MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

1962
MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

February 19-20, 1962

April 3-4, 1962

April 30, May 1, 1962

September 17-18, 1962

November 19-20, 1962
OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1962

OFFICERS:

President, George A. Murphy
Vice President, Reuben B. Hays
Director, Ostrom Enders
Director, Robert B. Hobbs
Director, Kenneth V. Zwiener
Secretary, Herbert V. Prochnow
Assistant Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

George A. Murphy
Reuben B. Hays
Ostrom Enders
Robert B. Hobbs
Kenneth V. Zwiener

MEMBERS:

Ostrom Enders
George A. Murphy
Howard C. Petersen
Reuben B. Hays
Robert B. Hobbs
J. Finley McRae
Kenneth V. Zwiener
Sidney Maestre
John A. Moorhead
Maurice L. Breidenthal
I. F. Betts
Elliott McAllister

District No. 1
District No. 2
District No. 3
District No. 4
District No. 5
District No. 6
District No. 7
District No. 8
District No. 9
District No. 10
District No. 11
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 19, 1962
REPORT OF THE SECRETARY
OF THE
FEDERAL ADVISORY COUNCIL
For the Year Ended December 31, 1961

Balance on hand, December 31, 1960.............. $ 8,858.81

Salaries..................................... $ 5,000.00

Printing and Stationery............. 546.29

Assessments—
12 Federal Reserve Banks . 5,400.00

Balance on hand, December 31, 1961.............. 8,712.52

$14,258.81

$14,258.81

Chicago, Illinois
February 1, 1962

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, 1961, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO
(Signed) J. Carl Sommer, Auditor.
The first and organizational meeting of the Federal Advisory Council for the year 1962 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on February 19, 1962, at 9:30 A.M.

Present:
Ostrom Enders
George A. Murphy
Howard C. Petersen
Reuben B. Hays
Robert B. Hobbs
J. Finley McRae
Kenneth V. Zwiener
Sidney Maestre
John A. Moorehead
Maurice L. Breidenthal
I. F. Betts
Elliott McAllister
Herbert V. Prochnow
William J. Korsvik

District No. 1
District No. 2
District No. 3
District No. 4
District No. 5
District No. 6
District No. 7
District No. 8
District No. 9
District No. 10
District No. 11
District No. 12
Secretary
Assistant Secretary

Mr. Howard C. Petersen was elected Chairman *pro tem* and Mr. William J. Korsvik was elected 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 1962.

The following officers were nominated and unanimously elected:

George A. Murphy, President
Reuben B. Hays, Vice President
Ostrom Enders, Director
Robert B. Hobbs, Director
Kenneth V. Zwiener, 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 1961, 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 20-21, 1961, May 15-16, 1961, September 18-19, 1961, November 20-21, 1961, and the mimeographed notes of the meeting held November 20-21, 1961, 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 1962 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, 10, and 11.

The meeting adjourned at 12:55 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary
MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 19, 1962

At 2:30 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Mr. George A. Murphy, President; Messrs. Ostrom Enders, Howard C. Petersen, Reuben B. Hays, Robert B. Hobbs, J. Finley McRae, Kenneth V. Zwiener, Sidney Maestre, John A. Moorhead, Maurice L. Breidenthal, I. F. Betts, and Elliott McAllister.

Dr. Woodlief Thomas, Adviser to the Board of Governors, and members of the staff of the Division of Research and Statistics, participated in an audio-visual presentation on the current economic situation. Copies of the remarks were distributed to members of the Council.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary
MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 19, 1962

At 10:05 P.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

Present: Mr. George A. Murphy, President; Messrs. Ostrom Enders, Reuben B. Hays, Robert B. Hobbs, J. Finley McRae, Kenneth V. Zwiener, Sidney Maestre, John A. Moorhead, Maurice L. Breidenthal, I. F. Betts, Elliott McAllister, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. Howard C. Petersen.

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, 10, and 11, 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 19, 1962.

