROM THE DEMANDS FOR BANK LOANS THAT WOULD THROW LIGHT ON RECENT CHANGES IN BUSINESS INVENTORIES? ARE BANKS IN A POSITION TO MEET QUALIFIED DEMANDS FOR CREDIT?

Livingston read Item IV and invited the members to comment.

A brief discussion followed which disclosed conflicting trends in the various districts in the demands for credit -- short-term or long-term -- as compared with earlier this year. However, there was general agreement among the members that the demand for bank loans will follow a seasonal pattern but that the demand will increase moderately as business activity accelerates. The Council concluded that there was little evidence from bank loan demand that would indicate changes in inventory policies. Banks generally, the Council agreed, were in a position to meet qualified demands for credit as the recent increases in bank investment portfolios had been largely limited to short-term securities. The Council hastened to add, however, that any sizable increase in the loans of banks in the principal cities would soon raise loan deposit ratios to the high levels prevailing about a year ago.

ITEM V

TO WHAT EXTENT HAVE TIME CERTIFICATES OF DEPOSIT IN LARGE DENOMINATIONS BEEN RESPONSIBLE FOR RECENT INCREASES IN TIME DEPOSITS AT BANKS? IF THE VOLUME OF SUCH CERTIFICATES SHOULD INCREASE SUBSTANTIALLY, HOW MIGHT THAT EFFECT THE PORTFOLIO MANAGEMENT OF BANKS?

Livingston read Item V. An extended discussion followed which included a consideration of Regulation Q.

The Council concluded that time certificates of deposits have accounted for a considerable part of the increase in the time deposits of larger banks but added that the savings of individuals also had continued to increase. In discussing the impact of time certificates of deposits on investment portfolio management, the Council noted that the permanence of these deposits will be determined largely by the interest rate on alternative short-term investments. In the event that rates on these investments rose above the 3 per cent interest ceiling, these deposits would tend to move out of the banks. Consequently the maturity pattern of the investment portfolio must anticipate that possibility.

ITEM VI

ARE THERE ANY INDICATIONS OF CHANGES IN THE ATTITUDE OF BANKS TOWARD THE DISTRIBUTION OF THEIR ASSETS ACCORDING TO LIQUIDITY OR MATURITY?

Livingston read Item VI and observed that most banks had increased their liquidity by shortening the maturities of their portfolio of investment securities. The Council agreed.

Hays observed that a number of the country banks had increased their mortgage loans considerably and that this may have lengthened the average maturity of their total holdings of bank assets.

ITEM VII

WHAT ARE THE PROSPECTS FOR AN EARLY RESUMPTION OF GROWTH IN CONSUMER INSTALMENT CREDIT? IS THE EXPANSION OF SUCH CREDIT, WHEN IT COMES, LIKELY TO BE MILD OR VIGOROUS? TO WHAT EXTENT ARE DOWNPAYMENT AND MATURITY STANDARDS CHANGING OR LIKELY TO CHANGE?

Livingston read Item VII and added that he thought the prospects were good for an early resumption for the growth of consumer installment credit. He anticipated that the growth would be mild and that there would be no diminution of downpayment or maturity standards because of the recent loss experience of the finance companies. The other members of the Council shared this view.

ITEM VIII

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO RECENT DEVELOPMENTS IN THE STOCK MARKET? HAVE THESE DEVELOPMENTS MAINLY REFLECTED OR ANTICIPATED ECONOMIC RECOVERY, OR ARE THERE INDICATIONS THAT A RESURGENCE OF INFLATIONARY EXPECTATIONS IS ALSO AN IMPORTANT FACTOR? IS THERE EVIDENCE OF GROWTH OF SPECULATIVE FEVER IN MARKETS FOR CAPITAL ASSETS GENERALLY, INCLUDING URBAN AND RURAL REAL ESTATE AS WELL AS THE STOCK MARKET? WOULD A BREAK IN THE STOCK MARKET, SHOULD ONE OCCUR, BE LIKELY TO HAVE A SIGNIFICANT EFFECT ON ECONOMIC RECOVERY BY DAMAGING BUSINESS CONFIDENCE AND AFFECTING BUSINESS DECISIONS TO PURCHASE NEW PLANT AND EQUIPMENT?

Livingston read Item VIII.

In the discussion which followed, the Council expressed their concern about recent developments in the stock market. While the anticipation of economic recovery probably had been a factor, the Council was unable to offer a complete explanation for the behavior of the market. The members believed it reflected a high degree of speculation combined with a resurgence of inflationary expectations. The Council concluded that there was evidence of a growth of speculative fever in markets for capital assets, generally, including urban and rural real estate, as well as the stock market. The Council believed a major break in the stock market would have a serious effect on the confidence of businessmen and adversely affect their decisions to purchase new plant and equipment.

