

# MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 21, 1964

The third statutory meeting of the Federal Advisory Council for 1964 was convened in Room 1032 of the Mayflower Hotel, Washington, D. C. on September 21, 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
Harry F. Harrington, Alternate	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

## Absent:

James P. Hickok	District No. 8
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On motion duly made and seconded, the mimeographed notes of the meeting held on April 22-23, 1964, copies of which had been sent previously to the members of the Council, were approved.

A complete list of the items on the Agenda for the meeting and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 25, 26, 27 and 28 of these minutes.

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

September 21, 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, Harry F. Harrington, Alternate for Mr. James P. Hickok; Messrs. Maurice L. Breidenthal, James W. Aston and Ransom M. Cook.

Absent: Mr. James P. Hickok.

Mr. J. Dewey Daane, Member of the Board of Governors, reported on the work of the Group of Ten and its recommendations for strengthening the international payments system.

HERBERT V. PROCHNOW  
Secretary

WILLIAM J. KORSVIK  
Assistant Secretary

# MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 21, 1964

At 8:30 P.M., the Federal Advisory Council reconvened in Room 1032 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, Harry F. Harrington, Alternate for Mr. James P. Hickok; Messrs. Maurice L. Breidenthal, James W. Aston, Ransom M. Cook, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. James P. Hickok.

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 to the Board of Governors from the Federal Advisory Council*, which follows on pages 25, 26, 27 and 28, listing the Agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 10:30 P.M. on September 21, 1964.

The meeting adjourned at 9:25 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 SEPTEMBER 22, 1964

1. Economic conditions and prospects.

- A. How does the Council appraise the economic outlook for the next six months, particularly as to its sources of strength and weakness?

The members of the Council believe that business and economic activity in the next six months will continue to expand. The following sources of strength are present:

1. the sustained but comparatively moderate rise in consumer demand as evidenced by retail sales;
2. the absence to date of excessive inventory accumulation;
3. the anticipated outlays by businessmen for plant and equipment; and
4. the maintenance of relatively stable prices.

Among the items of concern are the following:

1. the continuing rapid expansion of credit with the possibility that the quality has deteriorated;
  2. the possibility of costly disruptive strikes or wage price inflation should the recent automobile settlements be accepted as a guide for future labor contract negotiations;
  3. an acceleration in the rate of inventory accumulation, particularly the stockpiling of steel in anticipation, first, of a possible strike in that industry next May 1, and secondly, of higher prices.
- B. Does the Council believe that recent increases in prices of sensitive raw materials signal the beginnings of a broader and more cumulative price advance?

The Council does not believe that the recent increases in prices of sensitive raw materials necessarily signify the beginnings of a broader and more cumulative price advance although this is more of a possibility now in view of wage-cost developments.

- C. Is factory output beginning to press against "most desired use of capacity" for any industrial corporations with which Council members are familiar? Have Council members noted any tendencies for production bottlenecks to delay or obstruct the consummation of expansion plans of larger industrial companies?

The members of the Council do not believe that output generally is pressing against the "most desired use of capacity." However, in the steel, furniture, and in some areas of the textile industries, for example, output is pressing on capacity and some marginal plants are being brought into use.

2. Banking developments.

- A. What is the Council's judgment regarding the demand for bank loans over the rest of this year?

The members of the Council anticipate that the demand for bank loans will be somewhat more than seasonal over the rest of the year, reflecting some acceleration in consumer buying and a considerably better than average holiday trade. It seems likely that consumers will adjust their spending upward to bring savings back to the historical pattern of recent years.

- B. Has there been any recent increase in loan demand to finance precautionary inventory accumulation?

Other than perhaps the metal and metal-using industries, the members of the Council have not observed any recent increase in loan demand to finance precautionary inventory accumulation.

- C. What shifts in patterns of demand by customers have occurred or are foreseen as between negotiable time certificates of deposit, on the one hand, and other domestic and foreign money market instruments (including time deposits in the Euro-dollar market) on the other?

The Council has not observed any significant shift in the patterns of demand by customers between negotiable time certificates of deposit and other domestic and foreign money market instruments. However, several members of the Council reported some increase in the movement of funds to Canada in response to the aggressive efforts of Canadian banks.

The coming election in Great Britain and the relatively weak coalition government in Italy, for example, are among the uncertainties that may have tended to lessen the flow of funds abroad.