The meeting adjourned at 11:20 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 FEBRUARY 20, 1962

1. What are the observations of the Council regarding the current business situation, the prevailing sentiment of the business community, and the general outlook for the next six months? What indications does the Council have on current trends in consumer credit, residential mortgage credit, and business loans? Are there indications of stockpiling of steel and steel products as protection against a strike or price increases?

The members of the Council report that the current business situation is generally good. The sentiment of the business community is one of cautious optimism. Businessmen anticipate a moderate rise in the over-all level of economic activity in the next six months, but they are not certain that the expansion in sales will be accompanied by a corresponding improvement in profits.

The Council has observed few indications of any significant change in the current trends in consumer, residential mortgage, and business loans. However, the anticipated increase in automobile sales should result in some expansion in consumer credit. Furthermore, the flow of savings funds into the commercial banks in recent weeks is causing them aggressively to seek additional consumer loans and residential mortgages. The present cost of savings funds is an important factor contributing to these developments. The Council has found comparatively little evidence of the stockpiling of steel and steel products as a hedge against a strike or price increases. As the contract expiration date, June 30, draws nearer, and assuming no accord has been reached, inventory accumulation is likely to accelerate.

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

There has been moderate improvement in the unemployment situation, and the Council believes this improvement will continue. The lengthening of the workweek in
manufacturing in the past year suggests that the expected expansion in economic activity should be accompanied by further additions to employment. Although unemployment is at present less severe, a persistent problem of structural unemployment remains.

3. What are the prospects for demand at banks during the next six months for commercial and industrial loans?

The anticipated expansion in business activity in the next six months suggests a moderate rise in the demand for commercial and industrial loans. This demand is likely to strengthen further if inventory accumulation accelerates.

4. What has been the reaction of banks to the recent increase in the maximum permissible rates of interest on time and savings deposits? What structure of rates on different types of time and savings accounts, including certificates of deposit, is developing in various areas of the country? What is the Council's impression as to the origin of the funds being added to savings accounts and time accounts, including certificates of deposit? How will the higher rates of interest paid by banks affect their lending and investment policies?

A substantial proportion of the nation's banks have raised rates on time and savings deposits, with many banks having increased their rates to the maximum permissible. Many banks raised rates reluctantly and under competitive pressures. Savings rates in a number of areas were immediately increased to the maximum. This has created problems in making the required adjustments in bank earning assets.

There is little uniformity across the country in the structure of rates on different types of time and savings accounts. The rates on negotiable certificates of deposit are running somewhat higher than on Treasury bills but tend to be lower than the 3 1/2 and 4 per cent maximums permitted on savings deposits.

Several members reported on surveys that various institutions have made in an effort to determine the origin of the funds flowing to their savings accounts. The results have suggested that no one source seems dominant. Some of the funds are undoubtedly coming from demand accounts. However, the members of the Council believe that a considerable portion of the new savings and time deposits represent funds that heretofore had flowed to competitive institutions other than banks.

While banks will aggressively seek to augment their earnings in an effort to offset the increase in their interest costs, the members of the Council believe it is premature to generalize about possible significant changes in bank lending and investment policies. Some institutions have indicated that they will seek to expand their residential mortgage activities, and to increase their consumer credit loans. The recent strengthening of the price of municipals is likewise attributed to an increased demand by commercial banks. The need to increase income will probably result in the lengthening of maturities in mortgage and municipal portfolios.

5. Does the Council detect any change in public concern about the persisting deficit in the United States balance of payments?
The members of the Council believe there is an increasing concern by the informed public about the persisting deficit in the United States balance of payments. A still greater public awareness is necessary if we are to have the policy changes required to eliminate the deficit. Such changes would include sound fiscal policies, a critical reappraisal of our military and aid expenditures overseas, and a level of costs which would make American products and services competitive in world markets.

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

The members of the Council believe that current monetary and credit policy has been appropriate and is having a desirable impact on business activity.
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 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. George A. Murphy, President; Messrs. Ostrom Enders, Howard C. Petersen, Reuben B. Hays, Robert B. Hobbs, J. Finley McRae, Kenneth V. Zwiener, Sidney Maestre, John A. Moorhead, Maurice L. Breidenthal, I. F. Betts, Elliott McAllister, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

President Murphy 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, 10, and 11 of these minutes. Various members of the Board of Governors and the Federal Advisory Council participated in a discussion on the business outlook. The general sentiment within the Council was that there would be no steel strike. The Council's concern, therefore, related more to whether or not the settlement would be inflationary. Much of the discussion was concerned with the narrowing of corporate profit margins and the adequacy of profits in general.