ITEM IX

WHAT ARE THE VIEWS OF THE COUNCIL REGARDING CURRENT MONETARY AND CREDIT POLICY?

Livingston read Item IX and suggested that in his opinion the current degree of ease in the money markets was appropriate.

There followed a brief discussion of the recent change in the Federal Reserve Open Market Committee's bills preferably policy.

The meeting adjourned at 12:00.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M. ON MAY 15, 1961. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

Dr. Woodlief Thomas, Adviser to the Board of Governors of the Federal Reserve System, spoke on the requisites for economic growth. A resume of his remarks will be distributed to the members of the Council upon its receipt from Dr. Thomas' office.

* * * * * *

THE COUNCIL CONVENED AT 8:15 P.M. ON MAY 15, 1961, IN ROOM 1032 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

<u>President Livingston</u> read a memorandum from Mr. Kenneth Kenyon, Assistant Secretary of the Board of Governors, regarding H. R. 6900 which had been introduced into the House of Representatives by Congressman Multer of New York.

The bill would eliminate the requirement that Federal Reserve banks maintain certain reserves in gold certificates against their deposit and note liabilities. The bill would also permit domestic banks to pay interest on time deposits of foreign governments at rates differing from those applicable to domestic depositors.

Mr. Kenyon's memorandum noted that Chairman Martin was scheduled to testify on this bill on Thursday, May 18. As a consequence the Board would appreciate having any views that the Council might care to express. Since the bill was only recently introduced and therefore not included on the Council's formal Agenda, Mr. Kenyon wrote that the views of the Council might be expressed orally rather than have the Council's comments included in the Confidental Memorandum.

The Council approved President Livingston's suggestion that the members limit their comments to verbal personal views. A general discussion followed in which all participated.

Several members of the Council indicated they would suggest that the bill be amended to include certificate of deposits of domestic corporations. In general, however, the members of the Council seemed to favor the portion of the bill having to do with the interest rate on certain time deposits. The group, however, seemed about equally divided on the clause that would eliminate the gold certificate reserve against Federal Reserve deposit and note liabilities.

The Secretary of the Council also read a statement which he had received from Governor Mills in which he outlined his opposition to the provisions of the Multer Bill which would eliminate the gold reserve requirement. The Memorandum had been submitted by Governor Mills to the Board and he had sent on a copy to the Council inasmuch as he was to be out of the city when the Council was to meet with the Board of Governors.

The Council then 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 May 16. The Memorandum was delivered to the Federal Reserve Building at 11:30 P.M. on May 15.

<u>Enders</u>, at President Livingston's request, discussed the reclassification of the city of Hartford by the Federal Reserve Board and the criteria that apparently

influenced the Board's decision. He suggested that these criteria were rather arbitrary and that perhaps it was a matter which the Council might wish to consider.

The meeting adjourned at 10:45 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON MAY 16, 1961

1. What are the views of the Council regarding the current business situation and prospects for the remainder of the year? What indications are there that recovery is progressing? What elements in the situation seem most likely to advance or to retard recovery during the remainder of this year? Does it appear that recovery in this period will be rapid (as in 1958) or slow (as in 1954)? Is the unemployment situation showing signs of improvement?

The members of the Council believe that the economy has passed its low point and that business is improving. It is expected that this trend will continue. Prospects for the remainder of the year are consequently increasingly favorable. Evidence that the recovery is progressing is reflected in the slow but steady rise in new orders, stepped-up production schedules, and the lengthening of the workweek. Important factors which are likely to advance recovery during the remainder of the year include an increase in Federal expenditures, a probable switch in inventory policy from liquidation to accumulation, and a moderate rise in capital spending by business.

The relatively high level of unemployment and narrow profit margins are likely to be retarding economic influences in the months ahead. The expectations of the business community and the members of the Council are for a moderate rather than a rapid rate of expansion. The Council does not perceive any significant sign of improvement in the unemployment situation although the anticipated expansion in business activity will contribute to the amelioration of this problem.

2. Are business plans for plant and equipment expenditures showing any tendency to increase beyond earlier intentions? Are businesses showing any interest in increasing inventories or is inventory contraction likely to continue?

The members of the Council have not seen any substantial evidence that business expects to increase its plant and equipment expenditures beyond earlier intentions.

Although the Council anticipates some inventory accumulation before the end of the year, business currently is showing little interest in increasing inventories, with the result that contraction continues.

