

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
1964

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL

February 17-18, 1964

April 22-23, 1964

September 21-22, 1964

November 16-17, 1964

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1964

OFFICERS:

President, John A. Moorhead
Vice President, James W. Aston
Director, Lawrence H. Martin
Director, J. Finley McRae
Director, Maurice L. Breidenthal
Secretary, Herbert V. Prochnow
Assistant Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

John A. Moorhead
James W. Aston
Lawrence H. Martin
J. Finley McRae
Maurice L. Breidenthal

MEMBERS:

Lawrence H. Martin
William H. Moore
William L. Day
L. A. Stoner
John F. Watlington, Jr.
J. Finley McRae
Edward B. Smith
James P. Hickok
John A. Moorhead
Maurice L. Breidenthal
James W. Aston
Ransom M. Cook

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 for 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 17, 1964

**REPORT OF THE SECRETARY
OF THE
FEDERAL ADVISORY COUNCIL**

FOR THE YEAR ENDED DECEMBER 31, 1963

<p>Balance on hand – December 31, 1962 \$ 8,492.92</p> <p>Assessments – 12 Federal Reserve Banks. 5,400.00</p> <p style="text-align: right;">\$13,892.92</p>	<p>Salaries \$ 5,000.00</p> <p>Printing & Stationery 751.43</p> <p>Balance on hand – December 31, 1963 8,141.49</p> <p style="text-align: right;">\$13,892.92</p>
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Chicago, Illinois
February 1, 1964

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, 1963, and certify that the above statement agrees therewith.

Respectfully,
THE FIRST NATIONAL BANK OF CHICAGO
(Signed) J. Carl Sommer, Auditor

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 17, 1964

The first and organizational meeting of the Federal Advisory Council for the year 1964 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on February 17, 1964, at 9:30 A.M.

Present:

Lawrence H. Martin	District No. 1
William H. Moore	District No. 2
William L. Day	District No. 3
L. A. Stoner	District No. 4
John F. Watlington, Jr.	District No. 5
J. Finley McRae	District No. 6
Edward B. Smith	District No. 7
James P. Hickok	District No. 8
John A. Moorhead	District No. 9
Maurice L. Breidenthal	District No. 10
James W. Aston	District No. 11
Ransom M. Cook	District No. 12
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary

Mr. J. Finley McRae 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 1964.

The following officers were nominated and unanimously elected:

John A. Moorhead, President
James W. Aston, Vice President
Lawrence H. Martin, Director
J. Finley McRae, Director
Maurice L. Breidenthal, 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 1963, 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 18-19, 1963, May 20-21, 1963, September 16-17, 1963, November 18-19, 1963, and the mimeographed notes of the meeting held November 18-19, 1963, 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 1964 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 12:20 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 17, 1964

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

Present: Mr. John A. Moorhead, President; Messrs. Lawrence H. Martin, William H. Moore, William L. Day, L. A. Stoner, John F. Watlington, Jr., J. Finley McRae, Edward B. Smith, James P. Hickok, Maurice L. Breidenthal, James W. Aston, and Ransom M. Cook.

Members of the Board's staff gave an audio-visual presentation on the current business situation. An outline of the statement was sent to each member of the Council.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 17, 1964

At 9:50 P.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

Present: Mr. John A. Moorhead, President; Messrs. Lawrence H. Martin, William H. Moore, William L. Day, L. A. Stoner, John F. Watlington, Jr., J. Finley McRae, Edward B. Smith, James P. Hickok, Maurice L. Breidenthal, James W. Aston, Ransom M. Cook, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

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 11:30 P.M. on February 17, 1964.

The meeting adjourned at 10:40 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 18, 1964

1. Domestic economic conditions and prospects.

- A. What are the views of the Council as to the economic outlook for the remainder of this year? To what extent are these views influenced by the tax legislation now under consideration in Congress?
- B. What effect does the Council expect the forces of supply and demand in the markets for funds to have on interest rates during the rest of 1964?

A. The members of the Council believe that the level of economic activity will continue to rise during the remainder of this year. This view of the economic outlook reflects the expectation of a reduction in Federal taxes on personal income and corporate profits. Consumer spending, which has been strong, is likely to be further stimulated as a result of the reduction in taxes. The resulting demand and its impact on production and the percentage of capacity being utilized should give a further impetus to capital spending, as well as to inventory accumulation and investment.

Several members of the Council expressed concern about the added stimulus of a tax cut during a period of good business. Inflationary forces could develop which would intensify wage demands, accelerate inventory accumulation and increase the upward pressure on prices.

