

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
1966

February 14-15, 1966

June 20-21, 1966

September 19-20, 1966

November 14-15, 1966

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 14, 1966

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1966

OFFICERS:

President, John A. Moorhead
Vice President, Ransom M. Cook
Director, William L. Day
Director, John F. Watlington, Jr.
Director, Sam M. Fleming
Secretary, Herbert V. Prochnow
Assistant Secretary, William J. Korsvik

EXECUTIVE COMMITTEE:

John A. Moorhead
Ransom M. Cook
William L. Day
John F. Watlington, Jr.
Sam M. Fleming

MEMBERS:

John Simmen	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
Henry T. Bodman	District No. 7
A. M. Brinkley, Jr.	District No. 8
John A. Moorhead	District No. 9
Roger D. Knight, Jr.	District No. 10
Robert H. Stewart, III	District No. 11
Ransom M. Cook	District No. 12

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1966

The first and organizational meeting of the Federal Advisory Council for the year 1966 was convened in the Board Room of The Madison, Washington, D.C., on February 14, 1966, at 9:30 A.M.

Present:

John Simmen	District No. 1
William H. Moore	District No. 2
Howard C. Petersen, Alternate	District No. 3
L. A. Stoner	District No. 4
John F. Watlington, Jr.	District No. 5
Sam M. Fleming	District No. 6
Henry T. Bodman	District No. 7
A. M. Brinkley, Jr.	District No. 8
John A. Moorhead	District No. 9
Roger D. Knight, Jr.	District No. 10
Robert H. Stewart, III	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
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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 1966.

The following officers were nominated and unanimously elected:

John A. Moorhead, President
Ransom M. Cook, Vice President
William L. Day, Director
John F. Watlington, Jr., Director
Sam M. Fleming, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion, duly made and seconded, the Council approved the by-laws, copies of which are a part of these minutes.

The Secretary presented his financial report for the year 1965, 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 15-16, 1965, May 17-18, 1965, September 20-21, 1965, October 4, 1965, November 15-16, 1965, and the mimeographed notes of the meeting held November 15-16, 1965, 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 1966 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, and 9.

The meeting adjourned at 12:50 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1966

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. John Simmen, William H. Moore, Howard C. Petersen, Alternate for Mr. William L. Day; Messrs. L. A. Stoner, John F. Watlington, Jr., Sam M. Fleming, Henry T. Bodman, A. M. Brinkley, Jr., Roger D. Knight, Jr., Robert H. Stewart, III, and Ransom M. Cook.

Absent: Mr. William L. Day.

Members of the Board's staff, including Albert R. Koch, Deputy Director, Division of Research and Statistics, and A. B. Hersey, Advisor, Division of International Finance, gave an audio-visual presentation on domestic and international economic developments.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

February 14, 1966

At 5:30 p.m., the Federal Advisory Council reconvened in the Board Room of The Madison, Washington, D. C.

Present: Mr. John A. Moorhead, President; Messrs. John Simmen, William H. Moore, Howard C. Petersen, Alternate for Mr. William L. Day; Messrs. L. A. Stoner, John F. Watlington, Jr., Sam M. Fleming, Henry T. Bodman, A. M. Brinkley, Jr., Roger D. Knight, Jr., Robert H. Stewart, III, 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, and 9 listing the Agenda items and the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 10:25 P. M. on February 14, 1966.

The meeting adjourned at 6:50 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 15, 1966

1. Economic conditions and prospects.
 - A. How does the Council appraise prospects for economic activity and for industrial prices during the first half of 1966?

The Council anticipates a further rise in the level of economic activity during the first half of 1966. This will reflect 1) a larger volume of consumer spending as incomes continue upward; 2) an expansion in capital investment as businessmen strive to accommodate growing demands; 3) an increase in outlays by State and local governments; and 4) a growth in expenditures by the Federal Government for domestic programs and for military needs in Southeast Asia. As these aggregate demands are likely to tax the productive resources of the U.S. economy, upward pressures on industrial prices seem certain to intensify.