The President then read the second item. There followed a brief discussion on the unemployment problem.

Chairman Martin suggested that one of the shadows on the unemployment picture was the balance of payments problem. He observed that it appeared to be getting more difficult to induce foreigners to invest in this country for they do not see the opportunities for profit.

President Murphy read the third item and the conclusions of the Council. In the brief discussion which followed, the view was expressed that a new pattern of inventory control seems to be developing, suggesting that businesses would not accumulate inventories in the future to the same extent as in the past.

The President then read the fourth item on the Agenda. President Murphy reported that in the Council's consideration of this item a variety of opinions had been expressed.
Accordingly, the members of the Council commented on the item in response to President Murphy's suggestion.

The fifth item on the Agenda and the conclusions of the Council were then read by the President.

Mr. Petersen observed that the concern of the general public tends to increase when there are gold losses. He added, however, that he was greatly disturbed about the balance of payments problem which he thought would be a persistent one.

Various members of the Board of Governors and the Council participated in the brief discussion which followed.

The President of the Council then read the sixth item and the conclusions of the Council.

Chairman Martin inquired whether there were any members of the Council who felt that monetary policy had been too easy in view of the deficit in our balance of payments.

President Murphy observed that the availability of ample funds was quite important at this stage. A discussion followed on the general subject of monetary policy and our balance of payments problem.

Chairman Martin then briefly described System foreign currency operations. He added that in his view, operations in foreign exchange probably could serve a useful purpose but that no one in the System would want to take a strong position at this time as it seemed desirable to obtain some experience. In commenting on the magnitude of the operations, the Chairman observed that while the System was not going to risk its resources unduly, the operations would have to be sufficient to deal effectively with speculative disturbances.

The meeting adjourned at 12:40 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 February 19, 1962, at 9:30 A.M., in Room 932 of the Mayflower Hotel, Washington, D.C. All members of the Federal Advisory Council were present.

The Secretary provided each member with a list of all the members of the Council for the year 1962, officially elected in accordance with communications received from the Federal Reserve banks.

Mr. Howard C. Petersen was elected Chairman pro tem and Mr. William J. Korsvik was elected Secretary pro tem.

The following officers were nominated and unanimously elected:

George A. Murphy, President
Reuben B. Hays, Vice President
Ostrom Enders, Director
Robert B. Hobbs, Director
Kenneth V. Zwiener, 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 the financial report for the year 1961, 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 drafts for $450 upon each Federal Reserve Bank for the secretarial and incidental expenses of the Federal Advisory Council for the year 1962.

The by-laws were approved. The Council approved the Secretary's notes for the meeting of November 20-21, 1961. The printed minutes for all the 1961 meetings of the Council, copies of which had been sent previously to members of the Council, also were approved.

ITEM I


Mr. Murphy read Item I and invited each member to comment. A general discussion followed, including considerations and views expressing present production possibilities, prospects, and policies.
followed in which all members of the Council participated. They reported that the current business situation in their respective districts was generally good and that the sentiment of the business community was one of cautious optimism. They noted that while a moderate rise in the over-all level of economic activity in the next six months is widely anticipated, businessmen are not certain that the expansion in sales will be accompanied by a corresponding improvement in profits.

The members of the Council reported few indications of any significant change in the current trends in consumer, residential mortgage, and business loans. However, they do expect that consumer credit will expand with the anticipated rise in automobile sales. The Council also reported that the increased flow of savings funds into commercial banks in recent weeks is causing many bankers to aggressively seek additional consumer loans and residential mortgages. Contributing to these developments is the increased cost of savings funds. According to the members of the Council, there is little evidence of the stockpiling of steel and steel products. If no accord is reached during the present contract negotiations, inventory accumulation is likely to accelerate.

