

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
1965

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL

February 15-16, 1965

May 17-18, 1965

September 20-21, 1965

October 4, 1965

November 15-16, 1965

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 15, 1965

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1965

OFFICERS:

President, John A. Moorhead
Vice President, Lawrence H. Martin
Director, L. A. Stoner
Director, Edward B. Smith
Director, Ransom M. Cook
Secretary, Herbert V. Prochnow
Assistant Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

John A. Moorhead
Lawrence H. Martin
L. A. Stoner
Edward B. Smith
Ransom M. Cook

MEMBERS:

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
Sam M. Fleming	District No. 6
Edward B. Smith	District No. 7
James P. Hickok	District No. 8
John A. Moorhead	District No. 9
Roger D. Knight, Jr.	District No. 10
James W. Aston	District No. 11
Ransom M. Cook	District No. 12

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 15, 1965

The first and organizational meeting of the Federal Advisory Council for the year 1965 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on February 15, 1965, at 9:30 A.M.

Present:

Lawrence H. Martin	District No. 1
William H. Moore	District No. 2
Howard C. Petersen, Alternate	District No. 3
L. A. Stoner	District No. 4
Sam M. Fleming	District No. 6
Edward B. Smith	District No. 7
James P. Hickok	District No. 8
John A. Moorhead	District No. 9
Roger D. Knight, Jr.	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:

William L. Day	District No. 3
John F. Watlington, Jr.	District No. 5

Mr. John A. Moorhead was elected Chairman *pro tem* and Mr. Herbert V. Prochnow 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 1965.

The following officers were nominated and unanimously elected:

John A. Moorhead, President
Lawrence H. Martin, Vice President
L. A. Stoner, Director
Edward B. Smith, Director
Ransom M. Cook, 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 1964, which has been audited by Mr. Donald O. Noren, Assistant 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 17-18, 1964, April 22-23, 1964, September 21-22, 1964, November 16-17, 1964, and the mimeographed notes of the meeting held November 16-17, 1964, 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 1965 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 7, 8, 9 and 10.

The meeting adjourned at 12:15 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 15, 1965

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, Howard C. Petersen, Alternate for Mr. William L. Day; Messrs. L. A. Stoner, John F. Watlington, Jr., Sam M. Fleming, Edward B. Smith, James P. Hickok, Roger D. Knight, Jr., James W. Aston, and Ransom M. Cook.

Absent: Mr. William L. Day.

Members of the Board's staff gave an audio-visual presentation on domestic, and international economic developments. An outline of the statement was sent to each member of the Council.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

February 15, 1965

At 9:45 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, Howard C. Petersen, Alternate for Mr. William L. Day; Messrs. L. A. Stoner, John F. Watlington, Jr., Sam M. Fleming, Edward B. Smith, James P. Hickok, Roger D. Knight, Jr., James W. Aston, Ransom M. Cook, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. William L. Day.

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 7, 8, 9 and 10, listing the Agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 11:50 P.M. on February 15, 1965.

The meeting adjourned at 11:10 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 16, 1965

1. Economic conditions and prospects.
 - A. How does the Council appraise the general outlook for U.S. economy over the next several months, particularly in the event of an early steel settlement?

The Council believes the general outlook for the U.S. economy over the next several months is favorable. Business activity currently is at a high level, stimulated in part by the stockpiling of steel as users attempt to hedge against the possibility of a steel strike. In the event of an early steel settlement, which now appears more doubtful, the pace of economic activity probably would slow somewhat.

- B. What importance is attached to an excise tax reduction as a stimulative factor?

A reduction in excise taxes would give some stimulus to the economy, but it is not generally regarded as an important factor. On the other hand, there is little or no comparable experience on which to base such a judgment.

- C. Do Council members have information, based on current demand for bank credit, on further inventory build-up in steel and autos? Are there indications that inventory accumulation is spreading to other industries and projects?

The strong, contraseasonal demand for bank credit suggests an inventory build-up, particularly of steel and autos. Although there is no satisfactory statistical information on inventory build-up by industry, apart from the growing volume of corporate cash flows, the rise in bank loans indicates a possibility that stockpiling may be spreading to products other than steel and autos.

- D. What is the current trend in demand for residential mortgage money?

The demand for residential mortgage money is not strong in relation to the supply of long-term funds, and rates are tending to soften.