- B. Have Council members observed any significant changes in business plans for additions to capacity or to inventories in response to the generally more buoyant expectations now prevalent?

Though it is difficult accurately to appraise and quantify the change in business plans, the members of the Council believe that businessmen generally are attempting to enlarge and modernize capacity as rapidly as possible. In general, inventories appear to be reasonably well balanced. However, because of rising order backlogs and lengthening delivery schedules, businessmen may seek to build inventories more aggressively.

2. Banking developments.
 - A. What does the Council anticipate as to near-term business demands for bank credit in relation to usual seasonal needs? Is it anticipated that an unusually large proportion of these demands will be in the form of term loans?

The Council anticipates strong near-term business demands for bank credit in excess of the usual seasonal needs. These demands are expected to cover all types of business borrowings including term loans. There is some evidence that the tightness of credit in the major money centers is tending to shift loans to banks in other areas.

- B. How much tightening of bank lending policies has taken place since last fall? To what extent has such tightening extended to reductions in amounts of loans granted or to actual turndowns or deferrals of loan applications?

Most members of the Council report a moderate tightening of bank lending policies since last fall. The continued growth of bank reserves tended to lessen the pressure to restrain bank credit expansion. By and large, the tightening of credit is occurring on a selective basis and some loans are being turned down.

- C. How have recent developments affected the ability and willingness of banks to attract funds in the CD market?

Recent developments have caused banks in the major money centers to be even more aggressive in seeking funds in the CD market. This competition for funds has forced rates higher in the last sixty days. Despite the level of rates, the total outstanding has grown only moderately. Moreover, as many suppliers of these funds anticipate a further rise in interest rates, they presently are reluctant to place them in CDs with long maturities.

- D. Do members of the Council have any comments regarding the proposed amendments to Regulations D and Q announced by the Board on January 20, 1966, that would in effect define "deposits" for the purpose of those regulations as including promissory notes and certain other forms of indebtedness of member banks?

The Council appreciates the problems which are involved in the issuance of promissory notes especially of very short maturity. The many aspects of this matter preclude adequate discussion within the limitations of this memorandum. Members of the Council may express their views orally or communicate in writing with the Board.

3. Balance of payments.

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

The Council believes there is evidence of increasing strength of foreign demand for U. S. bank funds. This demand is likely to grow stronger the longer the voluntary foreign credit restraint program continues in force.

- 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 November?

In the Council's judgment, the effectiveness of the voluntary foreign credit restraint program has not changed materially since the Council met with the Board in November. However, the program is effective only as a temporary measure and not a solution to the basic problem.

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

In the last ninety days, the resources of the nation have neared maximum utilization. Despite continuing additions to plant capacity, output is pressing on capacity in many important industries, and there are increasing reports of tight labor situations, particularly of skilled workers. These developments reflect also the nation's growing involvement in Southeast Asia. As a consequence, aggregate demands are taxing the nation's productive capabilities with accelerating inflationary pressures. Unless there is a willingness to risk a serious inflation, or the imposition of controls, aggregate demands must be moderated. To accomplish this objective and thus lessen the threat to price stability, the Council believes that monetary policy must be employed. To be specific, the availability of reserves should be gradually reduced to more modest proportions through open market operations. In all likelihood it may also be necessary to increase the discount rate again.

The Council recognizes that monetary policy alone may not be adequate to meet present economic pressures. Fiscal policy involving a reduction in governmental expenditures is required, and an eventual increase in tax rates may also be necessary.

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

February 15, 1966

At 10:30 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Wm. McC Martin, Jr.; Vice Chairman C. Canby Balderston; Governors J. L. Robertson, Chas. N. Shepardson, 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. John Simmen, William H. Moore, Howard C. Petersen, Alternate for Mr. William L. Day; Messrs. L. A. Stoner, John F. Watlington, Jr., Sam M. Fleming, Henry T. Bodman, A. M. Brinkley, Jr., Roger D. Knight, Jr., Robert H. Stewart, III, 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, and 9 of these minutes.