B. While most members of the Council expect that the demand for funds will rise during the rest of 1964, the flow of corporate cash, as well as personal savings, will also expand. In these circumstances, the Council anticipates that interest rates will be fairly stable in the months immediately ahead. However, changes in interest rates in foreign money markets might force our rate structure higher. With the advent of Fall and the customary seasonal rises in credit demands, and with the stimulus to economic activity provided by a possible tax cut, upward pressure on interest rates may develop.

2. Banking developments.

- A. What is the Council's judgment regarding the demand for commercial and industrial loans over the next six months?

- B. What is the Council's judgment with regard to the demand for mortgage loans over the same period?
- C. Have Council members observed any recent change in the willingness of banks to continue to add to their portfolios of longer-term tax-exempt securities?
- D. Do Council members believe that the ability of many banks to issue negotiable time certificates of deposit is being restricted by the current interest rate ceilings under Regulation Q?
- E. Have Council members observed any changes in the standards banks are employing in judging their own liquidity positions?
- F. What is the attitude of Council members toward the proposal sometimes made that regulation of interest rates on time and savings deposits be put on a stand-by basis?

A. The Council believes that the demand for commercial and industrial loans over the next six months will rise moderately, reflecting the probable expansion in business activity.

B. The large volume of construction activity, as well as the level of contract awards, indicates that the demand for mortgage loans over the next six months will expand further.

C. The members of the Council believe that banks are less willing now to add to their portfolios of longer-term, tax exempt securities.

D. Most members of the Council do not believe that the interest rate ceilings under Regulation Q are limiting the ability of major banks to issue negotiable time certificates of deposit. However, certain banks are finding it necessary to shorten maturities and pay slightly higher rates in order to attract funds. The Council is concerned about the effect on the volume of negotiable time certificates of deposit if the interest rate structure should rise and the yields on Treasury bills should approach 4 per cent.

E. The statistics on the banking system indicate that many bankers are accepting lower liquidity standards than heretofore. The pressure of increasing costs, especially the sharp rise in the amount of interest paid, has led many bankers to hold a larger volume of less marketable, longer-term assets in the portfolios of their banks.

F. The Council is unanimous in its opinion that bankers generally would not favor the proposal that the regulation of interest rates on time and savings deposits be put on a stand-by basis, but would prefer the present arrangement. If conditions in the money market should warrant an increase in the maximum permissible interest rate paid on time and savings deposits, the members of the Council believe that any increase should be well above the then current rate. This would tend to preclude the maximum rate becoming the prevailing rate paid.

3. Foreign lending by U. S. banks.

- A. What is the current situation with respect to foreign demand for loans from U. S. banks?
- B. What does the Council anticipate with respect to such demands in coming months?
- A. The council reports a strong foreign demand for loans from U. S. banks.

B. The Council anticipates that the demand for such foreign loans will continue strong in the coming months. However, should the domestic demand for credit expand as the level of business activity rises, the resulting pressure on bank reserves may make banks in the United States less willing to expand their foreign loans.

4. Monetary policy.

What are the Council's views regarding the effectiveness of recent monetary and credit policy?

The Council believes that recent monetary and credit policy has been effective. Domestic business activity continues to rise while our balance of payments situation has been maintained since mid-1963. However, should the anticipated tax cut strongly stimulate business activity and create inflationary pressures, a policy of credit restraint would be warranted.

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

February 18, 1964

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 and J. Dewey Daane; 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. John A. Moorhead, President; Messrs. Lawrence H. Martin, William H. Moore, William L. Day, L. A. Stoner, John F. Watlington, Jr., J. Finley McRae, Edward B. Smith, James P. Hickok, Maurice L. Breidenthal, James W. Aston, Ransom M. Cook, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

President Moorhead 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.

Chairman Martin stated that it would be helpful to have any views the Council might care to express on the likely impact of the prospective tax cut on employment and unemployment. An extended discussion followed in which the members of the Council outlined developments and conditions in their particular districts. There was general agreement that the level of economic activity would continue to rise during the remainder of the year. This view reflected the expectation of a reduction in federal taxes on personal income and corporate profits.

In view of the level of unemployment, the Chairman inquired whether it was felt that the availability of money was about right at present. The ensuing discussion indicated that the supply of funds appeared to be adequate to care for the anticipated demands with only slight upward pressures on the structure of interest rates.

The President then read the second item and the conclusions of the Council. A discussion on money and credit conditions followed in which there was wide participation.

