

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 20, 1963

The second statutory meeting of the Federal Advisory Council for 1963 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on May 20, 1963, at 9:30 A.M.

Present:

George A. Murphy	District No. 2
Geoffrey Smith, Alternate	District No. 3
L. A. Stoner	District No. 4
Robert B. Hobbs	District No. 5
J. Finley McRae	District No. 6
Kenneth V. Zwiener	District No. 7
John Fox, Alternate	District No. 8
John A. Moorhead	District No. 9
Maurice L. Breidenthal	District No. 10
I. F. Betts, Alternate	District No. 11
Elliott McAllister	District No. 12
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary

Absent:

Lawrence H. Martin	District No. 1
Howard C. Petersen	District No. 3
Sidney Maestre	District No. 8
James W. Aston	District No. 11

On motion duly made and seconded, the mimeographed notes of the meeting held on February 18-19, 1963, 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 and 18.

The meeting adjourned at 12:40 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 20, 1963

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; Mr. Geoffrey Smith, Alternate for Mr. Howard C. Petersen; Messrs. L. A. Stoner, Robert B. Hobbs, J. Finley McRae, Kenneth V. Zwiener, John Fox, Alternate for Mr. Sidney Maestre; Messrs. John A. Moorhead, Maurice L. Breidenthal, I. F. Betts, Alternate for Mr. James W. Aston, and Mr. Elliott McAllister.

Absent: Messrs. Lawrence H. Martin, Howard C. Petersen, Sidney Maestre and James W. Aston.

Members of the Board's staff, Division of Research and Statistics, and the Division of International Finance, participated in an audio-visual presentation on Domestic Economic Developments, and Foreign Economic Developments.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 20, 1963

At 8:30 P.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

Present: Mr. George A. Murphy, President; Mr. Geoffrey Smith, Alternate for Mr. Howard C. Petersen; Messrs. L. A. Stoner, Robert B. Hobbs, J. Finley McRae, Kenneth V. Zwiener, John Fox, Alternate for Mr. Sidney Maestre; Messrs. John A. Moorhead, Maurice L. Breidenthal, I. F. Betts, Alternate for Mr. James W. Aston; Messrs. Elliott McAllister, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Messrs. Lawrence H. Martin, Howard C. Petersen, Sidney Maestre and James W. Aston.

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 and 18, 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 May 20, 1963.

The meeting adjourned at 9:35 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON MAY 21, 1963

1. How do the members of the Council appraise current business developments and economic prospects for the remainder of the year? What factors are most important in influencing the Council's judgment about the economic outlook? Does the Council anticipate a substantial reduction in unemployment in the near-term future?

Business is generally good and the improvement since the last meeting of the Council has been widespread. Retail sales and the purchase of new automobiles indicate a continued high volume of consumer buying. Orders for machine tools, and durable goods in general, suggest some further increase in business investment. The members of the Council believe that the economic prospects for the remainder of the year point to a continuation of the present moderately rising trend in business activity.

In the Council's opinion, the most important factors in the economic outlook are the expansion in consumer buying, business investment, and government spending. The accumulation of inventories in anticipation of an interruption in steel production also is contributing to the current level of business activity. The liquidation of these inventories later in the year, however, may offset to some extent the rising trend of business.

The Council does not anticipate a sufficiently sharp rise in business activity to result in a substantial reduction in unemployment in the near future.

2. In the Council's opinion, should the scattered price increases reported in recent weeks be regarded as forerunners of a broad upward movement in commodity prices and wages, or are they more in the nature of selective adjustments to changing demand and supply relationships? Reports of significant instances of price decreases or cost reductions would be of interest to the Board.

The Council believes that the scattered price increases reported in recent weeks could be the forerunner of a somewhat broader upward movement in commodity prices and wages. However, the competitive pressures resulting from unused domestic capacity, as well as from manufacturers abroad, will tend to be sufficient to discourage broad price rises in the relatively near future. Members of the Council reported some instances of price reductions, particularly in the chemical industry.

