

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 16, 1964

The fourth statutory meeting of the Federal Advisory Council for 1964 was convened in Room 932 of the Mayflower Hotel, Washington, D. C. on November 16, 1964 at 9:30 A.M.

Present:

Lawrence H. Martin	District No. 1
George A. Murphy, Alternate	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 Prochnow	Secretary
William J. Korsvik	Assistant Secretary

Absent:

William H. Moore	District No. 2
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On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on September 21-22, 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 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 34, 35, 36 and 37 of these minutes.

The meeting adjourned at 12:25 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 16, 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, George A. Murphy, Alternate for Mr. William H. Moore; Messrs. 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.

Absent: Mr. William H. Moore.

Members of the Board's staff, Division of Research and Statistics, reported on current business and economic conditions.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 16, 1964

At 8:30 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, George A. Murphy, Alternate for Mr. William H. Moore; Messrs. 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.

Absent: Mr. William H. Moore.

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 34, 35, 36 and 37, listing the Agenda items with conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 11:15 P.M. on November 16, 1964.

The meeting adjourned at 10:30 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 NOVEMBER 17, 1964

1. Economic conditions and prospects.

A. What is the general outlook for the U. S. economy over the next six months?

The members of the Council believe that the general outlook for the U. S. economy for the next six months is favorable. Although the expansion has continued for 45 months and gives little evidence of tiring, there are some factors of the economy, such as housing, which are not expanding. Presently, the areas of strength continue to outweigh the weaknesses.

B. What are the views of the Council with respect to the probable impact on the economy of the second stage Federal tax reduction to take place in 1965?

It is unlikely that the second stage of the reduction in Federal taxes to take place in 1965 will have a very marked impact on economic activity. The take-home pay of the nation's wage earners has already been adjusted to the reduced rate. Furthermore, it is generally expected that the taxes withheld from salaries this year will be insufficient to cover accrued tax liabilities. As a result, a considerable number of persons may be obliged to make additional tax payments in April. Finally, the aggregate reduction in taxes on individual incomes in 1965 will be less than that which went into effect last March.

The reduction in taxes on corporate profits, however, should help maintain the rising pattern of after-tax corporate earnings.

C. Have there been significant changes with respect to plant utilization and/or production bottlenecks since the September meeting of the Council, or are there indications of developing problems in these areas?

Although there are some reports of problems in these areas, the members of the Council are not aware of significant changes with respect to plant utilization and/or production bottlenecks since the September meeting of the Council. One problem that

has developed recently is the shortage of employable labor in certain communities. The rising trend in capital investment is tending to lengthen the delivery time of machine tool manufacturers. The automobile strikes have reduced somewhat the demand for steel and the resulting pressure on the mills which appeared to be an area where delivery difficulties might develop.

2. Banking developments.

- A. What is the Council's judgment as to business demands for bank financing during the latter part of 1964 and the first half of 1965?

The members of the Council anticipate that business demands for bank financing during the latter part of 1964 and the first half of 1965 will be somewhat stronger than seasonal. Corporate cash flows may be reduced by the acceleration in tax payments and by some narrowing of profit margins. As a consequence of such developments, together with a probable acceleration in inventory accumulation, the members of the Council anticipate a strengthening in business demands for bank financing.

- B. Is there evidence of increasing use of bank credit to finance precautionary inventory accumulation? Of term loans to finance plant expansion?

The members of the Council have so far seen little or no evidence of an increased use of bank credit to finance precautionary inventory accumulation. While there is a good demand for term loans, there has been no strong upward push to finance plant expansion.

- C. Have the members of the Council noted any changes of more than seasonal proportions in the demand and time balances maintained by their larger corporate customers since midyear?

Demand deposits have increased slightly more than seasonal in recent months, but it is not conclusive that the trend will persist. Furthermore, total time deposits of corporations have also apparently increased more than seasonally. However, some members of the Council report reduced totals of time deposits and no significant gain in demand deposits.