- E. What are the prospects for continuing the broad stability in commodity prices that has existed for several years?

The members of the Council believe that the broad stability in commodity prices that has existed for several years may now be subject to increasing upward pressure.

2. Banking developments.

- A. What is the present situation in the market for negotiable certificates of deposit and short-term unsecured notes? Is volume likely to increase, decline, or remain about stable in the months ahead?

There continues to be a good market for negotiable certificates of deposit. Not only is there a considerable volume of funds, but the commercial banks aggressively seek such business. The volume of certificates of deposit will continue to grow, but some members of the Council believe there may be a tendency to shift these funds to the larger institutions in the money centers. The volume of notes is likely to increase in the months ahead, particularly if the New York State law is amended, permitting the New York City banks to issue such notes. The volume of both certificates of deposit and notes may increase further if the flow of corporate funds abroad is curtailed.

- B. Are the 1963 and 1964 rates of growth of total time and savings deposits (14.7 and 12.6 per cent) likely to continue in 1965?

Preliminary figures suggest that the rate of growth of savings deposits will continue in 1965. The rate of growth of time deposits will depend on the aggressiveness of banks in seeking these funds which will be largely determined by the strength of loan demand.

- C. At the end of 1964, the loan-deposit ratio at New York City banks passed 70 per cent, for all banks the ratio was estimated at about 61 per cent. What is likely to happen to loan-deposit ratios in the months ahead? Will this limit bank loan expansion importantly?

The members of the Council believe that some further rise in loan-deposit ratios may occur in the months ahead. It is doubtful that this will limit bank loan expansion significantly in the immediate future. Banks which have a strong loan demand will attempt to obtain funds by bidding for certificates of deposit and notes.

- D. Commercial bank loans to foreigners probably amounted to almost \$2 billion in 1964 – an increase of over 25 per cent. Is continuation of this rate of increase in prospect?

The members of the Council believe that the recent high rate of increase in commercial bank loans to foreigners will not continue in the months ahead, especially in view of the current program of the Administration.

3. Does the Council care to express any views with regard to the Board's Regulation F, Securities of Member State Banks, which was issued effective January 1, 1965?

The members of the Council believe that revisions of Regulation F, which became effective January 1, 1965, have been helpful. It is hoped that there will be a continued open-mindedness in interpretation and a willingness to make changes that may be necessary for the efficient and effective administration of the Regulation.

4. How has the business and financial community reacted to recent U.S. balance of payments developments?
5. What are the Council's views on monetary and credit policy under current circumstances?

The Council believes that the failure to redress the deficit in our balance of payments has caused increasing concern in the business and financial community. There is a growing conviction that this problem is of such importance to the continuing welfare of our economy and to this nation's leadership in the world that a comprehensive program of action is imperative.

A voluntary program to restrain temporarily the outflow of capital from the United States is to be commended and will undoubtedly be helpful. The business and financial community will unquestionably cooperate in supporting the program. However, in the judgment of the members of the Council, the problem is of such magnitude that a broader approach is required for its solution. This would include such factors as the following:

- 1) a further reduction in U.S. economic and military aid overseas;
- 2) an easing of barriers tending to discourage the repatriation of earnings overseas;
- 3) a voluntary program to restrict capital outflows temporarily (capital outflows into foreign investments are the source of substantial overseas earnings and any program for their curtailment should be temporary);

- 4) a continuation and expansion of the program to encourage exports; and
- 5) a continuation of efforts to keep wages and other costs within productivity gains;
- 6) a reduction in the availability of credit.

The Council believes that monetary and credit policy have contributed significantly to economic expansion. However, recent international developments require a somewhat more restrictive credit policy. The availability of credit has encouraged financial institutions to make substantial loans abroad.

The Council believes that it is possible to make less credit available without an increase in interest rates. Nevertheless, if the deficit in the balance of payments still persists, a rise in the structure of interest rates may be necessary. Economic activity at present is so strong and at such a high level that some lessening in credit availability and a modest increase in interest rates would have little or no effect on the expansion.

The measures which may be necessary to redress the deficit in the balance of payments involve difficult choices. However, the economic well-being of the nation requires a willingness to make these choices.

