



MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 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, 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: Messrs. Howard C. Petersen and R. Otis McClintock.

Dr. Woodlief Thomas, Adviser to the Board of Governors of the Federal Reserve System, spoke on the subject "Credit Needs for Economic Expansion." Copies of his remarks were handed to the members of the Council.

HERBERT V. PROCHNOW  
Secretary

WILLIAM J. KORSVIK  
Assistant Secretary

# MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 20, 1961

At 8:25 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 33 and 34, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 10:15 P.M. on November 20, 1961.

The meeting adjourned at 9:15 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 21, 1961

1. What are the observations of the Council regarding the current business situation, the sentiment of businessmen, and prospects for the remainder of this year and the first half of 1962? In its analysis of prospects, what are regarded by the Council as the strategic factors?

The Council believes the current business situation has improved since the last meeting with the Board, and generally is good. Business sentiment is more hopeful, although there is concern about the adequacy of profit margins. The Council believes that prospects for the remainder of this year and the first half of 1962 are for a further improvement in business activity, but there is no evidence of a boom psychology. Unemployment, the federal deficit and the balance of payments problem are matters of concern, but the improvement in consumer spending in recent weeks is the strategic favorable factor in the outlook for the months ahead.

2. Have Council members observed signs of recent change in consumer buying of durable goods and homes, or in willingness to use credit freely for such purposes?

A number of members of the Council have observed indications of an increase in consumer buying of durable goods. Although the volume of consumer credit has not expanded significantly, this expansion should follow. There has been little evidence, however, of any acceleration in the purchase of homes.

3. What evidences are seen of current or prospective improvement in the unemployment situation?

The Council has seen little evidence of improvement in the unemployment situation. However, as the expansion of business continues, unemployment should decline.

4. Is business loan demand showing more strength than appeared to the Council to be developing at the time of its most recent meeting with the Board? What industries are most active in the demand for loans? Are credit supplies likely to be adequate to meet the probable demands at current interest rates?

Although the demand for business loans has not been as great this Fall as the members of the Council had anticipated, it is showing increasing strength. Other than borrowing to finance construction projects, the Council has found it difficult to particularize as to the source of the demand for loans, as it is fairly well distributed among various industries. For the immediate future credit supplies of the commercial banks appear to be adequate to meet probable demands at current interest rates.

5. Are there indications of inflationary pressures in commodity markets? In markets for capital assets, such as urban and rural real estate?

The members of the Council see few signs of inflationary pressures currently in commodity markets or in the markets for capital assets such as urban or rural real estate. However, the constantly increasing cost of labor and services continues to exert inflationary pressure. There are indications also that prospective builders are moved to act promptly because they believe delays will mean higher costs. The present level of the stock market may likewise be indicative of some expectancy of further inflation in the future.

6. What are the views of the Council regarding current monetary and credit policy? What relative weights would the Council assign to domestic and to balance-of-payments problems?

The Council believes current monetary and credit policy has been appropriate. Some members of the Council believe that recent favorable developments in the economy suggest the desirability of a slight lessening in the degree of ease, such as a small decline in the free reserves of the System. Other members of the Council are of the opinion that we are nearing the point where some adjustment would be desirable, but would delay acting pending further improvement in business.

The members of the Council would continue to assign somewhat greater weight to domestic issues, but believe balance-of-payments problems are becoming increasingly important in the determination of monetary and credit policy. However, these two areas are not separate but are closely interrelated.

7. The Council would like to review again with the Board the desirability of a change in the maximum permissible interest rates on time and/or time savings deposits with particular reference to time certificates of deposit and time deposits of foreign central and private banks and of foreign governments and their agencies.

The Council believes that the majority of bankers are opposed to increasing the maximum permissible interest rates on savings deposits and time certificates of deposit. The Council also believes that the majority of bankers would not object to raising the maximum permissible interest rates on time deposits of foreign central and private banks and of foreign governments and their agencies. Many bankers have expressed the hope that the Board would indicate whether any change in the interest rate ceiling is or is not imminent.

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

November 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.; Governors A. L. Mills, Jr., J. L. Robertson, Chas. N. Shepardson, G. H. King, Jr. and George W. Mitchell; 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 given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, as printed on pages 33 and 34. Most of the discussion which followed had to do with the concern of businessmen about the adequacy of profit margins.

President Livingston read the second item and the Council's conclusion, adding that he believed a real increase in consumer buying was in prospect.

The third item, and the Council's conclusions were then read by President Livingston. In response to a question concerning the trend and volume of repossessions, President Livingston observed that there was some increase in delinquencies and in losses. He noted, however, that consumers had done an excellent job in policing themselves and that they could not be induced to buy simply because of liberal credit terms.

The President then read the fourth item on the agenda, and the conclusions of the Council. An extended discussion followed in which most members of the Council commented on credit developments in their respective districts. At the suggestion of Governor Mills, there was a brief discussion on the implications of the European Common Market. Mr. Petersen suggested that the thrust of American policy must be to assure continued access of American exports to the European market.

