

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 15, 1965

The fourth statutory meeting of the Federal Advisory Council for 1965 was convened in the Board Room of The Madison, Washington, D.C. on November 15, 1965, 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
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

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on September 21-22, 1965, 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 32, 33, and 34 of these minutes.

The meeting adjourned at 12:30 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

November 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, William L. Day, L. A. Stoner, John F. Watlington, Jr., Edward B. Smith, James P. Hickok, Roger D. Knight, Jr., James W. Aston and Ransom M. Cook.

Absent: Mr. Sam M. Fleming

Members of the Board's staff participated in an audio-visual presentation on domestic and international business conditions.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

November 15, 1965

At 8:10 P.M., the Federal Advisory Council reconvened in the Board Room of The Madison, 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., 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. Sam M. Fleming.

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 32, 33 and 34, listing the Agenda items with conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 10:15 P.M. on November 15, 1965.

The meeting adjourned at 9:05 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 16, 1965

1. Economic conditions and prospects:

- A. How does the Council appraise prospects for the U.S. economy during the remainder of this year and the first part of 1966?

The Council anticipates that the U.S. economy during the remainder of this year and the first part of 1966 will continue favorable. Businessmen, investors and consumers appear to be generally optimistic. Employment, incomes, production, sales and profits are at high levels. With the exception of steel, plant capacity in major industries is at, or is approaching, optimum utilization levels. There is also increasing evidence of labor shortages, especially of skilled workers.

- B. What are the Council's expectations with respect to business fixed capital outlays in 1966? Is it anticipated that over-capacity will result in any important industries?

The members of the Council expect that business fixed capital outlays in 1966 will be higher than they were this year, although the percentage increase may be less in 1966 than in 1965. The Council sees no evidence at present that capital outlays in 1966 will result in over-capacity in any important industries.

- C. Does the Council anticipate that price increases will continue to be selective in character or become more general?

The Council believes that price increases will continue to be selective in character, although such increases are likely to become more widespread and include a greater number of products and services.

- D. How are business expectations being reflected in inventory policies?

Despite the rather optimistic expectations that prevail in the business community, additions to inventories do not appear excessive in relation to sales. However, the present high inventory totals assume a continuation of current sales trends.

- E. What are the prospects for business profits in 1966? If changes from this year's experience are foreseen, are they likely to be significant from the standpoint of need for outside capital and credit and from the standpoint of their effect on the course of business investments?

The Council anticipates that the increase in business profits in 1966 will be less than in 1965. This change, together with the decline in corporate liquidity, indicates an increased need for outside capital and credit to finance the anticipated investment spending. It is doubtful that the expected change in profits will have any marked impact on the course of business investment.

2. Banking developments.

- A. What does the Council anticipate as to year-end business demands for bank credit in relation to usual seasonal needs?

Most members of the Council expect that year-end business demands for bank credit will be somewhat above the usual seasonal pattern.

- B. To what extent have selected increases occurred in rates charged to various classes of business loan customers, and have there been other significant changes in loan terms? How have customers reacted to such increases; for example, have plans to finance in the longer-term capital markets been accelerated?

The Council believes that the increases in the interest rate on business loans to various borrowers have been highly selective and practically negligible in their effect. Although other changes in loan terms have not been significant, there is some limited indication of an increased tendency to finance in the longer-term capital markets.

- C. How have recent developments affected the ability of banks to attract funds in the CD market or through the issuance of short-term promissory notes?

As a result of recent developments, banks have been obliged to pay higher rates and generally to shorten maturities on CDs and short-term promissory notes in an attempt to attract the funds necessary to meet their borrowing customers' requirements. Banks are now finding it difficult to replace maturing CDs or to attract new funds at ceiling rates established by Regulation Q.

- D. How does the Council evaluate the recent slow-down in bank acquisition of municipals?

The demand for funds by business borrowers has been so strong that banks have been obliged to reduce their acquisition of municipal obligations.