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

February 16, 1965

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 George W. Mitchell; also Mr. Merritt Sherman, Secretary, and Mr. Kenneth A. Kenyon, Assistant Secretary, of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. John A. Moorhead, President; Messrs. Lawrence H. Martin, William H. Moore, Howard C. Petersen, Alternate for Mr. William L. Day; Messrs. L. A. Stoner, John F. Watlington, Jr., Sam M. Fleming, Edward B. Smith, James P. Hickok, Roger D. Knight, Jr., James W. Aston, Ransom M. Cook, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

Absent: Mr. William L. Day.

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 7, 8, 9 and 10 of these minutes.

He added that while there was some difference of opinion as to the extent of steel stockpiling, there was little disagreement on the general economic outlook. In response to a query on the prospects for continued commodity price stability, President Moorhead reported that many Council members saw evidence of upward pressure on prices.

The President then read the second item and the conclusions of the Council. In the discussion which followed, Mr. Petersen added that the increasing use of long-term debt instruments by banks may have some limiting effect on the growth of negotiable certificates of deposit.

President Moorhead read the third item and the conclusions of the Council. A brief discussion followed.

Governor Robertson added that it was planned not to permit deviation from a uniform policy by having interpretations made by individual reserve banks. Instead, he continued, interpretations would be issued from the Board on a uniform basis.

The President then read the fourth and fifth items on the Agenda and the Council's conclusions. An extended discussion ensued in which most members of the Board and the Council participated.

Chairman Martin asked for the Council's assistance in implementing the voluntary credit restraint program which the Administration had recently proposed. He added that no rules had been formulated as yet. The goal, however, was clear; to reduce the outflow of spending, lending and investing.

In response to a question from Chairman Martin, the members of the Council stated that they did not feel that monetary and credit policy should be easier. On the contrary, they unanimously indicated they favored a slightly less easy credit policy.

The meeting adjourned at 12:20 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 15, 1965, at 9:30 A.M. in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present except Messrs. William L. Day and John F. Watlington, Jr. Mr. Howard C. Petersen, President, Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, attended as an Alternate for Mr. Day. Mr. Watlington was delayed because the airport at Winston-Salem was fogged in.

The Secretary provided each member with a list of all the members of the Council for the year 1965, officially elected in accordance with communications received from the Federal Reserve banks.

Mr. John A. Moorhead was elected Chairman pro tem and Mr. Herbert V. Prochnow was elected Secretary pro tem.

The following officers were nominated and unanimously elected:

John A. Moorhead, President
Lawrence H. Martin, Vice President
L. A. Stoner, Director
Edward B. Smith, Director
Ransom M. Cook, 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 1964, which had been audited by Mr. Don O. Noren, Assistant 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 1965.

The by-laws were approved. The Council approved the Secretary's notes for the meeting of November 16-17, 1964. The printed minutes for all of the 1964 meetings of the Council, copies of which had been sent previously to the members, also were approved.

ITEM I

ECONOMIC CONDITIONS AND PROSPECTS.

- A. HOW DOES THE COUNCIL APPRAISE THE GENERAL OUTLOOK FOR U. S. ECONOMY OVER THE NEXT SEVERAL MONTHS, PARTICULARLY IN THE EVENT OF AN EARLY STEEL SETTLEMENT?
- B. WHAT IMPORTANCE IS ATTACHED TO AN EXCISE TAX REDUCTION AS A STIMULATIVE FACTOR?
- C. DO COUNCIL MEMBERS HAVE INFORMATION, BASED ON CURRENT DEMAND FOR BANK CREDIT, ON FURTHER INVENTORY BUILD-UP IN STEEL AND AUTOS? ARE THERE INDICATIONS THAT INVENTORY ACCUMULATION IS SPREADING TO OTHER INDUSTRIES AND PRODUCTS?
- D. WHAT IS THE CURRENT TREND IN DEMAND FOR RESIDENTIAL MORTGAGE MONEY?
- E. WHAT ARE THE PROSPECTS FOR CONTINUING THE BROAD STABILITY IN COMMODITY PRICES THAT HAS EXISTED FOR SEVERAL YEARS?