In the brief discussion which followed, several members of the Council emphasized the possibility of further price rises during the year and that this could generate pressure for the accumulation of larger inventories.

The President then read the second item and the conclusions of the Council. An extended discussion followed in which the members of the Council described developments in their particular districts.

Chairman Martin said he understood that some corporate borrowers were seeking term money from commercial banks rather than entering the capital market. Several members of the Council said they thought there was some term borrowing as a hedge against the possibility of higher interest rates and a rationing of credit. Chairman Martin reported that some observers have suggested that it would be wise for the banking agencies to issue a statement in an effort to slow the rapid expansion of bank loans. He added that it had always been the Board's position that bank supervision should not be used as a substitute for monetary policy. He added, however, that the question had arisen whether there might not be some purpose in a general statement calling for prudence and selectivity in making loans.

President Moorhead read the third item and the conclusions of the Council. In the brief discussion which followed, hope was expressed that the increasing restrictiveness of monetary policy to deal with the domestic situation could have some considerable effect on the balance of payments by inducing a substantial influx of foreign capital.

The President then read the fourth item on the Agenda and the Council's conclusions. A long discussion followed which included comment on the possible use of guidelines in an effort to curb loan expansion.

Governor Maisel observed that various types of loans, ordinarily considered useful, such as those to build inventories, were not necessarily useful at the moment. During the discussion mention was made of the possible use of the selective control of consumer credit. The members of the Council indicated they would not favor such action at this time.

At the conclusion of the discussion of the fourth item on the Agenda, Governor Robertson inquired about the absorption of exchange charges and asked for the Council's reaction to the possibility of altering the Board's position so that the absorption of exchange charges would no longer be regarded as a payment of interest on demand deposits.

Several members of the Council strongly stated that they were unalterably opposed to such a change.

The meeting adjourned at 12:15 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 14, 1966, at 9:30 A.M. in the Board Room of The Madison, Washington, D.C. All members of the Federal Advisory Council were present except Mr. William L. Day. Mr. Howard C. Petersen, President, Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, attended as an Alternate for Mr. Day.

The Secretary provided each member with a list of all the members of the Council for the year 1966, 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
Ransom M. Cook, Vice President
William L. Day, Director
John F. Watlington, Jr., Director
Sam M. Fleming, Director
Herbert V. Prochnow, Secretary
William J. Korsvik, Assistant Secretary

On motion duly made and seconded, the salary of the Secretary was fixed at \$5,000 annually, and that of the Assistant Secretary at \$3,000 annually.

The Secretary presented the financial report for the year 1965, 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 \$1,000 upon each Federal Reserve bank for the secretarial and incidental expenses of the Federal Advisory Council for the year 1966.

The by-laws were approved. The Council approved the Secretary's notes for the meeting of November 15-16, 1965. The printed minutes for all of the 1965 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 PROSPECTS FOR ECONOMIC ACTIVITY AND FOR INDUSTRIAL PRICES DURING THE FIRST HALF OF 1966?
- B. HAVE COUNCIL MEMBERS OBSERVED ANY SIGNIFICANT CHANGES IN BUSINESS PLANS FOR ADDITIONS TO CAPACITY OR TO INVENTORIES IN RESPONSE TO THE GENERALLY MORE BUOYANT EXPECTATIONS NOW PREVALENT?

President Moorhead read Item I A and B and invited the members of the Council to report on economic conditions and prospects in their districts.

An extended discussion followed which disclosed wide agreement that the level of economic activity would rise further during the first half of 1966. This will reflect 1) a larger volume of consumer spending as incomes continue upward; 2) an expansion in capital investment as businessmen strive to accommodate growing demands; 3) an increase in outlays by state and local governments; and 4) a growth in expenditures by the federal government for domestic programs and for military needs in Southeast Asia. As a result of these developments, the members of the Council anticipate that aggregate demands will tax the productive resources of the economy and that upward pressures on industrial prices will intensify.