3. Balance of payments.

- A. How does the Council appraise the strength of foreign demand for U.S. bank funds?

In the Council's judgment, foreign demand for U.S. bank funds is strong and exceeds the available supply. As the voluntary restraint program continues, the pent-up demand probably will increase.

- B. Have the Council's views on the effectiveness of the voluntary foreign credit restraint program changed materially since the Council met with the Board in September?

The Council believes that the voluntary foreign credit restraint program continues to be a helpful temporary measure and that there has been no lessening in its effectiveness since the Council met with the Board in September.

- C. Are there any changes that the Council would recommend in the details of the voluntary restraint program for banks in 1966?

If it becomes imperative that the voluntary restraint program for banks must be continued in 1966, the Council would urge that the base, or the allowable percentage, or both, be raised in the long-term interests of the economy.

4. What are the Council's views on monetary and credit policy under current circumstances?

The productive resources of the nation – plant, equipment, labor force, and capital – are approaching maximum utilization. In these circumstances, an expansion of bank credit at the rate that has prevailed in the recent past will tend to bring about increasingly upward pressure on prices without a commensurate increase in production.

The Council therefore wishes to reaffirm the following statement from its September Memorandum:

“The Council is concerned with the increasing evidence of the development of inflationary pressures, the continued strong demand for bank loans with the reliance on CDs to meet this demand, and the underlying difficulties with the balance of payments. Consequently, we believe the Board should be prepared to move in the direction of further restraint including a tightening of reserves and an increase in the discount rate.”

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

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

Present: Members of the Federal Advisory Council:

Mr. John A. Moorhead, President; Messrs. Lawrence H. Martin, William H. Moore, William L. Day, L. A. Stoner, John F. Watlington, Jr., 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.

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 32, 33 and 34. A brief Discussion followed.

President Moorhead then read the second item of the Agenda and the Council's conclusions.

Governor Mitchell inquired whether there appeared to be a significant amount of anticipatory borrowing from banks. There was no uniformity in the replies from the members of the Council, the responses differing from district to district.

The President of the Council then read the third item and the conclusions of the Council. There followed some discussion on the possible impact of the restraint program on the volume of U.S. exports.

Chairman Martin reported that the Federal Reserve had been diligent in following up cases where it was alleged that the voluntary program may have had a detrimental effect. To date there was no evidence indicating that exports had been adversely affected.

The fourth item and the conclusions of the Council were then read by President Moorhead. An extended discussion followed in which there was wide participation by the members of the Board and the Council.

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 November 15, 1965, at 9:30 A.M. in the Board Room of The Madison, Washington, D. C. All members of the Federal Advisory Council were present.

The Council approved the Secretary's notes for the meeting of September 21-22, 1965. It was suggested, however, that the printed minutes for the year include a notation that the Council met informally in Chicago on October 4, 1965 during the ABA Convention. The discussion at the meeting was limited to a review of monetary policy developments.

A dinner meeting at the White House on October 5, 1965, at which a number of members of the Council were present, was reviewed. Mr. Martin briefly outlined the statement he made at the dinner. Messrs. Watlington, Day and Stoner, who also were present at the dinner, commented briefly.

ITEM I

ECONOMIC CONDITIONS AND PROSPECTS

- A. HOW DOES THE COUNCIL APPRAISE PROSPECTS FOR THE U. S. ECONOMY DURING THE REMAINDER OF THIS YEAR AND THE FIRST PART OF 1966?
- B. WHAT ARE THE COUNCIL'S EXPECTATIONS WITH RESPECT TO BUSINESS FIXED CAPITAL OUTLAYS IN 1966? IS IT ANTICIPATED THAT OVER-CAPACITY WILL RESULT IN ANY IMPORTANT INDUSTRIES?
- C. DOES THE COUNCIL ANTICIPATE THAT PRICE INCREASES WILL CONTINUE TO BE SELECTIVE IN CHARACTER OR BECOME MORE GENERAL?
- D. HOW ARE BUSINESS EXPECTATIONS BEING REFLECTED IN INVENTORY POLICIES?
- E. WHAT ARE THE PROSPECTS FOR BUSINESS PROFITS IN 1966? IF CHANGES FROM THIS YEAR'S EXPERIENCE ARE FORESEEN, ARE THEY LIKELY TO BE SIGNIFICANT FROM THE STANDPOINT OF NEED FOR OUTSIDE CAPITAL AND CREDIT AND FROM THE STANDPOINT OF THEIR EFFECT ON THE COURSE OF BUSINESS INVESTMENT?