ITEM II

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

Murphy read Item II. It was concluded in the discussion which followed in which all members participated that the moderate improvement in the employment situation is likely to continue. A number of members cited the lengthening of the workweek in manufacturing in the past year as a factor which suggests that the expected expansion in economic activity in the months ahead will be accompanied by further additions to employment. Despite the improvement in unemployment, there is wide agreement that the problem of structural unemployment persists.

ITEM III

WHAT ARE THE PROSPECTS FOR DEMAND AT BANKS DURING THE NEXT SIX MONTHS FOR COMMERCIAL AND INDUSTRIAL LOANS?

Murphy read Item III. In the brief discussion which followed the members of the Council indicated that they anticipate a moderate rise in the demand for commercial and industrial loans in the next six months. A number of members suggested that loan demand is likely to strengthen further if inventory accumulation accelerates.

ITEM IV


Murphy read Item IV, and asked the members of the Council to comment. An extended discussion followed. It appeared that a substantial proportion of the nation's banks have raised their rates on time and savings deposits with many bankers increasing them to the maximum permissible. Several members emphasized that many bankers raised rates reluctantly and under competitive pressures. Furthermore,
savings rates in a number of areas were immediately increased to the maximum which has created problems in making the required adjustments in bank earning assets.

From the discussion it appeared that there is little uniformity across the country in the structure of rates on different time and savings accounts. The rates on negotiable certificates of deposit are running somewhat higher than on Treasury bills but tend to be lower than the 3-1/2 and 4 per cent maximum permitted on savings deposits. Several members reported on surveys that have been conducted in an effort to determine the origin of funds flowing into savings accounts. The results have suggested that no one source is dominant. While some of the funds undoubtedly have come from demand accounts, it appears that a considerable portion represents funds that heretofore had flowed to competitive institutions other than banks.

While acknowledging that banks will aggressively seek to augment their earnings in an effort to offset the increase in interest costs, the members of the Council were reluctant to generalize about possible significant changes in bank lending and investment policies. Some expansion in residential mortgage activities and in consumer credit loans seems likely. Furthermore, some increase in the holding of municipals was reported. Some concern was expressed by several members of the Council about the effect on the liquidity of the banking system. An important factor in this development would be the lengthening of maturities in mortgage and municipal bond portfolios.

ITEM V

DOES THE COUNCIL DETECT ANY CHANGE IN PUBLIC CONCERN ABOUT THE PERSISTING DEFICIT IN THE UNITED STATES BALANCE OF PAYMENTS?

Murphy read Item V.

Petersen. He believed knowledgeable persons are becoming increasingly concerned about the persisting deficit in the United States balance of payments. He also observed that the approaching debate on the tariff program should be helpful in further educating the public on the balance of payments problem. The deficit is a very difficult problem and is far from solution. President Kennedy, he added, feels very strongly about the deficit. Petersen said that he believed that this might be an appropriate time to remove the 25 per cent gold requirement on Federal Reserve notes and deposit liabilities.

The Council concluded that still greater public awareness is necessary if we are to eliminate the deficit. Among the requirements are sound fiscal and monetary policies, and a critical reappraisal of our military and aid expenditures overseas. The objective of this latter program would be to insure a more equitable distribution of these costs among the allies of the West. A further requirement is a level of costs which will make American products and services competitive in world markets.

ITEM VI

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

Murphy read Item VI. A brief discussion followed in which it was agreed that the Council would indicate that it believes current monetary and credit policy has been appropriate and is having a desirable impact on business activity.

The meeting adjourned at 12:55 P.M.

Dr. Woodlief Thomas, Adviser to the Board of Governors, and members of the staff of the Division of Research and Statistics, participated in an audio-visual presentation on the current economic situation.

Copies of the presentation are to be made available to the members of the Council by the Board's staff.

* * * * *

THE COUNCIL RECONVEnED AT 10:05 P.M. ON FEBRUARY 19, 1962, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. PETERSEN.

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 20, 1962. The Memorandum was delivered to the Federal Reserve Building at 11:45 P.M. on February 19.