- D. The Board would appreciate the current views of the Council as to prospects for issuance of short-term capital notes to secure loanable funds.

The Council anticipates an expansion in the issuance of short-term notes to secure loanable funds, particularly if interest rates rise above ceilings imposed on time deposits. The growing and continued use of this technique probably will be confined for the present to the larger banks in the major money centers.

3. Are there any changes in banking legislation or regulations that are believed needed at this time in order to promote sounder, more progressive, or more efficient banking operations?

Yes. In recent years there have been a number of exhaustive studies of the banking and credit system which might be used as the basis for considering changes in banking legislation or regulations in order to promote sounder, more progressive and more efficient banking operations.

Among the more immediate problems are (1) a more uniform interpretation of existing statutes and regulations by the bank regulatory agencies, and (2) a review of the administrative procedures of the regulatory agencies which supervise the banks of the nation.

4. The Board would be glad to have the Council's evaluation of the current and prospective U. S. balance of payments problem, particularly the bank credit component.

Although progress has been made in reducing the deficit in the balance of payments and in providing arrangements which afford us time to redress the deficit, the final solution continues to be difficult and elusive. Thus, while the trade surplus has been growing, Government overseas expenditures continue to be the major factor in the balance of payments deficit.

The demand for credit from foreign borrowers is strong and banks are under continuing pressure to accommodate this demand. Most bankers link the bank credit component with world trade and point out that bank loans to foreigners are necessary to finance an expanding volume of international trade. The interest equalization tax has been a factor in the increased volume of foreign bank credit. However, the imposition of the tax on bank credit, without any change in availability, would not necessarily reduce the outflow of capital.

5. Do the Council's views regarding the appropriateness of current monetary and credit policy accord with those expressed in the policy statement adopted by the ABA's 90th Annual Convention? What tendencies in the economy would the Council cite in support of its views in this matter? Specifically.

The volume of excess reserves has been steadily reduced with a gradual lessening of credit ease, which is in accord with the previously expressed views of the Council and we believe with the broad objectives outlined in the policy statement adopted by the ABA 90th Annual Convention.

- A. What evidences, if any, do the members of the Council see of inflationary tendencies developing in the economy?

The members of the Council believe that the trend of recent wage settlements and the negotiations now taking place in the auto industry, as well as those soon to begin in steel, point to growing pressures on costs that may finally be reflected in prices. The recent rises in prices of nonferrous metals and in the spot commodity price index in general are further evidence of some inflationary tendencies.

B. What are the views of the Council as to price prospects for consumer goods, machinery and industrial equipment, and primary materials?

As a consequence of these developments, rises in prices of primary materials seem likely, to be followed by possible increases in prices of machinery, industrial equipment and consumer goods.

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

November 17, 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 and J. Dewey Daane; also Mr. Merritt Sherman, Secretary, and Mr. Karl E. Bakke, Assistant Secretary, of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. John A. Moorhead, President; Messrs. Lawrence H. Martin, George A. Murphy, Alternate for Mr. William H. Moore; Messrs. 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.

Absent: Mr. William H. Moore.

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 34, 35, 36 and 37. An extended discussion followed in which the members of the Council described developments in their respective districts.

The President then read the second item and the Council's conclusions. He added that although the over-all demand for bank financing through the first half of 1965 might be somewhat stronger, the picture differed from one district to another. Thus, in the ninth district, the outlook was for a lessening of demand as compared with the current year.

Mr. Cook also anticipated a reduced demand for business loans in the twelfth district.

Chairman Martin asked whether it would be fair to say that, because of increased competition, the prime rate was being tendered to a wider range of borrowers. Several members thought this was true, citing in particular the noticeable movement of mortgage rates toward the prime rate level.

In response to a query from Chairman Martin on inventory accumulation, several members indicated they expected a build-up in inventories as a hedge against anticipated price increases.