- D. Does the Council have any views as to the possible effects on banks of the recent regulation of the Federal Home Loan Bank Board limiting savings and loan association ownership of individual bank certificates of deposit?

The members of the Council are of the opinion that the recent Federal Home Loan Bank Board regulation limiting the ownership of individual bank certificates of deposit by savings and loan associations will have a comparatively minor effect on banks with the exception of a relatively few banks that have specialized in this type of transaction.

3. What are the Council's opinions as to the appropriateness of recent policies with respect to the U. S. balance of payments? What are the possible contributions of commercial banking practices and policies to the solution of the balance of payments problem, especially in the light of the impact on the deficit of capital outflows?

The Council would welcome the opportunity to discuss with the Board recent policies with respect to the U. S. balance of payments.

The commercial banks might make a contribution to the balance of payments problem if they tended to limit the extension of credit abroad to the short-term financing of exports. However, the increasing demand for credit of all types by credit-worthy foreign borrowers, and the availability of reserves in the banking system, together with the desire to improve bank earnings, have resulted in the expansion of the foreign loans of intermediate maturity of the larger commercial banks. The interest equalization tax undoubtedly contributed to this development in the banking system over the past year.

4. What are the Council's views regarding the appropriateness of recent monetary and credit policy?

At the April meeting with the Board of Governors the Council observed that

" . . . recent monetary and credit policy has been a major factor in the expansion of the economy to its present high level. However, in view of the current volume of business activity, and the anticipated additional stimulation from the tax cut, the possibility of a renewal of wage-cost increases, and the probable pressures on prices, the Council believes that monetary and credit policy should now move gradually in the direction of restraint."

In the light of the continuing expansion of the economy since then, the Council reaffirms this view.

5. The Council would appreciate discussing with the Board the relatively recent techniques employed by some commercial banks in an effort to obtain funds in the money markets. These techniques include negotiable Certificates of

Deposit, subordinate debentures, and more recently the sale of shorter-term notes. The discussion would also deal with Regulation Q and present interest rate ceilings.

The members of the Council would like to discuss these developments with the Board. The following are among the items of interest: Will notes eventually be issued for shorter and shorter maturities such as ten days, five days, one day, or on demand? How small are the denominations likely to be? Will state banks in some states have far greater borrowing power than national banks? How widespread must this development be before it significantly affects monetary policy? Will the use of notes result in an important decline in demand deposits? In negotiable certificates of deposit? In savings deposits? Are Fed funds considered borrowings, thereby limiting the amount of notes a national bank may issue?

Would it be desirable now to consider a change in Regulation Q relative to deposits with a maturity of more than one year?

6. The Council would like to discuss with the Board of Governors the new regulations with respect to "securities of member State banks" including the "proposed form of registration of securities of a bank."

The members of the Council are deeply concerned about the practical implementation of the proposed new regulation with respect to "securities of member State banks" including the "proposed form of registration of securities of a bank."

The Council feels strongly that the Board of Governors should hold a series of private hearings to consider all aspects of the proposed regulations before they are made effective.

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

September 22, 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 J.L. Robertson, Chas. N. Shepardson and J. Dewey Daane; also Mr. Merritt Sherman, Secretary, and Mr. Arthur L. Broida, 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, Harry F. Harrington, Alternate for Mr. James P. Hickok; Messrs. Maurice L. Breidenthal, James W. Aston, Ransom M. Cook, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. James P. Hickok.

President Moorhead 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 25, 26, 27 and 28 of these minutes.

Chairman Martin indicated an interest in the views of the Council regarding the recent settlements by the Chrysler Corporation and Ford Motor Company with the United Auto workers. A brief discussion followed which indicated general accord among the Council members that inflationary problems could arise from these settlements if the automobile manufacturers decided to raise prices on the 1965 model cars.

In response to a query from Chairman Martin, the members of the Council stated that they observed indications suggesting an improvement in the quality of credit during the previous six month period.

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

Governor Daane asked if the Council anticipated the reestablishment of the historic pattern of consumer spending and savings. The members of the Council indicated that they believed this would occur once the initial impact of the tax cut dispelled itself.

The President read the third item and the conclusion of the Council. A brief discussion followed in which most members of the Council participated.

Governor Daane inquired whether uncertainty of the interest equalization tax's applicability to banks had interfered with or deterred financial transactions abroad. Several members indicated that they were doubtful that the passage of the law had affected bank attitudes toward foreign lending.