Although the members of the Council had little specific documentation of changes in business plans, they are under the impression that businessmen are attempting to enlarge and modernize capacity as rapidly as possible. Moreover, it is believed that inventories are reasonably well balanced. However, because of rising order backlogs and lengthening delivery schedules, businessmen may seek to build inventories more aggressively.

ITEM II A

BANKING DEVELOPMENTS.

- A. WHAT DOES THE COUNCIL ANTICIPATE AS TO NEAR-TERM BUSINESS DEMANDS FOR BANK CREDIT IN RELATION TO USUAL SEASONAL NEEDS? IS IT ANTICIPATED THAT AN UNUSUALLY LARGE PROPORTION OF THESE DEMANDS WILL BE IN THE FORM OF TERM LOANS?

President Moorhead then read Item II A.

The discussion which followed indicated that the members anticipate strong near-term business demands for bank credit which will exceed the usual seasonal needs. These demands are expected to cover all types of business borrowings including term loans. The discussion also disclosed that the tightness of credit in the major money centers is tending to shift loan demand to banks in other areas.

ITEM II B

- B. HOW MUCH TIGHTENING OF BANK LENDING POLICIES HAS TAKEN PLACE SINCE LAST FALL? TO WHAT EXTENT HAS SUCH TIGHTENING EXTENDED TO REDUCTIONS IN AMOUNTS OF LOANS GRANTED OR TO ACTUAL TURN-DOWNS OR DEFERRALS OF LOAN APPLICATIONS?

President Moorhead then read Item II B and invited comment from the members.

An extended discussion followed. Some members indicated that there had been a moderate tightening of lending policies since last fall though the pressure to restrain bank credit expansion was lessened because of the continued growth of bank reserves. One or two members expressed doubts that lending policies have tightened appreciably. Others strongly contended, however, that loan applications which previously would have received favorable consideration are now being rejected.

ITEM II C

- C. HOW HAVE RECENT DEVELOPMENTS AFFECTED THE ABILITY AND WILLINGNESS OF BANKS TO ATTRACT FUNDS IN THE C/D MARKET?

The President of the Council read Item II C.

The discussion disclosed that banks in the major money centers are bidding aggressively for funds in the C/D market. The total, however, had grown little. There is some evidence that many bankers are reluctant to "chase up" the rates on C/D's. As a result, the lending policies of these institutions probably will tend to stiffen. Some banks apparently also are seriously considering liquidating some of their investments in order to obtain funds to accommodate borrowing customers.

ITEM II D

- D. DO MEMBERS OF THE COUNCIL HAVE ANY COMMENTS REGARDING THE PROPOSED AMENDMENTS TO REGULATIONS D AND Q ANNOUNCED BY THE BOARD ON JANUARY 20, 1966, THAT WOULD IN EFFECT DEFINE "DEPOSITS" FOR THE PURPOSES OF THOSE REGULATIONS AS INCLUDING PROMISSORY NOTES AND CERTAIN OTHER FORMS OF INDEBTEDNESS OF MEMBER BANKS?

President Moorhead read Item II D.

An extended discussion disclosed differences of opinion in the Council. Accordingly, it was decided to indicate to the Board that the Council appreciates the problems facing the monetary authorities by the issuance by some banks of promissory notes of very short maturity. The Council, however, would not recite specifically on the proposed amendments but the members would express their views orally or outline them in writing to the Board.

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 NOVEMBER?

The President of the Council then read Item III A and B.

Several members reported that there is evidence of increasing strength of foreign demand for U.S. bank funds and that this demand is likely to grow the longer the voluntary restraint program continues in force. There appears to be little evidence in the Council's judgment that the effectiveness of the program has changed materially since November. It was decided to emphasize, however, that the program is effective only as a temporary measure and not as a solution to the basic problem.

ITEM IV

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

President Moorhead read Item IV which was followed by an extended discussion in which most members of the Council participated.