The meeting adjourned at 11:20 P.M.
1. What are the observations of the Council regarding the current business situation, the prevailing sentiment of the business community, and the general outlook for the next six months? What indications does the Council have on current trends in consumer credit, residential mortgage credit, and business loans? Are there indications of stockpiling of steel and steel products as protection against a strike or price increases?

The members of the Council report that the current business situation is generally good. The sentiment of the business community is one of cautious optimism. Businessmen anticipate a moderate rise in the over-all level of economic activity in the next six months, but they are not certain that the expansion in sales will be accompanied by a corresponding improvement in profits.

The Council has observed few indications of any significant change in the current trends in consumer, residential mortgage, and business loans. However, the anticipated increase in automobile sales should result in some expansion in consumer credit. Furthermore, the flow of savings funds into the commercial banks in recent weeks is causing them aggressively to seek additional consumer loans and residential mortgages. The present cost of savings funds is an important factor contributing to these developments. The Council has found comparatively little evidence of the stockpiling of steel and steel products as a hedge against a strike or price increases. As the contract expiration date, June 30, draws nearer, and assuming no accord has been reached, inventory accumulation is likely to accelerate.

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

There has been moderate improvement in the unemployment situation, and the Council believes this improvement will continue. The lengthening of the workweek in manufacturing in the past year suggests that the expected expansion in economic activity should be accompanied by further additions to employment. Although unemployment is at present less severe, a persistent problem of structural unemployment remains.

3. What are the prospects for demand at banks during the next six months for commercial and industrial loans?

The anticipated expansion in business activity in the next six months suggests a moderate rise in the demand for commercial and industrial
loans. This demand is likely to strengthen further if inventory accumulation accelerates.

4. What has been the reaction of banks to the recent increase in the maximum permissible rates of interest on time and savings deposits? What structure of rates on different types of time and savings accounts, including certificates of deposit, is developing in various areas of the country? What is the Council's impression as to the origin of the funds being added to savings accounts and time accounts, including certificates of deposit? How will the higher rates of interest paid by banks affect their lending and investment policies?

A substantial proportion of the nation's banks have raised rates on time and savings deposits, with many banks having increased their rates to the maximum permissible. Many banks raised rates reluctantly and under competitive pressures. Savings rates in a number of areas were immediately increased to the maximum. This has created problems in making the required adjustments in bank earning assets.

There is little uniformity across the country in the structure of rates on different types of time and savings accounts. The rates on negotiable certificates of deposit are running somewhat higher than on Treasury bills but tend to be lower than the 3-1/2 and 4 per cent maximums permitted on savings deposits.

Several members reported on surveys that various institutions have made in an effort to determine the origin of the funds flowing to their savings accounts. The results have suggested that no one source seems dominant. Some of the funds are undoubtedly coming from demand accounts. However, the members of the Council believe that a considerable portion of the new savings and time deposits represent funds that heretofore had flowed to competitive institutions other than banks.

While banks will aggressively seek to augment their earnings in an effort to offset the increase in their interest costs, the members of the Council believe it is premature to generalize about possible significant changes in bank lending and investment policies. Some institutions have indicated that they will seek to expand their residential mortgage activities, and to increase their consumer credit loans. The recent strengthening of the price of municipals is likewise attributed to an increased demand by commercial banks. The need to increase income will probably result in the lengthening of maturities in mortgage and municipal portfolios.
5. Does the Council detect any change in public concern about the persisting deficit in the United States balance of payments?

The members of the Council believe there is an increasing concern by the informed public about the persisting deficit in the United States balance of payments. A still greater public awareness is necessary if we are to have the policy changes required to eliminate the deficit. Such changes would include sound fiscal policies, a critical reappraisal of our military and aid expenditures overseas, and a level of costs which would make American products and services competitive in world markets.

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

The members of the Council believe that current monetary and credit policy has been appropriate and is having a desirable impact on business activity.
ON FEBRUARY 20, 1962, 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.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN
MARTIN, VICE CHAIRMAN BALDERSTON, 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 con­
tent 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
the members of the Council.

The meeting adjourned at 12:40 P.M.

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The next meeting of the Council will be held on April 30 and May 1, 1962.