Chairman Martin suggested that the conversation indicated that the availability of funds rather than the rate of interest was the important consideration in the movement of funds abroad.

The fourth item and the conclusions of the Council were then read by the President.

Governor Robertson asked if the Council would recommend an increase in the discount rate to offset the tendency toward inflation. The following discussion disclosed that most members did not favor an increase in the discount rate at that time.

President Moorhead then read the fifth item and the Council's reply. He added that the Council would be interested in discussing whether there should be an increase in the maximum permissible rates payable on time deposits maturing in more than one year.

Governor Robertson stated that the practice of selling unsecured negotiable notes could spread rapidly and create problems for bankers and supervisory authorities. He added that in his opinion the practice was legal but this fact was not determinative of the desirability of the practice. Should it become widespread, Governor Robertson continued, the ability of the monetary authority to function could be seriously hampered in periods when restraint was needed.

Item six was then read by President Moorhead, together with the conclusions of the Council. Governor Robertson stated that the Board wanted the views and assistance of experts before promulgating the regulation in final form.

The meeting adjourned at 12:25 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 September 21, 1964, at 9:30 A.M. in Room 1032 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present except Mr. James P. Hickok. Mr. Harry F. Harrington, Chairman of the Board, Boatmen's National Bank of St. Louis, Missouri, attended as Alternate for Mr. Hickok.

The Council approved the Secretary's notes for the meeting of April 22-23, 1964.

#### ITEM I A

#### ECONOMIC CONDITIONS AND PROSPECTS

- A. HOW DOES THE COUNCIL APPRAISE THE ECONOMIC OUTLOOK FOR THE NEXT SIX MONTHS, PARTICULARLY AS TO ITS SOURCES OF STRENGTH AND WEAKNESS?

President Moorhead read Item I A and invited members of the Council to comment on conditions and prospects in their districts. An extended discussion followed in which all members participated. There was general agreement that business and economic activity in the next six months will continue to expand. The following sources of strength were cited by various members of the Council:

1. the sustained but comparatively moderate rise in consumer demand as evidenced by retail sales;
2. the absence to date of excessive inventory accumulation;
3. the anticipated outlays by businessmen for plant and equipment; and
4. the maintenance of relatively stable prices.

A number of members of the Council expressed concern about one or several of the following:

1. the continuing rapid expansion of credit with the possibility that the quality has deteriorated;
2. the possibility of costly disruptive strikes or wage price inflation should the recent automobile settlements be accepted as a guide for future labor contract negotiations;
3. an acceleration in the rate of inventory accumulation, particularly the stockpiling of steel in anticipation, first, of a possible strike in that industry next May 1, and secondly, of higher prices.

ITEM I B

- B. DOES THE COUNCIL BELIEVE THAT RECENT INCREASES IN PRICES OF SENSITIVE RAW MATERIALS SIGNAL THE BEGINNINGS OF A BROADER AND MORE CUMULATIVE PRICE ADVANCE?

President Moorhead read Item I B. A brief discussion followed in which doubt was expressed that the recent increases in prices of sensitive raw materials signify the beginnings of a broader and more cumulative price advance. Several members, however, thought that this was more of a possibility now than in the recent past in view of wage-cost developments that had occurred in the past several weeks.

ITEM I C

- C. IS FACTORY OUTPUT BEGINNING TO PRESS AGAINST "MOST DESIRED USE OF CAPACITY" FOR ANY INDUSTRIAL CORPORATIONS WITH WHICH COUNCIL MEMBERS ARE FAMILIAR? HAVE COUNCIL MEMBERS NOTED ANY TENDENCIES FOR PRODUCTION BOTTLENECKS TO DELAY OR OBSTRUCT THE CONSUMMATION OF EXPANSION PLANS OF LARGER INDUSTRIAL COMPANIES?

President Moorhead read Item I C.

It was generally acknowledged that it is difficult to come to an accurate judgment about this item. However, members of the Council did not believe that output is pressing against "the most desired use of capacity." Steel, furniture, and some areas of the textile industry were cited as exceptions to this general statement. In these industries output is pressing on capacity and some marginal plants are being brought into use.

ITEM II A

BANKING DEVELOPMENTS.

- A. WHAT IS THE COUNCIL'S JUDGMENT REGARDING THE DEMAND FOR BANK LOANS OVER THE REST OF THIS YEAR?