In response to an inquiry from Chairman Martin, the members of the Council indicated that they were not in favor of paying interest on demand deposits.

President Moorhead read the third item and the conclusions of the Council. The remarks that followed included a discussion of the effect on U. S. capital markets if interest rates abroad were raised in response to inflationary or distressed financial conditions in particular countries. It was believed that it would cause some flow of U. S. capital to foreign centers.

The President then read the fourth item on the Agenda and the conclusions of the Council. There followed a brief discussion on the absorption of exchange charges.

Chairman Martin and Governor Balderston outlined the position taken by certain state member banks that the Board's present position on the absorption of exchange charges served to place state member banks at an inequitable competitive disadvantage.

A brief discussion followed in which the Council strongly argued that if the Board were to change its position, the exchange situation involving non-par banks would retrogress.

The meeting adjourned at 12:35 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 17, 1964, 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 1964, officially elected in accordance with communications received from the Federal Reserve banks.

Mr. J. Finley McRae was elected Chairman pro tem and Mr. William J. Korsvik was elected Secretary pro tem.

The following officers were nominated and unanimously elected:

John A. Moorhead, President
James W. Aston, Vice President
Lawrence H. Martin, Director
J. Finley McRae, Director
Maurice L. Breidenthal, 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 1963, 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 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 1964.

The by-laws were approved. The Council approved the Secretary's notes for the meeting of November 18-19, 1963. The printed minutes for all the 1963 meetings of the Council, copies of which had been sent previously to the members, also were approved.

ITEM I

DOMESTIC ECONOMIC CONDITIONS AND PROSPECTS.

- A. WHAT ARE THE VIEWS OF THE COUNCIL AS TO THE ECONOMIC OUTLOOK FOR THE REMAINDER OF THIS YEAR? TO WHAT EXTENT ARE THESE VIEWS INFLUENCED BY THE TAX LEGISLATION NOW UNDER CONSIDERATION IN CONGRESS?

of the Council for their views. The ensuing discussion disclosed agreement among the members that the level of economic activity will continue to rise during the remainder of 1964. This reflected the expectation of a reduction in federal taxes on personal income and corporate profits. Consumer spending, which several members described as strong, is likely to be further stimulated as a result of the reduction in taxes. As a consequence of the resulting expansion in demand and its impact on production, the percentage of capacity being utilized should rise, giving further impetus to capital spending as well as to inventory accumulation and investment.

Several members of the Council expressed concern about the added stimulus of a tax cut during a period of good business. Inflationary forces could develop which would intensify wage demands, accelerate inventory accumulation and increase the upward pressure on prices.

B. WHAT EFFECT DOES THE COUNCIL EXPECT THE FORCES OF SUPPLY AND DEMAND IN THE MARKETS FOR FUNDS TO HAVE ON INTEREST RATES DURING THE REST OF 1964?

President Moorhead read Item I B. In the discussion which followed several members mentioned that there were a number of imponderables which make a forecast of interest rates during the rest of 1964 very difficult. While most members expect the demand for funds will rise, the flow of savings and corporate cash will also expand. This suggests that interest rates, at least in the months immediately ahead, will be fairly stable. One of the imponderables clouding the future, however, is the behavior of interest rates in foreign money markets. If the British rate should rise, for example, our rate structure might be forced higher. With the advent of fall and the customary seasonal rise in credit demands, and with the stimulus to economic activity provided by a possible tax cut, upward pressure on rates may develop.

ITEM II

BANKING DEVELOPMENTS.

A. WHAT IS THE COUNCIL'S JUDGMENT REGARDING THE DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS OVER THE NEXT SIX MONTHS?

President Moorhead read Item II A. A brief discussion followed. The consensus of the group was that there would be some moderate increase in the demand for commercial industrial loans in the next six months. The amount of the increase, however, is likely to vary from district to district.

B. WHAT IS THE COUNCIL'S JUDGMENT WITH REGARD TO THE DEMAND FOR MORTGAGE LOANS OVER THE SAME PERIOD?

President Moorhead read Item II B. Despite overbuilding in certain districts, some expansion in the demand for mortgage loans over the next six months is anticipated.

- C. HAVE COUNCIL MEMBERS OBSERVED ANY RECENT CHANGE IN THE WILLINGNESS OF BANKS TO CONTINUE TO ADD TO THEIR PORTFOLIOS OF LONGER-TERM TAX-EXEMPT SECURITIES?
-

The President read Item II C. A brief discussion followed which disclosed that the members of the Council believe that banks are less willing now to add to their portfolios of longer-term tax-exempt securities. The reasons, however, varied greatly. Several members emphasized that if the yields on such securities improved, many commercial banks would be inclined to add to their portfolios.