The President of the Council then read the fifth item on the agenda, and the conclusions of the Council.

President Livingston read the sixth agenda item and added that there was a difference of opinion within the Council as to credit policy, the members dividing about evenly. Chairman Martin inquired concerning the views of the Council as to the psychological reaction to further losses of gold in any substantial quantity. President Livingston indicated he did not feel that the impact would be great in terms of ordinary day-to-day business decisions. Most members of the Council reported that an increasing number of people appear to be actively interested in the gold question.

President Livingston read the seventh item on the agenda, and the conclusions of the Council. He began the discussion by referring to the following topic that appeared on the agenda for the joint meeting of the Board and the Council in September 1959, and to the statement made by the Council at that time:

“The Board has received communications from numerous bankers in various parts of the country either for or against a change in the maximum permissible interest rates on time and/or time and savings deposits. Would the Council care to express any views on this subject?

“The Council does not favor an increase in the maximum permissible interest rate on domestic time or savings deposits. However, the members of the Council believe that the maximum permissible interest rates on the time deposits of foreign central or private banks and of foreign government agencies should be increased. If American banks are to continue to attract and hold these foreign time deposits, the banks must be in a position to offer competitive rates in the world money markets.”

President Livingston observed that the response of the Council today was similar to what it was when the Board propounded the question in 1959. An extended discussion followed. Mr. Murphy spoke at length in favor of raising the maximum permissible interest rate on time and savings deposits. Mr. Frankland reported that member banks in his district would not favor a split rate between foreign and domestic time deposits. General Persons added that information available to him from the Sixth District indicated that a vast majority of bankers would not want the maximum rate increased on thrift deposits. Chairman Martin concluded the discussion with the comment that there may have been a tendency to look at the problem a little too much on a popularity basis. The decision of the Board, he added, must be made on the basis of the public interest.

The meeting adjourned at 12:50 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 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 who was ill. Mr. R. Elmo Thompson attended as Alternate.

The Council approved the Secretary's notes for the meeting of September 18-19, 1961.

#### ITEM I

WHAT ARE THE OBSERVATIONS OF THE COUNCIL REGARDING THE CURRENT BUSINESS SITUATION, THE SENTIMENT OF BUSINESSMEN, AND PROSPECTS FOR THE REMAINDER OF THIS YEAR AND THE FIRST HALF OF 1962? IN ITS ANALYSIS OF PROSPECTS, WHAT ARE REGARDED BY THE COUNCIL AS THE STRATEGIC FACTORS?

Livingston read Item I and asked individual members to comment. An extended discussion followed in which all participated. It disclosed that the Council believed that the current business situation had improved since the last meeting with the Board and that it is generally good. Business sentiment is hopeful although several members observed that businessmen were concerned about the adequacy of profit margins. The Council thought that prospects for business for the remainder of this year and for the first half of 1962 are for a further improvement in activity. A number of members added, however, that there was no evidence of a boom psychology. The persistent high level of unemployment, the large federal deficit and the balance of payments problem were mentioned as matters causing some concern. The recent improvement in consumer spending, however, was determined to be the most strategic favorable factor in the outlook for the months ahead.

#### ITEM II

HAVE COUNCIL MEMBERS OBSERVED SIGNS OF RECENT CHANGE IN CONSUMER BUYING OF DURABLE GOODS AND HOMES, OR IN WILLINGNESS TO USE CREDIT FREELY FOR SUCH PURCHASES?

Livingston read Item II. He observed that there seems to be some difference of opinion on the answer to this question. Livingston added that his experience strongly suggests that consumer buying of durable goods has turned up. He added that he expected this would soon be reflected in a rise in the use of consumer credit. This view was subsequently confirmed by a number of other members of the Council. The discussion also included a consideration of the retail sales figures and their possible inaccuracy inasmuch as they do not include the sales of the discount houses. While some members said they had observed some improvement in the construction business, it was generally concluded that the buying of homes remained slow.

ITEM III

WHAT EVIDENCES ARE SEEN OF CURRENT OR PROSPECTIVE IMPROVEMENT IN THE UNEMPLOYMENT SITUATION?

Livingston read Item III and added that this question was exceedingly difficult to answer. After some discussion it was concluded that an improvement in the unemployment situation would likely occur as business activity continued to rise. A number of members of the Council, however, believe that a certain amount of structural unemployment will persist.

ITEM IV

IS BUSINESS LOAN DEMAND SHOWING MORE STRENGTH THAN APPEARED TO THE COUNCIL TO BE DEVELOPING AT THE TIME OF ITS MOST RECENT MEETING WITH THE BOARD? WHAT INDUSTRIES ARE MOST ACTIVE IN THE DEMAND FOR LOANS? ARE CREDIT SUPPLIES LIKELY TO BE ADEQUATE TO MEET THE PROBABLE DEMANDS AT CURRENT INTEREST RATES?