President Moorhead read Item II A.

In the brief discussion which followed, the members of the Council indicated that they anticipate that the demand for bank loans will be somewhat more than seasonal over the rest of the year. This was attributed in large measure to the anticipated acceleration in consumer buying and a considerably better than average holiday trade. Several members indicated an intuitive feeling that consumers are likely to adjust their spending upward to bring savings back to the historical pattern of recent years.

ITEM II B

- B. HAS THERE BEEN ANY RECENT INCREASE IN LOAN DEMAND TO FINANCE PRECAUTIONARY INVENTORY ACCUMULATION?

President Moorhead read Item II B.

3.

The members indicated they had not observed any recent increase in loan demand to finance precautionary inventory accumulation with the possible exception of the metal and metal using industries.

ITEM II C

- C. WHAT SHIFTS IN PATTERNS OF DEMAND BY CUSTOMERS HAVE OCCURRED OR ARE FORESEEN AS BETWEEN NEGOTIABLE TIME CERTIFICATES OF DEPOSIT, ON THE ONE HAND, AND OTHER DOMESTIC AND FOREIGN MONEY MARKET INSTRUMENTS (INCLUDING TIME DEPOSITS IN THE EURO-DOLLAR MARKET) ON THE OTHER?

President Moorhead read Item II C and invited comments from the Council.

The members reported that they had not observed any significant shift in the patterns of demand by customers between negotiable time certificates of deposit and other domestic and foreign money market instruments. However, several members reported some increase in the movement of funds to Canada in response to the aggressive efforts of Canadian banks. Some members observed that uncertainties abroad also may have tended to lessen the flow of U. S. capital moving overseas.

ITEM II D

- D. DOES THE COUNCIL HAVE ANY VIEWS AS TO THE POSSIBLE EFFECTS ON BANKS OF THE RECENT REGULATION OF THE FEDERAL HOME LOAN BANK BOARD LIMITING SAVINGS AND LOAN ASSOCIATION OWNERSHIP OF INDIVIDUAL BANK CERTIFICATES OF DEPOSIT?

President Moorhead read Item II D and invited comment from the Council.

The members were of the opinion that the recent regulation will have a comparatively minor effect on banks with the exception of the relatively few that have specialized in this type of transaction.

ITEM III

WHAT ARE THE COUNCIL'S OPINIONS AS TO THE APPROPRIATENESS OF RECENT POLICIES WITH RESPECT TO THE U. S. BALANCE OF PAYMENTS? WHAT ARE THE POSSIBLE CONTRIBUTIONS OF COMMERCIAL BANKING PRACTICES AND POLICIES TO THE SOLUTION OF THE BALANCE OF PAYMENTS PROBLEM, ESPECIALLY IN THE LIGHT OF THE IMPACT ON THE DEFICIT OF CAPITAL OUTFLOWS?

President Moorhead read Item III.

As there was some doubt as to just what policies the Board of Governors had in mind when framing the question, it was decided to defer comment and to suggest a discussion with the Board.

In the review of bank policies and practices which followed, it was acknowledged that the balance of payments of the United States could be aided if banks limited their international activities to the short-term financing of exports. On the other hand, the increasing

demand for credit of all types by credit-worthy foreign borrowers and the availability of reserves in the banking system, together with the desire to improve bank earnings have resulted in the expansion of foreign loans of intermediate maturity of the large commercial banks. It was agreed that the interest equalization tax undoubtedly had contributed to this development.

#### ITEM IV

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

President Moorhead read Item IV. A brief discussion followed. It was suggested that the Council's response to a similar item from the April meeting was even more appropriate now than at that time. Accordingly, it was decided to repeat the Council's response in commenting on this item on the Agenda.

#### ITEM V

THE COUNCIL WOULD APPRECIATE DISCUSSING WITH THE BOARD THE RELATIVELY RECENT TECHNIQUES EMPLOYED BY SOME COMMERCIAL BANKS IN AN EFFORT TO OBTAIN FUNDS IN THE MONEY MARKETS. THESE TECHNIQUES INCLUDE NEGOTIABLE CERTIFICATES OF DEPOSIT, SUBORDINATE DEBENTURES, AND MORE RECENTLY THE SALE OF SHORTER-TERM NOTES. THE DISCUSSION WOULD ALSO DEAL WITH REGULATION Q AND PRESENT INTEREST RATE CEILINGS.