Governor Mills inquired if banks were beginning to rethink their credit policies, in view of the fact that purchasers of a bank's certificates of deposit who were geographically more remote from the bank were generally inclined to feel less loyalty to the institution than the bank's local customers. Several members said that this appeared to be the case. Accordingly a difficult situation was developing for a number of banks who had relied heavily on certificates of deposit as a source of loanable funds.

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

After an extended discussion, Chairman Martin expressed appreciation for the frank observations made by the Council members concerning problem areas of the Board's supervisory responsibilities and activities. He added that the Board would be delighted to receive further views from the Council.

The President then read the fourth and fifth items and the conclusions of the Council. A brief discussion followed.

The meeting adjourned at 2:30 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

H.V.P.
W.J.K.

The Secretary's notes of the meeting of the Federal Advisory Council on November 16, 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 except Mr. William H. Moore. Mr. George A. Murphy, Chairman of the Board of Directors, Irving Trust Company, New York City, attended as an alternate for Mr. Moore.

The Council approved the Secretary's notes for the meeting of September 21-22, 1964.

ITEM I

ECONOMIC CONDITIONS AND PROSPECTS.

- A. WHAT IS THE GENERAL OUTLOOK FOR THE U. S. ECONOMY OVER THE NEXT SIX MONTHS?
- B. WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROBABLE IMPACT ON THE ECONOMY OF THE SECOND STAGE FEDERAL TAX REDUCTION TO TAKE PLACE IN 1965?
- C. HAVE THERE BEEN SIGNIFICANT CHANGES WITH RESPECT TO PLANT UTILIZATION AND/OR PRODUCTION BOTTLENECKS SINCE THE SEPTEMBER MEETING OF THE COUNCIL, OR ARE THERE INDICATIONS OF DEVELOPING PROBLEMS IN THESE AREAS?

President Moorhead read Item I and invited members of the Council to comment. An extended discussion followed during which the members indicated that they believed the general outlook for the U. S. economy for the next six months is favorable. Aside from the decline in housing, few mentioned any indicators that were not showing strength.

There was general agreement that the second stage of the reduction in federal taxes to take place in 1965 will not have a marked impact on economic activity. The take-home pay of the nation's wage earners has already been adjusted to the reduced rate. Furthermore, there have been reports that the taxes withheld from salaries this year will be insufficient to cover accrued tax liabilities. As a result, some persons may be obliged to make additional tax payments in April. This will be offset to some extent by those persons whose salaries are not subject to withholding. The reduction in taxes on corporate profits, however, will contribute to after-tax corporate earnings.

The members of the Council stated that they were not aware of any significant change with respect to plant utilization and/or production bottlenecks since the September meeting. Several reported a shortage

of employable labor in their communities. In addition, the delivery time of machine tool manufacturers is tending to lengthen. On the other hand, the automobile strikes have reduced somewhat the pressure on the steel mills where it was anticipated delivery difficulties might develop.

ITEM II

BANKING DEVELOPMENTS.

- A. WHAT IS THE COUNCIL'S JUDGMENT AS TO BUSINESS DEMANDS FOR BANK FINANCING DURING THE LATTER PART OF 1964 AND THE FIRST HALF OF 1965?
- B. IS THERE EVIDENCE OF INCREASING USE OF BANK CREDIT TO FINANCE PRECAUTIONARY INVENTORY ACCUMULATION? OF TERM LOANS TO FINANCE PLANT EXPANSION?
- C. HAVE THE MEMBERS OF THE COUNCIL NOTED ANY CHANGES OF MORE THAN SEASONAL PROPORTIONS IN THE DEMAND AND TIME BALANCES MAINTAINED BY THEIR LARGER CORPORATE CUSTOMERS SINCE MIDYEAR?
- D. THE BOARD WOULD APPRECIATE THE CURRENT VIEWS OF THE COUNCIL AS TO THE PROSPECTS FOR ISSUANCE OF SHORT-TERM CAPITAL NOTES TO SECURE LOANABLE FUNDS.