President Moorhead read Item I on the Agenda and invited the members of the Council to comment. An extended discussion followed which disclosed wide agreement that the general outlook for the U. S. economy for the months ahead was favorable. Several members acknowledged that there was some accumulation of steel inventories but that this was not a particularly significant factor. However, there was some feeling that an early steel settlement probably would slow the pace of economic activity. Most members did not regard the reduction in excise taxes as a particular important stimulating factor. Although several members stated that it was difficult to relate specific bank loans with inventory accumulation, there was some acknowledgment that the strong contra-seasonal behavior of bank loans suggested some inventory build-up. This factor, together with the growing volume of corporate cash flows, indicated a possibility that stockpiling might be spreading to products other than steel and autos. It was reported that the demand for residential mortgage money was not strong in relation to the supply of funds available and that rates were tending to soften. There also was fairly wide agreement among the members of the Council that the broad stability in commodity prices that has existed for several years may now be subject to increasing upward pressure.

ITEM II

BANKING DEVELOPMENTS.

- A. WHAT IS THE PRESENT SITUATION IN THE MARKET FOR NEGOTIABLE CERTIFICATES OF DEPOSIT AND SHORT-TERM UNSECURED NOTES? IS VOLUME LIKELY TO INCREASE, DECLINE, OR REMAIN ABOUT STABLE IN THE MONTHS AHEAD?
- B. ARE THE 1963 AND 1964 RATES OF GROWTH OF TOTAL TIME AND SAVINGS DEPOSITS (14.7 AND 12.6 PER CENT) LIKELY TO CONTINUE IN 1965?

- C. AT THE END OF 1964, THE LOAN-DEPOSIT RATIO AT NEW YORK CITY BANKS PASSED 70 PER CENT; FOR ALL BANKS THE RATIO WAS ESTIMATED AT ABOUT 61 PER CENT. WHAT IS LIKELY TO HAPPEN TO LOAN-DEPOSIT RATIOS IN THE MONTHS AHEAD? WILL THIS LIMIT BANK LOAN EXPANSION IMPORTANTLY?
- D. COMMERCIAL BANK LOANS TO FOREIGNERS PROBABLY AMOUNTED TO ALMOST \$2 BILLION IN 1964 -- AN INCREASE OF OVER 25 PER CENT. IS CONTINUATION OF THIS RATE OF INCREASE IN PROSPECT?

President Moorhead read Item II. A brief discussion followed. There were indications that there continues to be a good market for negotiable certificates of deposit. Funds are plentiful and the major banks in the money centers are aggressively seeking such business. A number of members indicated that they believed there is a tendency for these funds to move to the larger institutions in the money centers. It was also acknowledged that the volume of notes would increase in the months ahead if the New York State law is amended, permitting New York banks to issue such notes. Several members said they thought the volume of both certificates of deposit and notes would increase if the flow of corporate funds abroad is curtailed.

Although the situation differed somewhat from district to district, the Council thought the rate of growth in 1965 of other time deposits probably would not be as strong as in the previous two years, as some bankers might be more conservative in bidding for these funds. In addition, it was noted that the rise would be from a larger base. The aggressiveness of banks in seeking such balances will be influenced considerably by the strength of loan demand.

The discussion indicated that despite the present levels of loan-deposit ratios, some further rise was likely in the months ahead. The Council doubted that this would limit loan expansion significantly for banks which experience a strong loan demand will attempt to obtain funds by bidding for certificates of deposit and notes. In view of the recently announced program of the Administration, the Council did not believe that the high rate of increase in commercial bank loans to foreigners would continue in the months ahead.

ITEM III

DOES THE COUNCIL CARE TO EXPRESS ANY VIEWS WITH REGARD TO THE BOARD'S REGULATION F, SECURITIES OF MEMBER STATE BANKS, WHICH WAS ISSUED EFFECTIVE JANUARY 1, 1965?

President Moorhead read Item III. A brief discussion followed in which a number of members indicated that the recent revisions in Regulation F had been helpful. They were hopeful that there will be a continued open-mindedness in interpretation and a willingness to make what further changes may be necessary to the efficient administration of the Regulation.

ITEM IV

HOW HAS THE BUSINESS AND FINANCIAL COMMUNITY REACTED TO RECENT
U. S. BALANCE OF PAYMENTS DEVELOPMENTS?

ITEM V

WHAT ARE THE COUNCIL'S VIEWS ON MONETARY AND CREDIT POLICY UNDER
CURRENT CIRCUMSTANCES?

President Moorhead then read Items IV and V.