Livingston read the fourth item on the Agenda. Although several members of the Council reported a recent sharp pick-up in the demand for business loans, the consensus was that the demand for business loans had not been as great this fall as the members of the Council had anticipated. Demand, however, is showing increasing strength. Aside from the financing of construction projects, the members of the Council were unable to particularize as to the source of the demand for loans. It was generally agreed that for the immediate future the credit supplies of the commercial banks appear to be adequate to meet probable demands at current rates.

ITEM V

ARE THERE INDICATIONS OF INFLATIONARY PRESSURES IN COMMODITY MARKETS? IN MARKETS FOR CAPITAL ASSETS, SUCH AS URBAN AND RURAL REAL ESTATE?

Livingston read Item V and observed that he saw little indication of inflationary pressures in the commodity markets or in the market for capital assets. In general, the members of the Council agreed with this observation. A number of members of the Council added, however, that the constantly increasing cost of labor and services continues to exert inflationary pressures. There are indications also of a hidden inflationary force in the economy, in that prospective builders are moved to act promptly because they believe delays will mean higher costs. The present level of the stock market also may be an indication of some expectancy of future inflation.

ITEM VI

WHAT ARE THE VIEWS OF THE COUNCIL REGARDING CURRENT MONETARY AND CREDIT POLICY? WHAT RELATIVE WEIGHTS WOULD THE COUNCIL ASSIGN TO DOMESTIC AND TO BALANCE-OF-PAYMENTS PROBLEMS?

Livingston read Item VI. An extended discussion followed in which most members of the Council participated. The Council concluded that current monetary and credit policy had been appropriate. As for future policy, the members divided rather evenly, about half of them believing that recent favorable developments in the economy suggested the desirability of a slight lessening in the degree of ease. The remaining members of the Council were of the opinion that while we may be nearing

the point where some adjustment would be desirable, they would delay acting, pending further improvement in business. After considerable discussion the Council concluded that they would continue to assign somewhat greater weight to domestic issues but believe that balance of payments problems are becoming increasingly important in the determination of monetary and credit policy. It was repeatedly mentioned that these two areas are not separate but are closely interrelated.

ITEM VII

THE COUNCIL WOULD LIKE TO REVIEW AGAIN WITH THE BOARD THE DESIRABILITY OF A CHANGE IN THE MAXIMUM PERMISSIBLE INTEREST RATES ON TIME AND/OR TIME SAVINGS DEPOSITS WITH PARTICULAR REFERENCE TO TIME CERTIFICATES OF DEPOSIT AND TIME DEPOSITS OF FOREIGN, CENTRAL OR PRIVATE BANKS AND OF FOREIGN GOVERNMENT AGENCIES.

Livingston read Item VII and added that he had contacted a representative group of bankers in the seventh district soliciting their comments on this item. The replies indicated that the bankers in the district were strongly opposed to any change in Regulation Q. Livingston added that his own personal view would be that Regulation Q should be eliminated but he felt obligated to reflect the opinions of the bankers in the District. In the discussion which followed, most of the other members indicated that they too had contacted bankers in their districts.

Murphy stated he had sent out 40 questionnaires, 29 of which were returned. Twenty-three of these were against raising the ceiling on savings or thrift accounts as compared with 6 who were in favor of raising it. Eleven were opposed to raising the rate on time C/D's whereas 16 favored raising the rate in this instance. A 2 to 1 majority favored raising the ceiling on foreign time deposits because of the gold situation.

From the discussion it appeared that the majority of bankers were opposed to increasing the maximum permissible interest rate on savings deposits and time certificates of deposit. The Council also concluded that the majority of bankers would not object to raising the maximum permissible interest rates on foreign time deposits. The Council expressed the hope that the Board would give some indication as to whether any change in the interest rate ceiling is or is not imminent.

The meeting adjourned at 12:50 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M., ON NOVEMBER 20, 1961. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSRS. MC CLINTOCK AND PETERSEN. MR. R. ELMO THOMPSON ATTENDED AS ALTERNATE FOR MR. MC CLINTOCK. MR. PETERSEN WAS OBLIGED TO BE PRESENT AT A WHITE HOUSE MEETING OF AN INTERNATIONAL GROUP.

Dr. Woodlief Thomas, Adviser to the Board of Governors of the Federal Reserve System, spoke on the subject "Credit Needs for Economic Expansion". Copies of his remarks were handed to the members of the Council.

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THE COUNCIL CONVENED AT 8:25 P.M. ON NOVEMBER 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.

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 21, 1961. The Memorandum was delivered to the Federal Reserve Building at 10:15 P.M. on November 20, 1961.

The meeting adjourned at 9:15 P.M.

5.

CONFIDENTIAL

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

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The members of the Council would continue to assign somewhat greater weight to domestic issues, but believe balance-of-payments problems are becoming increasingly important in the determination of monetary and credit policy. However, these two areas are not separate but are closely interrelated.

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ON NOVEMBER 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. MR. R. ELMO THOMPSON ATTENDED AS ALTERNATE.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, GOVERNORS MILLS, ROBERTSON, SHEPARDSON, KING AND MITCHELL. 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 12:25 P.M.

1961  
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The next meeting of the Council will be held February 19-20, 1962.