President Moorhead read Item II. In the brief discussion which followed, the members stated that they anticipate that business demands for bank financing during the latter part of 1964 and the first half of 1965 will be somewhat stronger than seasonal. They attributed this to the probable reduction in cash flows as the result of the acceleration in tax payments and by some narrowing of profit margins. A possible acceleration in inventory accumulation also would contribute to this increased demand for bank financing. To date, however, the members have seen little or no evidence of an increased use of bank credit to finance precautionary inventory accumulation. While a good demand for term loans is in evidence, there appears to be no widespread strong upward push for such funds to finance plant expansion.

The members of the Council have noted a slight increase in demand deposits. Total time deposits of corporations also have increased, though not uniformly across the country. The discussion also disclosed that the members of the Council anticipate an expansion in the issuance of short-term notes to secure loanable funds. Several members emphasized that this would be particularly true if interest rates rise above the ceiling imposed on time deposits. For the present, however, it is expected that the growing use of this technique will be confined to the larger banks in the major money centers.

ITEM III

ARE THERE ANY CHANGES IN BANKING LEGISLATION OR REGULATIONS THAT ARE BELIEVED NEEDED AT THIS TIME IN ORDER TO PROMOTE SOUNDER, MORE PROGRESSIVE, OR MORE EFFICIENT BANKING OPERATIONS?

President Moorhead read Item III. An extended discussion followed.

It was observed that the problem was exceedingly complex and that a solution would require considerable thought and time. Several members suggested that the Council have a special session with the Board of Governors to be devoted to a discussion of this topic. It was noted that numerous recommendations and proposals have resulted from the many exhaustive studies of banking and the credit system that had been made in recent years.

Among the more immediate problems mentioned by members of the Council were the need for a more uniform interpretation of existing statutes and regulations by the bank regulatory authorities and a review of the administrative procedures of the regulatory agencies which supervise the banks of the nation.

ITEM IV

THE BOARD WOULD BE GLAD TO HAVE THE COUNCIL'S EVALUATION OF THE CURRENT AND PROSPECTIVE U. S. BALANCE OF PAYMENTS PROBLEM, PARTICULARLY THE BANK CREDIT COMPONENT.

President Moorhead read Item IV. In the brief discussion which followed it was acknowledged that although some progress had been made in reducing the deficit, the final solution continues to be illusive. Government overseas expenditures, for example, are still very substantial. The demand for credit from foreign borrowers is strong and banks are under continuing pressure to accommodate this demand. Much of the short-term credit extended by banks is essential to the financing of foreign trade, and in particular, the export volume of the United States. It thus contributes receipts to our balance of payments. Several members emphasized that it was the availability of funds in the United States that attracted foreign borrowers. The imposition of the interest equalization tax probably would not be an effective deterrent as even with the tax, interest rates here are lower than in most countries abroad.

ITEM V

DO THE COUNCIL'S VIEWS REGARDING THE APPROPRIATENESS OF CURRENT MONETARY AND CREDIT POLICY ACCORD WITH THOSE EXPRESSED IN THE POLICY STATEMENT ADOPTED BY THE ABA'S 90TH ANNUAL CONVENTION? WHAT TENDENCIES IN THE ECONOMY WOULD THE COUNCIL CITE IN SUPPORT OF ITS VIEWS IN THIS MATTER? SPECIFICALLY,

- A. WHAT EVIDENCES, IF ANY, DO THE MEMBERS OF THE COUNCIL SEE OF INFLATIONARY TENDENCIES DEVELOPING IN THE ECONOMY?
- B. WHAT ARE THE VIEWS OF THE COUNCIL AS TO PRICE PROSPECTS FOR CONSUMER GOODS, MACHINERY AND INDUSTRIAL EQUIPMENT, AND PRIMARY MATERIALS?

President Moorhead read Item V. The Council observed that the monetary authorities had been pursuing a somewhat less easy credit policy for several weeks and that a negative free reserve figure had been reported a week or so ago. The Council concluded, therefore, that credit policy is in accord with the previously expressed views of the Council and with the broad objectives of the policy statement

adopted by the ABA at the 90th Annual Convention. The members of the Council continue to believe that the trend of recent wage settlements and the negotiations now taking place in auto industries, as well as those soon to begin in steel, point to growing pressures on costs that finally may be reflected in prices.