An extended discussion followed in which it was strongly urged that the Council's statement should indicate the increasing concern in the business community about the failure to redress the deficit in our balance of payments. There was a strong feeling that the problem is of such importance that a comprehensive program of action was imperative. This would include not only the voluntary program to restrain temporarily the outflow of capital, but, in addition, should include the following:

- 1) a further reduction in U. S. economic and military aid overseas;
- 2) an easing of barriers tending to discourage the repatriation of earnings overseas;
- 3) a continuation and expansion of the program to encourage exports; and
- 4) a continuation of efforts to keep wages and other costs within productivity gains;
- 5) a reduction in the availability of credit.

The members of the Council decided to emphasize the view that the situation required a somewhat more restrictive credit policy and, if necessary, a rise in the structure of interest rates. The Council acknowledged that the measures necessary to redress the deficit involved difficult choices but that the seriousness of the problem required a willingness to make these choices.

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President Moorhead then recalled the item on the Agenda of the November meeting which asked for the Council's judgment on changes in banking legislation or regulations that might contribute to a sounder, more progressive or more efficient banking system. He also read the following reply of the Council which was submitted to the Board in November:

"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."

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A brief discussion ensued. Several members expressed the view that while they were somewhat disturbed by the differences that existed between the supervisory agencies, they did not favor the consolidation of these activities and responsibilities into one agency.

President Moorhead then read the following statement regarding the Council's procedures:

"From time to time there has been discussion about the joint meetings of the Federal Advisory Council and the Board of Governors of the Federal Reserve System. The individual members of the Board of Governors at various times have repeatedly emphasized that the material which is most helpful to them is the intuitive, individual judgments of the members of the Federal Advisory Council on the various items listed on the Agenda. These judgments, by and large, are unique to them because of the positions they occupy as the chief executive officers of major banks in their communities. These positions make them not only leaders in the community at large but in particular in the financial affairs of the principal businesses and corporations in their areas. Thus, as a result of the role of the members of the Council, in the financial affairs of their communities, they come to have a 'reading', so to speak, of the attitudes, frustrations, plans and, in turn, judgments of many persons of influence. It is this type of information that the Board can obtain nowhere else.

"The Board of Governors probably has the most technically competent economic staff in the United States. They also have access through this staff, as well as through the staffs of the regional Federal Reserve banks, of the most up-to-date statistical information. What they do not have is knowledge of the current attitude of the business and financial community. Only the members of the Council can provide this information.

"In preparing replies to the items on the Agenda, the members of the Council may wish to discuss the business and financial situation in their communities in an effort to expand their individual experience. Presumably this would not necessitate the reproduction and broad distribution of the entire Agenda and subsequently the Council's conclusions and the minutes of the joint meeting with the Board of Governors."

The meeting adjourned at 12:15 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M. ON FEBRUARY 15, 1965. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. WILLIAM L. DAY. MR. HOWARD C. PETERSEN ATTENDED AS ALTERNATE FOR MR. DAY.

Members of the Board's staff gave an audio-visual presentation on domestic, international and economic developments. An outline of the presentation is to be furnished to the members of the Council by the Board's staff.

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THE COUNCIL RECONVENED AT 9:45 P.M. ON FEBRUARY 15, 1965, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. WILLIAM L. DAY. MR. HOWARD C. PETERSEN ATTENDED AS ALTERNATE FOR MR. DAY.

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 16, 1965. The Memorandum was delivered to the Federal Reserve Building at 11:50 P.M. on February 15, 1965.

The meeting adjourned at 11:10 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 16, 1965

1. Economic conditions and prospects.

- A. How does the Council appraise the general outlook for U.S. economy over the next several months, particularly in the event of an early steel settlement?

The Council believes the general outlook for the U.S. economy over the next several months is favorable. Business activity currently is at a high level, stimulated in part by the stockpiling of steel as users attempt to hedge against the possibility of a steel strike. In the event of an early steel settlement, which now appears more doubtful, the pace of economic activity probably would slow somewhat.

- B. What importance is attached to an excise tax reduction as a stimulative factor?

A reduction in excise taxes would give some stimulus to the economy, but it is not generally regarded as an important factor. On the other hand, there is little or no comparable experience on which to base such a judgment.

- C. Do Council members have information, based on current demand for bank credit, on further inventory build-up in steel and autos? Are there indications that inventory accumulation is spreading to other industries and projects?