3. Has the Council observed a general movement toward increased business investment in plant and equipment? If so, do the increases seem likely to result in greater actual spending for such purposes this year than indicated by recent surveys? Are the tax credit and liberalized depreciation rules, made effective in 1962, now regarded in business and financial circles as more stimulative to investment in plant and equipment than was thought earlier?

While there is some evidence of individual upward adjustments in business investment plans, the Council is reluctant to interpret it as a general movement toward a significant expansion of this type of spending. However, business investment in plant and equipment may be moderately above that indicated by recent surveys.

The Council believes that a growing number in business and financial circles now regard the tax credit and liberalized depreciation rules as more of a stimulant to investment in plant and equipment in certain industries than was thought earlier.

4. Does the Council now regard early tax reduction as essential to sustained business expansion this year?

The Council does not regard early tax reduction as essential to sustained business expansion this year, but a reduction in the tax burden is essential to the longer-term growth of the economy.

5. What are the prospects for loan demand at banks during the next several months, including demand in various loan categories?

The Council believes that the anticipated expansion in the economy will be reflected in a rise in the over-all credit demands of business. However, the large volume of corporate cash flows is likely to moderate the demand for commercial loans from banks. It is expected that the increase in the major loan categories will be somewhat above the normal seasonal pattern.

6. What are the Council's observations regarding current attitudes in the business and financial community toward U.S. balance of payments developments?

The Council has noted a growing concern among informed persons in the business and financial community regarding the persistence of the deficit in our international payments. Although the problem is exceedingly complex and difficult, increasing numbers of persons believe that more determined and positive corrective steps must be taken if the continuing large deficits are to be eliminated.

7. How does the Council evaluate the impact of current monetary and credit policy?

The Council believes that current monetary and credit policy has had a favorable impact on the economy. However, the persistent deficit in our international payments, against the background of a rising level of domestic business activity, suggests the appropriateness of a gradually more restrictive monetary and credit policy.

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

May 21, 1963

At 10:15 A.M., the Federal Advisory Council held a joint meeting with the Board of Governors of the Federal Reserve System in the Federal Reserve Building, Washington, D.C.

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. Spencer, General Assistant in the Office of the Secretary.

Present: Members of the Federal Advisory Council:

Mr. George A. Murphy, President; Mr. Geoffrey Smith, Alternate for Mr. Howard C. Petersen; Messrs. L. A. Stoner, Robert B. Hobbs, J. Finley McRae, Kenneth V. Zwiener, John Fox, Alternate for Mr. Sidney Maestre; Messrs. John A. Moorhead, Maurice L. Breidenthal, I. F. Betts, Alternate for Mr. James W. Aston; Messrs. Elliott McAllister, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Messrs. Lawrence H. Martin, Howard C. Petersen, Sidney Maestre and James W. Aston.

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 and 18. He added that the degree of optimism had strengthened and that it would be a good business year regardless of the outcome of the proposed tax legislation.

President Murphy read the second item and the conclusions of the Council. A brief discussion followed in which it was suggested that the existence of unused productive capacity in the United States was a key factor limiting domestic price increases.

The third item and the conclusions of the Council were read by President Murphy. In the ensuing discussion, it was acknowledged that the tax credit and liberalized depreciation rules were factors in the projected increases in plant and equipment spending.

The fourth item on the Agenda and the conclusions of the Council were then read by the President. He added that there was some difference of opinion within the Council as to whether there should be a tax reduction without a reduction in federal expenditures. An extended discussion followed. It disclosed fairly wide agreement that the proposal to reduce federal taxes on corporate profits and personal income had resulted in a psy-

chological "build-up" that might turn into a "let down" if no tax legislation were enacted.

Governor Mitchell, commenting on the importance of economic growth, expressed concern about the satisfactory continuation of the current economic expansion.

President Murphy emphasized the important contribution investments make to economic growth and the strategic role of profits in investment decisions.