President Moorhead read Item I. An extended discussion followed in which all members of the Council participated. There was unanimous agreement that the U. S. economy during the remainder of this year and

the first part of 1966 will continue favorably. Businessmen, investors and consumers are generally optimistic, with employment, incomes, production, sales, and profits at high levels. A number of members cited the fact that output in many industries is approaching optimum utilization levels. There were several references to the increasingly tight labor situation and to the shortages of skilled workers.

The members of the Council expect that the fixed capital outlays in 1966 will rise further, though the increase may be less than this year. There is no evidence at present that capital outlays in 1966 will result in over-capacity in any important industry. While the members of the Council expect price increases to continue to be selective in character, they anticipate that such increases will become more widespread and include a greater number of products and services. Inventories, it was reported, do not appear excessive in relation to sales. Several members cautioned, however, that this could change quickly if the rising sales trend should slow. The Council expects business profits in 1966 to increase less than in 1965. This development, together with the decline in corporate liquidity, indicates an increased need for outside capital and credit to finance investment spending. The anticipated change in profits, however, is not likely to have a marked impact on business investment.

ITEM II

BANKING DEVELOPMENTS

- A. WHAT DOES THE COUNCIL ANTICIPATE AS TO YEAR-END BUSINESS DEMANDS FOR BANK CREDIT IN RELATION TO USUAL SEASONAL NEEDS?
 - B. TO WHAT EXTENT HAVE SELECTED INCREASES OCCURRED IN RATES CHARGED TO VARIOUS CLASSES OF BUSINESS LOAN CUSTOMERS, AND HAVE THERE BEEN OTHER SIGNIFICANT CHANGES IN LOAN TERMS? HOW HAVE CUSTOMERS REACTED TO SUCH INCREASES: FOR EXAMPLE, HAVE PLANS TO FINANCE IN THE LONGER-TERM CAPITAL MARKETS BEEN ACCELERATED?
 - C. HOW HAVE RECENT DEVELOPMENTS AFFECTED THE ABILITY OF BANKS TO ATTRACT FUNDS IN THE C/D MARKET OR THROUGH THE ISSUANCE OF SHORT-TERM PROMISSORY NOTES?
 - D. HOW DOES THE COUNCIL EVALUATE THE RECENT SLOWDOWN IN BANK ACQUISITION OF MUNICIPALS?
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President Moorhead then read Item II and invited comments from the Council members.

Most members expect that year-end demands for bank credit will be somewhat above the usual seasonal pattern. There was some comment, however, which indicated that loan demand may not be as strong in some districts and that business loans may have already reached their peak for the year. There followed an extended discussion on the recent attempt to increase interest rates on business loans on a selective basis. It was concluded that these were practically negligible in

their effect. Other changes in loan terms have not been significant, although some members felt that there were limited indications of an increased tendency to finance in the longer-term capital markets. A discussion of the experience of banks with C/D's disclosed that higher rates have been offered and maturities generally have been shortened. It was reported that banks are now finding it difficult to replace maturing C/D's or to attract new funds at the ceiling rates established by Regulation Q. Because of the strong demand for funds by business borrowers, banks have been obliged to reduce their acquisition of municipal obligations.