The strong, contraseasonal demand for bank credit suggests an inventory build-up, particularly of steel and autos. Although there is no satisfactory statistical information on inventory build-up by industry, apart from the growing volume of corporate cash flows, the rise in bank loans indicates a possibility that stockpiling may be spreading to products other than steel and autos.

- D. What is the current trend in demand for residential mortgage money?

The demand for residential mortgage money is not strong in relation to the supply of long-term funds, and rates are tending to soften.

- E. What are the prospects for continuing the broad stability in commodity prices that has existed for several years?

The members of the Council believe that the broad stability in commodity prices that has existed for several years may now be subject to increasing upward pressure.

2. Banking developments.

- A. What is the present situation in the market for negotiable certificates of deposit and short-term unsecured notes? Is volume likely to increase, decline, or remain about stable in the months ahead?

There continues to be a good market for negotiable certificates of deposit. Not only is there a considerable volume of funds, but the commercial banks aggressively seek such business. The volume of certificates of deposit will continue to grow, but some members of the Council believe there may be a tendency to shift these funds to the larger institutions in the money centers. The volume of notes is likely to increase in the months ahead, particularly if the New York State law is amended, permitting the New York City banks to issue such notes. The volume of both certificates of deposit and notes may increase further if the flow of corporate funds abroad is curtailed.

- B. Are the 1963 and 1964 rates of growth of total time and savings deposits (14.7 and 12.6 per cent) likely to continue in 1965?

Preliminary figures suggest that the rate of growth of savings deposits will continue in 1965. The rate of growth of time deposits will depend on the aggressiveness of banks in seeking these funds which will be largely determined by the strength of loan demand.

- C. At the end of 1964, the loan-deposit ratio at New York City banks passed 70 per cent for all banks the ratio was estimated at about 61 per cent. What is likely to happen to loan-deposit ratios in the months ahead? Will this limit bank loan expansion importantly?

The members of the Council believe that some further rise in loan-deposit ratios may occur in the months ahead. It is doubtful that this will limit bank loan expansion significantly in the immediate future. Banks which have a strong loan demand will attempt to obtain funds by bidding for certificates of deposit and notes.

- D. Commercial bank loans to foreigners probably amounted to almost \$2 billion in 1964--an increase of over 25 per cent. Is continuation of this rate of increase in prospect?

The members of the Council ~~do~~ believe that the recent high rate of increase in commercial bank loans to foreigners will not continue in the months ahead, especially in view of the current program of the Administration.

3. Does the Council care to express any views with regard to the Board's Regulation F, Securities of Member State Banks, which was issued effective January 1, 1965?

The members of the Council believe that revisions of Regulation F, which became effective January 1, 1965, have been helpful. It is hoped that there will be a continued open-mindedness in interpretation and a willingness to make changes that may be necessary for the efficient and effective administration of the Regulation.

4. How has the business and financial community reacted to recent U.S. balance of payments developments?
5. What are the Council's views on monetary and credit policy under current circumstances?

The Council believes that the failure to redress the deficit in our balance of payments has caused increasing concern in the business and financial community. There is a growing conviction that this problem is of such importance to the continuing welfare of our economy and to this nation's leadership in the world that a comprehensive program of action is imperative.

A voluntary program to restrain temporarily the outflow of capital from the United States is to be commended and will undoubtedly be helpful. The business and financial community will unquestionably cooperate in supporting the program. However, in the judgment of the members of the Council, the problem is of such

magnitude that a broader approach is required for its solution. This would include such factors as the following:

- 1) a further reduction in U.S. economic and military aid overseas;
- 2) an easing of barriers tending to discourage the repatriation of earnings overseas;
- 3) a voluntary program to restrict capital outflows temporarily (capital outflows into foreign investments are the source of substantial overseas earnings and any program for their curtailment should be temporary);
- 4) a continuation and expansion of the program to encourage exports; and
- 5) a continuation of efforts to keep wages and other costs within productivity gains;
- 6) a reduction in the availability of credit.

The Council believes that monetary and credit policy have contributed significantly to economic expansion. However, recent international developments require a somewhat more restrictive credit policy. The availability of credit has encouraged financial institutions to make substantial loans abroad.

The Council believes that it is possible to make less credit available without an increase in interest rates. Nevertheless, if the deficit in the balance of payments still persists, a rise in the structure of interest rates may be necessary. Economic activity at present is so strong and at such a high level that some lessening in credit availability and a modest increase in interest rates would have little or no effect on the expansion.