3. What are the prospects for an expansion in home building or in other construction activity? What is the state of the market for existing real estate? Has there been any notable change recently in the demand for mortgages for investment, in the available supply of mortgage funds, or in interest rates on mortgages? What would be the effect on the demand for housing if mortgage maturities on low-cost new homes and on loans for modernization and additions were lengthened?

The members of the Council do not believe the prospects for important expansion in homebuilding are bright, although the outlook for other types of construction appears more favorable. In general, the market for existing homes continues relatively slow. There are more funds available for mortgages and as a consequence mortgage rates have eased slightly. The Council believes that a further significant lengthening of mortgage maturities on low-cost new homes would result in some increase in demand, but doubts the wisdom of such action and believes that private lenders would be reluctant to supply the required funds on such terms. A moderate lengthening in the maturities on loans for modernization and additions would result in an increase in this type of construction.

4. Are demands for credit--short-term or long-term--increasing or decreasing as compared with earlier this year? What are the expectations of the Council with respect to demands for bank loans relative to the usual seasonal pattern? Is there any evidence from the demands for bank loans that would throw light on recent changes in business inventories? Are banks in a position to meet qualified demands for credit?

There are conflicting trends in the various districts in the demands for credit--short-term or long term--as compared with earlier this year. The members of the Council anticipate that the demand for bank loans will follow a seasonal pattern but that demand will increase moderately as business activity accelerates. There is little evidence from bank loan demand that would indicate changes in inventory policies. Banks generally are in a position to meet qualified demands for credit as the increase in their investment portfolios has been largely limited to short-term securities. However, any sizeable increase in the loans of banks in the principal cities would soon raise loan-deposit ratios above the high levels prevailing a year ago.

5. To what extent have time certificates of deposit in large denominations been responsible for recent increases in time deposits at banks? If the volume of such certificates should increase substantially, how might that affect the portfolio management of banks?

Time certificates of deposits have accounted for a considerable increase in time deposits of the larger banks, although savings of individuals have also continued to increase, The permanence of time certificates of deposit will be determined largely by the interest rate on alternative short-term investments. In the event that rates on these investments rise above the three per cent interest ceiling, these deposits will tend to move out of the banks. Consequently, the maturity pattern of the investment portfolio must anticipate this possibility.

6. Are there any indications of changes in the attitude of banks toward the distribution of their assets according to liquidity or maturity?

The members of the Council believe that most banks have increased their liquidity by shortening the maturities of their portfolios of Government securities.

7. What are the prospects for an early resumption of growth in consumer installment credit? Is the expansion of such credit, when it comes, likely to be mild or vigorous? To what extent are downpayment and maturity standards changing or likely to change?

The members of the Council anticipate an early resumption in the growth of consumer installment credit. The expansion of such credit is likely to parallel closely the recovery of business in general, which is currently expected to be moderate. The Council does not expect any important changes in downpayment and maturity standards, especially in view of the recent trend toward a somewhat larger loss experience of the finance companies.

8. What are the views of the Council with respect to recent developments in the stock market? Have these developments mainly reflected or anticipated economic recovery, or are there indications that a resurgence of inflationary expectations is also an important factor? Is there evidence of growth of speculative fever in markets for capital assets generally, including urban and rural real estate as well as the stock market? Would a break in the stock market, should one occur, be likely to have a significant effect on economic recovery by damaging business confidence and affecting business decisions to purchase new plant and equipment?

The recent developments in the stock market are a matter of concern to many members of the Council. While the anticipation of economic recovery undoubtedly has been a factor, the Council is unable to offer a complete explanation for the behavior of the market. The members of the Council believe it reflects a high degree of speculation combined with a resurgence of inflationary expectations.

There is evidence of growth of speculative fever in markets for capital assets, generally, including urban and rural real estate as well as the stock market. Should a major break occur in the stock market, it would probably have a serious effect on the confidence of businessmen and adversely affect their decisions to purchase new plant and equipment.

9. What are the views of the Council regarding current monetary and credit policy?

The Council believes that current monetary and credit policy has resulted in maintaining an appropriate degree of ease in the money markets.

ON MAY 16, 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. WITH THE EXCEPTION OF GENERAL PERSONS, ALL MEMBERS OF THE COUNCIL WERE PRESENT. GENERAL PERSONS WAS OBLIGED TO BE ABSENT BECAUSE OF A PREVIOUS COMMITMENT.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS SHEPARDSON AND KING. MR. KENYON, ASSISTANT SECRETARY OF THE BOARD OF GOVERNORS, ALSO WAS 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 12:55 P.M.

* * * * * * * *

The next meeting of the Council will be held September 18-19, 1961.