- D. DO COUNCIL MEMBERS BELIEVE THAT THE ABILITY OF MANY BANKS TO ISSUE NEGOTIABLE TIME CERTIFICATES OF DEPOSIT IS BEING RESTRICTED BY THE CURRENT INTEREST RATE CEILINGS UNDER REGULATION Q?
-

President Moorhead read Item II D. A brief discussion followed. It was pointed out that the ability of the major banks in the metropolitan centers was not being restricted by the current interest rate ceilings under Regulation Q. Other smaller banks are finding it necessary to shorten maturities and pay slightly higher rates in order to attract funds. Several members expressed concern about the effect on the volume of negotiable time certificates of deposit if the interest rate structure should rise and yields on Treasury bills should approach 4 per cent.

- F. WHAT IS THE ATTITUDE OF COUNCIL MEMBERS TOWARD THE PROPOSAL SOMETIMES MADE THAT REGULATION OF INTEREST RATES ON TIME AND SAVINGS DEPOSITS BE PUT ON A STANDBY BASIS?
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At this point President Moorhead suggested the Council consider Item II F which he then read.

The Council was unanimous in its opinion that bankers generally would not favor the proposal that the regulation of interest rates on time and savings deposits be put on a standby basis but would prefer the present arrangement.

After an extended discussion, it was finally concluded that the Council should suggest that if conditions in the money market should warrant an increase in the maximum permissible rate, that any increase should be well above the then current rate. It was hoped that this procedure would tend to preclude the maximum rate becoming the prevailing rate paid.

- E. HAVE COUNCIL MEMBERS OBSERVED ANY CHANGES IN THE STANDARDS BANKS ARE EMPLOYING IN JUDGING THEIR OWN LIQUIDITY POSITIONS?
-

Then President Moorhead read Item II E. It was pointed out that the statistics on the banking system indicate that many bankers are accepting lower liquidity standards than heretofore. In many instances the pressure of increasing costs, especially the sharp rise in the amount of interest paid, has persuaded bankers to increase their holdings of less marketable longer-term assets.

ITEM III

FOREIGN LENDING BY U. S. BANKS

- A. WHAT IS THE CURRENT SITUATION WITH RESPECT TO FOREIGN DEMAND FOR LOANS FROM U. S. BANKS?
 - B. WHAT DOES THE COUNCIL ANTICIPATE WITH RESPECT TO SUCH DEMANDS IN COMING MONTHS?
-

President Moorhead read Item III A and B. In the brief discussion which followed, several members described the foreign demand for loans from U. S. banks as strong and increasing. There was some discussion on the inadequacy of information available with which to judge the soundness of credits extended to foreign countries. There were no reliable figures, for example, on the total contingent liabilities of Japanese banks, many of which are in the form of guarantees.

ITEM IV

MONETARY POLICY

WHAT ARE THE COUNCIL'S VIEWS REGARDING THE EFFECTIVENESS OF RECENT MONETARY AND CREDIT POLICY?

President Moorhead read Item IV. In the discussion which followed it was agreed that monetary and credit policy had been effective. Domestic business activity continues to rise while our balance of payments situation has been maintained since mid-1963. It was decided, however, to add to the Council's reply the note that if the anticipated tax cut should strongly stimulate business activity and create inflationary pressures, a policy of credit restraint would be warranted.

The meeting adjourned at 12:20 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M. ON FEBRUARY 17, 1964.

Members of the Board's staff gave an audio-visual presentation on the current business situation. An outline of the statement is to be made available by the Board's staff and will be sent to the members of the Council upon its receipt.

* * * * *

THE COUNCIL RECONVENED AT 9:50 P.M. ON FEBRUARY 17, 1964, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

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 18, 1964. The Memorandum was delivered to the Federal Reserve Building at 11:30 P.M. on February 17, 1964.

The meeting adjourned at 10:40 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 18, 1964

1. Domestic economic conditions and prospects.

A. What are the views of the Council as to the economic outlook for the remainder of this year? To what extent are these views influenced by the tax legislation now under consideration in Congress?

B. What effect does the Council expect the forces of supply and demand in the markets for funds to have on interest rates during the rest of 1964?