ITEM III

BALANCE OF PAYMENTS

- A. HOW DOES THE COUNCIL APPRAISE THE STRENGTH OF FOREIGN DEMAND FOR U. S. BANK FUNDS?
- B. HAVE THE COUNCIL'S VIEWS ON THE EFFECTIVENESS OF THE VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM CHANGED MATERIALLY SINCE THE COUNCIL MET WITH THE BOARD IN SEPTEMBER?
- C. ARE THERE ANY CHANGES THAT THE COUNCIL WOULD RECOMMEND IN THE DETAILS OF THE VOLUNTARY RESTRAINT PROGRAM FOR BANKS IN 1966?

President Moorhead read Item III. In the discussion which followed, there was general agreement that the foreign demand for U. S. bank funds is strong and exceeds the available supply. Several members said they expected the demand to become more intense as the voluntary restraint program continues in force. The members also believe that there has been no lessening on the effectiveness of the program in recent months. It was agreed to suggest that if the program must be continued in 1966, that the base or the allowable percentage be raised in the long-term interest of the economy.

ITEM IV

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

The President then read Item IV and an extended discussion followed. There was general agreement that the productive resources of the nation are approaching maximum utilization. In these circumstances, it seems prudent to slow the rate of bank credit expansion. Failure to do so probably will result in increased upward pressure on prices. The Council accordingly concluded that it would reaffirm the following statement which it made in response to a similar item at the September meeting:

"The Council is concerned with the increasing evidence of the development of inflationary pressures, the continued strong demand for bank loans with the reliance on C/D's to meet this demand, and the underlying difficulties with the balance of payments. Consequently, we believe the Board should be prepared to move in the direction of further restraint including a tightening of reserves and an increase in the discount rate."

The meeting adjourned at 12:30 P.M.

THE COUNCIL HELD
A MEETING AT 10:00 A.M.
ON MONDAY, APRIL 14, 1955

The Council prepared a
Memorandum to the Board on the
subject of the "July meeting of
August 12, 1955. The memorandum
was prepared by the Reserve Building at 10:00 A.M.

The meeting adjourned at 12:30 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M., ON NOVEMBER 15, 1965. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. FLEMING WHO HAD TO LEAVE IN ORDER TO ATTEND A SPECIAL SEARS ROEBUCK BOARD OF DIRECTORS MEETING IN ATLANTA.

Members of the Board's staff participated in an audio-visual presentation on domestic and international business conditions. An outline of the presentation is being prepared by the staff for distribution to the members of the Council.

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THE COUNCIL RECONVENED AT 8:10 P.M. ON NOVEMBER 15, 1965, IN THE BOARD ROOM OF THE MADISON. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. FLEMING.

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 16, 1965. The Memorandum was delivered to the Federal Reserve Building at 10:15 P.M. on November 15, 1965.

The meeting adjourned at 9:05 P.M.

CONFIDENTIAL

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

1. Economic conditions and prospects:

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- B. What are the Council's expectations with respect to business fixed capital outlays in 1966? Is it anticipated that over-capacity will result in any important industries?

The members of the Council expect that business fixed capital outlays in 1966 will be higher than they were this year, although the percentage increase may be less in 1966 than in 1965. The Council sees no evidence at present that capital outlays in 1966 will result in over-capacity in any important industries.

- C. Does the Council anticipate that price increases will continue to be selective in character or become more general?

The Council believes that price increases will continue to be selective in character, although such increases are likely to become more widespread and include a greater number of products and services.

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- D. How does the Council evaluate the recent slow-down in bank acquisition of municipals?

The demand for funds by business borrowers has been so strong that banks have been obliged to reduce their acquisition of municipal obligations.

3. Balance of payments.

- A. How does the Council appraise the strength of foreign demand for U.S. bank funds?

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- B. Have the Council's views on the effectiveness of the voluntary foreign credit restraint program changed materially since the Council met with the Board in September?

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4. What are the Council's views on monetary and credit policy under current circumstances?

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ON NOVEMBER 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.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS MITCHELL, DAANE AND MAISEL. 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 12:25 P.M.

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The next meeting of the Council will be held February 14-15, 1966. It also was agreed that the following meeting will be held on June 20-21, 1966.