President Moorhead read Item V.

In the discussion which followed, it was decided to specifically cite a number of questions that were puzzling the members of the Council and the banking community in general. These include the following:

Will notes eventually be issued for shorter and shorter maturities such as 10 days, five days, one day, or on demand? How small are the denominations likely to be? Will State banks in some States have far greater borrowing power than national banks? How widespread must this development be before it significantly affects monetary policy? Will the use of notes result in an important decline in demand deposits? In negotiable certificates of deposit? In savings deposits? Are Fed funds considered borrowings, thereby limiting the amount of notes a national bank may issue?

Would it be desirable now to consider a change in Regulation Q relative to deposits with a maturity of more than one year?

#### ITEM VI

THE COUNCIL WOULD LIKE TO DISCUSS WITH THE BOARD OF GOVERNORS THE NEW REGULATIONS WITH RESPECT TO " SECURITIES OF MEMBER STATE BANKS" INCLUDING THE "PROPOSED FORM OF REGISTRATION OF SECURITIES OF A BANK."

President Moorhead read Item VI and asked Mr. Day to comment.

Mr. Day reported that the banks in Philadelphia had given a great deal of thought to this item. In addition, the Philadelphia Clearing House Association had prepared a detailed statement which they had forwarded to Mr. Karl Bopp, President of the Federal Reserve Bank of Philadelphia. A copy was furnished to each member of the Council. It was finally concluded that the Council should express its deep concern about the practical implementation of the proposed new regulation and urge that the Board of Governors hold a series of private hearings before the regulations are made effective.

The meeting adjourned at 12:20 P.M.

THE COUNCIL RECONVENED AT 1:00 P.M. ON SEPTEMBER 22, 1934, IN ROOM 1002 OF THE MAYFORD HOTEL, 1000 MARKET ST. (CORNER W. 10TH ST.) PHILADELPHIA, PA. MR. BOPP, PRESIDENT OF THE FEDERAL RESERVE BANK OF PHILADELPHIA, PRESIDING. MR. DAY, CHAIRMAN OF THE COUNCIL, REPORTED ON THE PROCEEDINGS OF THE MEETING HELD ON SEPTEMBER 21, 1934.

The Council discussed the proposed new regulation and the report of Mr. Bopp. It was concluded that the Council should express its deep concern about the practical implementation of the proposed new regulation and urge that the Board of Governors hold a series of private hearings before the regulations are made effective.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M., ON SEPTEMBER 21, 1964. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. JAMES P. HICKOK. MR. HARRY F. HARRINGTON, CHAIRMAN OF THE BOARD, BOATMEN'S NATIONAL BANK OF ST. LOUIS, MISSOURI, ATTENDED AS ALTERNATE FOR MR. HICKOK.

Mr. J. Dewey Daane, Member of the Board of Governors of the Federal Reserve System, reported on the work of the Group of Ten and its recommendations for strengthening the international payments system.

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THE COUNCIL RECONVENED AT 8:30 P.M. ON SEPTEMBER 21, 1964, IN ROOM 1032 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. JAMES P. HICKOK. MR. HARRY F. HARRINGTON, CHAIRMAN OF THE BOARD, BOATMEN'S NATIONAL BANK OF ST. LOUIS, MISSOURI, ATTENDED AS ALTERNATE FOR MR. HICKOK.

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 September 22, 1964. The Memorandum was delivered to the Federal Reserve Building at 10:30 P.M. on September 21, 1964.

The meeting adjourned at 9:25 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS  
FROM THE  
FEDERAL ADVISORY COUNCIL  
RELATIVE TO THE AGENDA FOR THE JOINT MEETING  
ON SEPTEMBER 22, 1964

1. Economic conditions and prospects.
  - A. How does the Council appraise the economic outlook for the next six months, particularly as to its sources of strength and weakness?

The members of the Council believe that business and economic activity in the next six months will continue to expand. The following sources of strength are present:

1. the sustained but comparatively moderate rise in consumer demand as evidenced by retail sales;
2. the absence to date of excessive inventory accumulation;
3. the anticipated outlays by businessmen for plant and equipment; and
4. the maintenance of relatively stable prices.