A. The members of the Council believe that the level of economic activity will continue to rise during the remainder of this year. This view of the economic outlook reflects the expectation of a reduction in Federal taxes on personal income and corporate profits. Consumer spending, which has been strong, is likely to be further stimulated as a result of the reduction in taxes. The resulting demand and its impact on production and the percentage of capacity being utilized should give a further impetus to capital spending, as well as to inventory accumulation and investment.

Several members of the Council expressed concern about the added stimulus of a tax cut during a period of good business. Inflationary forces could develop which would intensify wage demands, accelerate inventory accumulation and increase the upward pressure on prices.

B. While most members of the Council expect that the demand for funds will rise during the rest of 1964, the flow of corporate cash, as well as personal savings, will also expand. In these circumstances, the Council anticipates that interest rates will be fairly stable in the months immediately ahead. However, changes in interest rates in foreign money markets might force our rate structure higher. With the advent of Fall and the customary seasonal rises in credit demands, and with the stimulus to economic activity provided by a possible tax cut, upward pressure on interest rates may develop.

2. Banking developments.

A. What is the Council's judgment regarding the demand for commercial and industrial loans over the next six months?

- B. What is the Council's judgment with regard to the demand for mortgage loans over the same period?
- C. Have Council members observed any recent change in the willingness of banks to continue to add to their portfolios of longer-term tax-exempt securities?
- D. Do Council members believe that the ability of many banks to issue negotiable time certificates of deposit is being restricted by the current interest rate ceilings under Regulation Q?
- E. Have Council members observed any changes in the standards banks are employing in judging their own liquidity positions?
- F. What is the attitude of Council members toward the proposal sometimes made that regulation of interest rates on time and savings deposits be put on a stand-by basis?

A. The Council believes that the demand for commercial and industrial loans over the next six months will rise moderately, reflecting the probable expansion in business activity.

B. The large volume of construction activity, as well as the level of contract awards, indicates that the demand for mortgage loans over the next six months will expand further.

C. The members of the Council believe that banks are less willing now to add to their portfolios of longer-term, tax exempt securities.

D. Most members of the Council do not believe that the interest rate ceilings under Regulation Q are limiting the ability of major banks to issue negotiable time certificates of deposit. However, certain banks are finding it necessary to shorten maturities and pay slightly higher rates in order to attract funds. The Council is concerned about the effect on the volume of negotiable time certificates of deposit if the interest rate structure should rise and the yields on Treasury bills should approach 4 per cent.

E. The statistics on the banking system indicate that many bankers are accepting lower liquidity standards than heretofore. The pressure of increasing costs, especially the sharp rise in the amount of interest paid, has led many bankers to hold a larger volume of less marketable, longer-term assets in the portfolios of their banks.

F. The Council is unanimous in its opinion that bankers generally would not favor the proposal that the regulation of interest rates on time and savings deposits be put on a stand-by basis, but would prefer the present arrangement. If conditions in the money market should warrant an increase in the maximum permissible interest rate paid on time and savings deposits, the members of the Council believe that any increase should be well above the then current rate. This would tend to preclude the maximum rate becoming the prevailing rate paid.

3. Foreign lending by U. S. banks.

A. What is the current situation with respect to foreign demand for loans from U. S. banks?

B. What does the Council anticipate with respect to such demands in coming months?

A. The council reports a strong foreign demand for loans from U. S. banks.

B. The Council anticipates that the demand for such foreign loans will continue strong in the coming months. However, should the domestic demand for credit expand as the level of business activity rises, the resulting pressure on bank reserves may make banks in the United States less willing to expand their foreign loans.

4. Monetary policy.

What are the Council's views regarding the effectiveness of recent monetary and credit policy?

The Council believes that recent monetary and credit policy has been effective. Domestic business activity continues to rise while our balance of payments situation has been maintained since mid-1963. However, should the anticipated tax cut strongly stimulate business activity and create inflationary pressures, a policy of credit restraint would be warranted.

ON FEBRUARY 18, 1964, 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 AND DAANE. MR. SHERMAN, SECRETARY, AND MR. KENYON, ASSISTANT SECRETARY, OF THE BOARD OF GOVERNORS ALSO WERE PRESENT.

The minutes of the joint meeting are being prepared in the office of the Secretary of the Board of Governors of the Federal Reserve System. Their content will be compared with the notes of the Secretary of the Council. Assuming they are in substantial agreement, they will be reproduced and distributed to the members of the Council.

The meeting adjourned at 12:35 P.M.

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The next meeting of the Council will be held on April 22-23, 1964.