The fifth item and the Council's conclusions were then read by the President. An extended discussion followed with most members of the Council participating.

The sixth item and the conclusions of the Council were read by President Murphy.

Mr. McAllister stated that in his judgment the balance of payments problem was more serious than domestic unemployment.

President Murphy then read the seventh item on the Agenda and the conclusions of the Council. In the discussion which followed, President Murphy, responding to a question, stated that the commercial banking system would be in a position to accommodate anticipated loan demand even if the supply of reserves were reduced. He added that loan requests from abroad would be the first to feel the effect of any credit tightening that might develop. The discussion also disclosed the opinion of the Council that a reduction in interest rates would have little stimulating effect on the domestic economy.

The meeting adjourned at 12:45 P.M.

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 20, 1963 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 Messrs. Martin, Petersen, Maestre and Aston. Mr. Geoffrey Smith, Chairman of the Board, Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, attended as Alternate for Mr. Petersen; Mr. John Fox, President, Mercantile Trust Company, St. Louis, Missouri, for Mr. Maestre; and Mr. I. F. Betts, President, American National Bank, Beaumont Texas, for Mr. Aston.

The Council approved the Secretary's notes for the meeting of February 18-19, 1963.

ITEM I

HOW DO THE MEMBERS OF THE COUNCIL APPRAISE CURRENT BUSINESS DEVELOPMENTS AND ECONOMIC PROSPECTS FOR THE REMAINDER OF THE YEAR? WHAT FACTORS ARE MOST IMPORTANT IN INFLUENCING THE COUNCIL'S JUDGMENT ABOUT THE ECONOMIC OUTLOOK? DOES THE COUNCIL ANTICIPATE A SUBSTANTIAL REDUCTION IN UNEMPLOYMENT IN THE NEAR-TERM FUTURE?

President Murphy read Item I and invited comments from the other members of the Council. There was agreement that business was generally good and that the improvement since the last meeting of the Council had been widespread. A number of members cited the high volume of consumer buying and in particular the purchase of new automobiles. Orders for durable goods, including machine tools was mentioned as an indication of some further rise in business investment. The members of the Council believe that the economic prospects for the remainder of the year are good and point to a continuation of the present moderately rising trend. All sectors of the economy seem to be contributing -- consumers, business and government. The accumulation of inventories, however, in anticipation of an interruption of steel production, while contributing to the current level of business activity, may prove to be an offset later in the year as these stocks are liquidated. The members of the Council do not anticipate any substantial reduction in unemployment in the near future.

ITEM II

IN THE COUNCIL'S OPINION, SHOULD THE SCATTERED PRICE INCREASES REPORTED IN RECENT WEEKS BE REGARDED AS FORERUNNERS OF A BROAD UPWARD MOVEMENT IN COMMODITY PRICES AND WAGES, OR ARE THEY MORE IN THE NATURE OF SELECTIVE ADJUSTMENTS TO CHANGING DEMAND AND SUPPLY RELATIONSHIPS? REPORTS OF SIGNIFICANT INSTANCES OF PRICE DECREASES OR COST REDUCTIONS WOULD BE OF INTEREST TO THE BOARD.

President Murphy read Item II. The ensuing discussion disclosed some uncertainty among members of the Council as to the future course of prices. It was finally concluded, however, that scattered price increases of the recent past could be a forerunner of a somewhat broader upward movement. Price rises, however, are likely to be moderated somewhat because of competitive pressures resulting from unused domestic capacity, as well as from manufacturers abroad. Instances of price reductions were reported, particularly in the field of petro-chemicals.

ITEM III

HAS THE COUNCIL OBSERVED A GENERAL MOVEMENT TOWARD INCREASED BUSINESS INVESTMENT IN PLANT AND EQUIPMENT? IF SO, DO THE INCREASES SEEM LIKELY TO RESULT IN GREATER ACTUAL SPENDING FOR SUCH PURPOSES THIS YEAR THAN INDICATED BY RECENT SURVEYS? ARE THE TAX CREDIT AND LIBERALIZED DEPRECIATION RULES, MADE EFFECTIVE IN 1962, NOW REGARDED IN BUSINESS AND FINANCIAL CIRCLES AS MORE STIMULATIVE TO INVESTMENT IN PLANT AND EQUIPMENT THAN WAS THOUGHT EARLIER?