Among the items of concern are the following:

1. the continuing rapid expansion of credit with the possibility that the quality has deteriorated;
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  3. an acceleration in the rate of inventory accumulation, particularly the stockpiling of steel in anticipation, first, of a possible strike in that industry next May 1, and secondly, of higher prices.
- B. Does the Council believe that recent increases in prices of sensitive raw materials signal the beginnings of a broader and more cumulative price advance?

The Council does not believe that the recent increases in prices of sensitive raw materials necessarily signify the beginnings of a broader and more cumulative price advance although this is more of a possibility now in view of wage-cost developments.

- C. Is factory output beginning to press against "most desired use of capacity" for any industrial corporations with which Council members are familiar? Have Council members noted any tendencies for production bottlenecks to delay or obstruct the consummation of expansion plans of larger industrial companies?

The members of the Council do not believe that output generally is pressing against the "most desired use of capacity." However, in the steel, furniture, and in some areas of the textile industries, for example, output is pressing on capacity and some marginal plants are being brought into use.

2. Banking developments.

- A. What is the Council's judgment regarding the demand for bank loans over the rest of this year?

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- B. Has there been any recent increase in loan demand to finance precautionary inventory accumulation?

Other than perhaps the metal and metal-using industries, the members of the Council have not observed any recent increase in loan demand to finance precautionary inventory accumulation.

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The coming election in Great Britain and the relatively weak coalition government in Italy, for example, are among the uncertainties that may have tended to lessen the flow of funds abroad.

- D. Does the Council have any views as to the possible effects on banks of the recent regulation of the Federal Home Loan Bank Board limiting savings and loan association ownership of individual bank certificates of deposit?

The members of the Council are of the opinion that the recent Federal Home Loan Bank Board regulation limiting the ownership of individual bank certificates of deposit by savings and loan associations will have a comparatively minor effect on banks with the exception of a relatively few banks that have specialized in this type of transaction.

3. What are the Council's opinions as to the appropriateness of recent policies with respect to the U. S. balance of payments? What are the possible contributions of commercial banking practices and policies to the solution of the balance of payments problem, especially in the light of the impact on the deficit of capital outflows?

The Council would welcome the opportunity to discuss with the Board recent policies with respect to the U. S. balance of payments.

The commercial banks might make a contribution to the balance of payments problem if they tended to limit the extension of credit abroad to the short-term financing of exports. However, the increasing demand for credit of all types by credit-worthy foreign borrowers, and the availability of reserves in the banking system, together with the desire to improve bank earnings, have resulted in the expansion of the foreign loans of intermediate maturity of the larger commercial banks. The interest equalization tax undoubtedly contributed to this development in the banking system over the past year.

4. What are the Council's views regarding the appropriateness of recent monetary and credit policy?

At the April meeting with the Board of Governors the Council observed that

" . . . recent monetary and credit policy has been a major factor in the expansion of the economy to its present high level. However, in view of the current volume of business activity, and the anticipated additional stimulation from the tax cut, the possibility of a renewal of wage-cost increases, and the probable pressures on prices, the Council believes that monetary and credit policy should now move gradually in the direction of restraint."

In the light of the continuing expansion of the economy since then, the Council reaffirms this view.

5. The Council would appreciate discussing with the Board the relatively recent techniques employed by some commercial banks in an effort to obtain funds in the money markets. These techniques include negotiable Certificates of Deposit, subordinate debentures, and more recently the sale of shorter-term notes. The discussion would also deal with Regulation Q and present interest rate ceilings.

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6. The Council would like to discuss with the Board of Governors the new regulations with respect to "securities of member State banks" including the "proposed form of registration of securities of a bank."

The members of the Council are deeply concerned about the practical implementation of the proposed new regulation with respect to "securities of member State banks" including the "proposed form of registration of securities of a bank."

The Council feels strongly that the Board of Governors should hold a series of private hearings to consider all aspects of the proposed regulations before they are made effective.

ON SEPTEMBER 22, 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 EXCEPT MR. JAMES P. HICKOK. MR. HARRY F. HARRINGTON, CHAIRMAN OF THE BOARD, BOATMEN'S NATIONAL BANK OF ST. LOUIS, MISSOURI, ATTENDED AS ALTERNATE FOR MR. HICKOK.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS ROBERTSON, SHEPARDSON AND DAANE. MR. SHERMAN, SECRETARY, AND MR. BROIDA, 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 12:25 P.M.

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The next meeting of the Council will be November 16-17, 1964.