The meeting adjourned at 12:25 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. AT 2:30 P.M., ON NOVEMBER 16, 1964. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. WILLIAM H. MOORE, MR. GEORGE A. MURPHY, CHAIRMAN OF THE BOARD OF DIRECTORS, IRVING TRUST COMPANY, NEW YORK CITY, ATTENDED AS AN ALTERNATE.

Members of the Board's staff, Division of Research and Statistics, reported on current business and economic conditions.

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THE COUNCIL RECONVENED AT 8:30 P.M. ON NOVEMBER 16, 1964, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. WILLIAM H. MOORE. MR. GEORGE A. MURPHY, CHAIRMAN OF THE BOARD OF DIRECTORS, IRVING TRUST COMPANY, NEW YORK CITY, ATTENDED AS AN ALTERNATE.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on November 17, 1964. The Memorandum was delivered to the Federal Reserve Building at 11:15 P.M. on November 16, 1964.

The meeting adjourned at 10:30 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON NOVEMBER 17, 1964

1. Economic conditions and prospects.

A. What is the general outlook for the U. S. economy over the next six months?

The members of the Council believe that the general outlook for the U. S. economy for the next six months is favorable. Although the expansion has continued for 45 months and gives little evidence of tiring, there are some factors of the economy, such as housing, which are not expanding. Presently, the areas of strength continue to outweigh the weaknesses.

B. What are the views of the Council with respect to the probable impact on the economy of the second stage Federal tax reduction to take place in 1965?

It is unlikely that the second stage of the reduction in Federal taxes to take place in 1965 will have a very marked impact on economic activity. The take-home pay of the nation's wage earners has already been adjusted to the reduced rate. Furthermore, it is generally expected that the taxes withheld from salaries this year will be insufficient to cover accrued tax liabilities. As a result, a considerable number of persons may be obliged to make additional tax payments in April. Finally, the aggregate reduction in taxes on individual incomes in 1965 will be less than that which went into effect last March.

The reduction in taxes on corporate profits, however, should help maintain the rising pattern of after-tax corporate earnings.

C. Have there been significant changes with respect to plant utilization and/or production bottlenecks since the September meeting of the Council, or are there indications of developing problems in these areas?

Although there are some reports of problems in these areas, the members of the Council are not aware of significant

changes with respect to plant utilization and/or production bottlenecks since the September meeting of the Council. One problem that has developed recently is the shortage of employable labor in certain communities. The rising trend in capital investment is tending to lengthen the delivery time of machine tool manufacturers. The automobile strikes have reduced somewhat the demand for steel and the resulting pressure on the mills which appeared to be an area where delivery difficulties might develop.

2. Banking developments.

- A. What is the Council's judgment as to business demands for bank financing during the latter part of 1964 and the first half of 1965?

The members of the Council anticipate that business demands for bank financing during the latter part of 1964 and the first half of 1965 will be somewhat stronger than seasonal. Corporate cash flows may be reduced by the acceleration in tax payments and by some narrowing of profit margins. As a consequence of such developments, together with a probable acceleration in inventory accumulation, the members of the Council anticipate a strengthening in business demands for bank financing.

- B. Is there evidence of increasing use of bank credit to finance precautionary inventory accumulation? Of term loans to finance plant expansion?

The members of the Council have so far seen little or no evidence of an increased use of bank credit to finance precautionary inventory accumulation. While there is a good demand for term loans, there has been no strong upward push to finance plant expansion.

- C. Have the members of the Council noted any changes of more than seasonal proportions in the demand and time balances maintained by their larger corporate customers since midyear?

Demand deposits have increased slightly more than seasonal in recent months, but it is not conclusive that the trend will persist. Furthermore, total time deposits of corporations have also apparently increased more than seasonally. However, some members of the Council report reduced totals of time deposits and no significant gain in demand deposits.