Murphy read Item III. There was some discussion of the recent surveys of businessmen which suggested some upward adjustments of their plant and equipment investment plans. The Council, however, was reluctant to interpret this as indicating a general movement toward a significant expansion of this type of spending. On the other hand, there was some feeling that business investment in plant and equipment could be moderately above that indicated by recent surveys.

The members of the Council also believe that a growing number of persons in business and financial circles regard the tax credit and the liberalized depreciation rules as more of a stimulant than was thought earlier.

ITEM IV

DOES THE COUNCIL NOW REGARD EARLY TAX REDUCTION AS ESSENTIAL TO SUSTAINED BUSINESS EXPANSION THIS YEAR?

President Murphy read Item IV. A brief discussion followed in which it was generally agreed that an early tax reduction was not essential to sustained business expansion this year. However, the Council agreed to note in its reply its strong feeling that a reduction in the tax burden is essential to the longer-term growth of the economy.

ITEM V

WHAT ARE THE PROSPECTS FOR LOAN DEMAND AT BANKS DURING THE NEXT SEVERAL MONTHS, INCLUDING DEMAND IN VARIOUS LOAN CATEGORIES?

Murphy read Item V and invited comments from the members of the Council. The anticipated expansion in business is likely to be reflected in a rise in the over-all demand for credit. The large volume of corporate cash flows, however, is likely to moderate the demand for commercial loans from banks. The members of the Council anticipate that the increase in the major loan categories will be somewhat above the normal seasonal pattern.

ITEM VI

WHAT ARE THE COUNCIL'S OBSERVATIONS REGARDING CURRENT ATTITUDES IN THE BUSINESS AND FINANCIAL COMMUNITY TOWARD U. S. BALANCE OF PAYMENTS DEVELOPMENTS?

Murphy read Item VI. An extended discussion followed about the persistent deficit in the United States balance of payments. While the problem is not widely understood, the members of the Council believe they detect a growing concern among informed persons in the business and financial community regarding the deficit in our international payments. Many of these persons believe more determined and positive corrective steps must be taken if the continuing large deficits are to be eliminated.

ITEM VII

HOW DOES THE COUNCIL EVALUATE THE IMPACT OF CURRENT MONETARY AND CREDIT POLICY?

President Murphy read Item VII. It was suggested that current monetary and credit policy has had a favorable impact on the economy and that the authorities have done a good job. However, the persistent deficit in our international payments, against the background of a rising level of domestic business activity, suggests the appropriateness of a gradually more restrictive monetary and credit policy.

The meeting adjourned at 12:40 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M., ON MAY 20, 1963. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSRS. MARTIN, PETERSEN, MAESTRE AND ASTON. MR. GEOFFREY SMITH ATTENDED AS ALTERNATE FOR MR. PETERSEN; MR. JOHN FOX FOR MR. MAESTRE; AND MR. I. F. BETTS FOR MR. ASTON.

Members of the Board's staff, Division of Research and Statistics, and the Division of International Finance, participated in an audio-visual presentation on Domestic Economic Developments, and Foreign Economic Developments. A resume of the presentation will be forwarded to the members of the Council upon receipt from the Board's staff.

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THE COUNCIL CONVENED AT 8:30 P.M. ON MAY 20, 1963, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSRS. MARTIN, PETERSEN, MAESTRE AND ASTON. MR. GEOFFREY SMITH ATTENDED AS ALTERNATE FOR MR. PETERSEN; MR. JOHN FOX FOR MR. MAESTRE; AND MR. I. F. BETTS FOR MR. ASTON.