The measures which may be necessary to redress the deficit in the balance of payments involve difficult choices. However, the economic well-being of the nation requires a willingness to make these choices.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 16, 1965

1. Economic conditions and prospects.

- A. How does the Council appraise the general outlook for U.S. economy over the next several months, particularly in the event of an early steel settlement?

The Council believes the general outlook for the U.S. economy over the next several months is favorable. Business activity currently is at a high level, stimulated in part by the stockpiling of steel as users attempt to hedge against the possibility of a steel strike. In the event of an early steel settlement, which now appears more doubtful, the pace of economic activity probably would slow somewhat.

- B. What importance is attached to an excise tax reduction as a stimulative factor?

A reduction in excise taxes would give some stimulus to the economy, but it is not generally regarded as an important factor. On the other hand, there is little or no comparable experience on which to base such a judgment.

- C. Do Council members have information, based on current demand for bank credit, on further inventory build-up in steel and autos? Are there indications that inventory accumulation is spreading to other industries and projects?

The strong, contraseasonal demand for bank credit suggests an inventory build-up, particularly of steel and autos. Although there is no satisfactory statistical information on inventory build-up by industry, apart from the growing volume of corporate cash flows, the rise in bank loans indicates a possibility that stockpiling may be spreading to products other than steel and autos.

- D. What is the current trend in demand for residential mortgage money?

The demand for residential mortgage money is not strong in relation to the supply of long-term funds, and rates are tending to soften.

- E. What are the prospects for continuing the broad stability in commodity prices that has existed for several years?

The members of the Council believe that the broad stability in commodity prices that has existed for several years may now be subject to increasing upward pressure.

2. Banking developments.

- A. What is the present situation in the market for negotiable certificates of deposit and short-term unsecured notes? Is volume likely to increase, decline, or remain about stable in the months ahead?

There continues to be a good market for negotiable certificates of deposit. Not only is there a considerable volume of funds, but the commercial banks aggressively seek such business. The volume of certificates of deposit will continue to grow, but some members of the Council believe there may be a tendency to shift these funds to the larger institutions in the money centers. The volume of notes is likely to increase in the months ahead, particularly if the New York State law is amended, permitting the New York City banks to issue such notes. The volume of both certificates of deposit and notes may increase further if the flow of corporate funds abroad is curtailed.

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- C. At the end of 1964, the loan-deposit ratio at New York City banks passed 70 per cent for all banks the ratio was estimated at about 61 per cent. What is likely to happen to loan-deposit ratios in the months ahead? Will this limit bank loan expansion importantly?

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A voluntary program to restrain temporarily the outflow of capital from the United States is to be commended and will undoubtedly be helpful. The business and financial community will unquestionably cooperate in supporting the program. However, in the judgment of the members of the Council, the problem is of such

magnitude that a broader approach is required for its solution. This would include such factors as the following:

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- 4) a continuation and expansion of the program to encourage exports; and
- 5) a continuation of efforts to keep wages and other costs within productivity gains;
- 6) a reduction in the availability of credit.

The Council believes that monetary and credit policy have contributed significantly to economic expansion. However, recent international developments require a somewhat more restrictive credit policy. The availability of credit has encouraged financial institutions to make substantial loans abroad.

The Council believes that it is possible to make less credit available without an increase in interest rates. Nevertheless, if the deficit in the balance of payments still persists, a rise in the structure of interest rates may be necessary. Economic activity at present is so strong and at such a high level that some lessening in credit availability and a modest increase in interest rates would have little or no effect on the expansion.

The measures which may be necessary to redress the deficit in the balance of payments involve difficult choices. However, the economic well-being of the nation requires a willingness to make these choices.

ON FEBRUARY 16, 1965, 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 L. DAY. MR. HOWARD C. PETERSEN ATTENDED AS ALTERNATE FOR MR. DAY.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS MILLS, ROBERTSON, SHEPARDSON AND MITCHELL. MR. SHERMAN, SECRETARY, AND MR. KENYON, ASSISTANT SECRETARY, OF THE BOARD OF GOVERNORS ALSO WERE PRESENT.

The minutes of the joint meeting are being prepared in the office of the Secretary of the Board of Governors of the Federal Reserve System. Their 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 12:20 P.M.

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The next meeting of the Council will be held on May 17-18, 1965.