- D. The Board would appreciate the current views of the Council as to prospects for issuance of short-term capital notes to secure loanable funds.

The Council anticipates an expansion in the issuance of short-term notes to secure loanable funds, particularly if interest rates rise above ceilings imposed on time deposits. The growing and continued use of this technique probably will be confined for the present to the larger banks in the major money centers.

3. Are there any changes in banking legislation or regulations that are believed needed at this time in order to promote sounder, more progressive, or more efficient banking operations?

Yes. In recent years there have been a number of exhaustive studies of the banking and credit system which might be used as the basis for considering changes in banking legislation or regulations in order to promote sounder, more progressive and more efficient banking operations.

Among the more immediate problems are (1) a more uniform interpretation of existing statutes and regulations by the bank regulatory agencies, and (2) a review of the administrative procedures of the regulatory agencies which supervise the banks of the nation.

4. The Board would be glad to have the Council's evaluation of the current and prospective U. S. balance of payments problem, particularly the bank credit component.

Although progress has been made in reducing the deficit in the balance of payments and in providing arrangements which afford us time to redress the deficit, the final solution continues to be difficult and elusive. Thus, while the trade surplus has been growing, Government overseas expenditures continue to be the major factor in the balance of payments deficit.

The demand for credit from foreign borrowers is strong and banks are under continuing pressure to accommodate this demand. Most bankers link the bank credit component with world trade and point out that bank loans to foreigners are necessary to finance an expanding volume of international trade. The interest

equalization tax has been a factor in the increased volume of foreign bank credit. However, the imposition of the tax on bank credit, without any change in availability, would not necessarily reduce the outflow of capital.

5. Do the Council's views regarding the appropriateness of current monetary and credit policy accord with those expressed in the policy statement adopted by the ABA's 90th Annual Convention? What tendencies in the economy would the Council cite in support of its views in this matter? Specifically.

The volume of excess reserves has been steadily reduced with a gradual lessening of credit ease, which is in accord with the previously expressed views of the Council and we believe with the broad objectives outlined in the policy statement adopted by the ABA 90th Annual Convention.

- A. What evidences, if any, do the members of the Council see of inflationary tendencies developing in the economy?

The members of the Council believe that the trend of recent wage settlements and the negotiations now taking place in the auto industry, as well as those soon to begin in steel, point to growing pressures on costs that may finally be reflected in prices. The recent rises in prices of nonferrous metals and in the spot commodity price index in general are further evidence of some inflationary tendencies.

- B. What are the views of the Council as to price prospects for consumer goods, machinery and industrial equipment, and primary materials?

As a consequence of these developments, rises in prices of primary materials seem likely, to be followed by possible increases in prices of machinery, industrial equipment and consumer goods.

ON NOVEMBER 17, 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. WILLIAM H. MOORE. MR. GEORGE A. MURPHY, CHAIRMAN OF THE BOARD OF DIRECTORS, IRVING TRUST COMPANY, NEW YORK CITY, ATTENDED AS AN ALTERNATE.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS ROBERTSON, MILLS AND DAANE. MR. SHERMAN, SECRETARY, AND MR. BAKKE, 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.

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The next meeting of the Council will be February 15-16, 1965.

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Following the luncheon with Chairman Martin, the Council reconvened in the Chairman's dining room in the Federal Reserve Building, Washington, D. C. At the luncheon, Chairman Martin had outlined informally his philosophy of the role of the central bank including a review of its relationship with the other supervisory agencies. He emphasized that it would be very helpful to have the Council's suggestions as to changes in statutes and regulations that it believed would contribute to sounder, more progressive and more efficient banking operations.

After some discussion, it was agreed that the members of the Council would study the matter and attempt to formulate specific suggestions. These suggestions might be discussed by the Council at its February meeting. It was proposed that the members who have suggestions might wish to submit them to President Moorhead.

The meeting adjourned at 2:30 P.M.

H.V.P.
W.J.K.