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 May 21, 1963. The Memorandum was delivered to the Federal Reserve Building at 10:15 p.m. on May 20, 1963.

The meeting adjourned at 9:35 p.m.

5.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON MAY 21, 1963

1. How do the members of the Council appraise current business developments and economic prospects for the remainder of the year? What factors are most important in influencing the Council's judgment about the economic outlook? Does the Council anticipate a substantial reduction in unemployment in the near-term future?

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In the Council's opinion, the most important factors in the economic outlook are the expansion in consumer buying, business investment, and government spending. The accumulation of inventories in anticipation of an interruption in steel production also is contributing to the current level of business activity. The liquidation of these inventories later in the year, however, may offset to some extent the rising trend of business.

The Council does not anticipate a sufficiently sharp rise in business activity to result in a substantial reduction in unemployment in the near future.

2. In the Council's opinion, should the scattered price increases reported in recent weeks be regarded as forerunners of a broad upward movement in commodity prices and wages, or are they more in the nature of selective adjustments to changing demand and supply relationships? Reports of significant instances of price decreases or cost reductions would be of interest to the Board.

The Council believes that the scattered price increases reported in recent weeks could be the forerunner of a somewhat broader upward movement in commodity prices and wages. However, the competitive pressures resulting from unused domestic capacity, as well as from manufacturers abroad, will tend to be sufficient to discourage broad price rises in the relatively near future. Members of the Council reported some instances of price reductions, particularly in the chemical industry.

3. Has the Council observed a general movement toward increased business investment in plant and equipment? If so, do the increases seem likely to result in greater actual spending for such purposes this year than indicated by recent surveys? Are the tax credit and liberalized depreciation rules, made effective in 1962, now regarded in business and financial circles as more stimulative to investment in plant and equipment than was thought earlier?

While there is some evidence of individual upward adjustments in business investment plans, the Council is reluctant to interpret it as a general movement toward a significant expansion of this type of spending. However, business investment in plant and equipment may be moderately above that indicated by recent surveys.

The Council believes that a growing number in business and financial circles now regard the tax credit and liberalized depreciation rules as more of a stimulant to investment in plant and equipment in certain industries than was thought earlier.

4. Does the Council now regard early tax reduction as essential to sustained business expansion this year?

The Council does not regard early tax reduction as essential to sustained business expansion this year, but a reduction in the tax burden is essential to the longer-term growth of the economy.

5. What are the prospects for loan demand at banks during the next several months, including demand in various loan categories?

The Council believes that the anticipated expansion in the economy will be reflected in a rise in the over-all credit demands of business. However, the large volume of corporate cash flows is likely to moderate the demand for commercial loans from banks. It is expected that the increase in the major loan categories will be somewhat above the normal seasonal pattern.

6. What are the Council's observations regarding current attitudes in the business and financial community toward U. S. balance of payments developments?

The Council has noted a growing concern among informed persons in the business and financial community regarding the persistence of the deficit in our international payments. Although the problem is exceedingly complex and difficult, increasing numbers of persons believe that more determined and positive corrective steps must be taken if the continuing large deficits are to be eliminated.

7. How does the Council evaluate the impact of current monetary and credit policy?

The Council believes that current monetary and credit policy has had a favorable impact on the economy. However, the persistent deficit in our international payments, against the background of a rising level of domestic business activity, suggests the appropriateness of a gradually more restrictive monetary and credit policy.

ON MAY 21, 1963, AT 10:15 A.M., THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSRS. MARTIN, PETERSEN, MAESTRE, AND ASTON. MR. GEOFFREY SMITH ATTENDED AS ALTERNATE FOR MR. PETERSEN; MR. JOHN FOX FOR MR. MAESTRE; AND MR. I. F. BETTS FOR MR. ASTON.

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. SPENCER, GENERAL ASSISTANT IN THE OFFICE OF THE SECRETARY, 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 12:45 p.m.

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The next meeting of the Council will be September 16-17, 1963.