It was finally concluded that the Council would state that as a result of recent developments, aggregate demands are taxing the nation's productive capabilities and that inflationary pressures are accelerating. Unless there is a willingness to risk a serious inflation, or the imposition of controls, aggregate demands must be moderated. To accomplish this objective and thus lessen the threat to price stability, the Council believes monetary and fiscal measures must be employed. The Council, therefore, decided to suggest to the Board of Governors that the availability of reserves should be gradually reduced to more modest proportions through open market operations and that it also may be necessary to increase the discount rate again.

The Council urged a reduction in government expenditures and noted that eventually an increase in tax rates also may be required.

The meeting adjourned at 12:50 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C., AT 2:30 P.M. ON FEBRUARY 14, 1966. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. WILLIAM L. DAY. MR. HOWARD C. PETERSEN, PRESIDENT, FIDELITY-PHILADELPHIA TRUST COMPANY, PHILADELPHIA, PENNSYLVANIA, ATTENDED AS AN ALTERNATE FOR MR. DAY.

Members of the Board's staff including Albert R. Koch, Deputy Director, Division of Research and Statistics, and A. B. Hersey, Adviser, Division of International Finance, participated in an audio-visual presentation on domestic and international economic conditions.

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THE COUNCIL RECONVENED AT 5:30 P.M. ON FEBRUARY 14, 1966, IN THE BOARD ROOM OF THE MADISON. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MR. WILLIAM L. DAY. MR. HOWARD C. PETERSEN, PRESIDENT, FIDELITY-PHILADELPHIA TRUST COMPANY, PHILADELPHIA, PENNSYLVANIA, 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 February 15, 1966. The Memorandum was delivered to the Federal Reserve Building at 10:25 P.M. on February 14, 1966.

The meeting adjourned at 6:50 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON FEBRUARY 15, 1966

1. Economic conditions and prospects:

- A. How does the Council appraise prospects for economic activity and for industrial prices during the first half of 1966?

The Council anticipates a further rise in the level of economic activity during the first half of 1966. This will reflect 1) a larger volume of consumer spending as incomes continue upward; 2) an expansion in capital investment as businessmen strive to accommodate growing demands; 3) an increase in outlays by State and local governments; and 4) a growth in expenditures by the Federal Government for domestic programs and for military needs in Southeast Asia. As these aggregate demands are likely to tax the productive resources of the U.S. economy, upward pressures on industrial prices seem certain to intensify.

- B. Have Council members observed any significant changes in business plans for additions to capacity or to inventories in response to the generally more buoyant expectations now prevalent?

Though it is difficult accurately to appraise and quantify the change in business plans, the members of the Council believe that businessmen generally are attempting to enlarge and modernize capacity as rapidly as possible. In general, inventories appear to be reasonably well balanced. However, because of rising order backlogs and lengthening delivery schedules, businessmen may seek to build inventories more aggressively.

2. Banking developments.

- A. What does the Council anticipate as to near-term business demands for bank credit in relation to usual seasonal needs? Is it anticipated that an unusually large proportion of these demands will be in the form of term loans?

The Council anticipates strong near-term business demands for bank credit in excess of the usual seasonal needs. These demands are expected to cover all types of business borrowings including term

loans. There is some evidence that the tightness of credit in the major money centers is tending to shift loans to banks in other areas.

- B. How much tightening of bank lending policies has taken place since last fall? To what extent has such tightening extended to reductions in amounts of loans granted or to actual turndowns or deferrals of loan applications?

Most members of the Council report a moderate tightening of bank lending policies since last fall. The continued growth of bank reserves tended to lessen the pressure to restrain bank credit expansion. By and large, the tightening of credit is occurring on a selective basis and some loans are being turned down.

- C. How have recent developments affected the ability and willingness of banks to attract funds in the CD market?

Recent developments have caused banks in the major money centers to be even more aggressive in seeking funds in the CD market. This competition for funds has forced rates higher in the last sixty days. Despite the level of rates, the total outstanding has grown only moderately. Moreover, as many suppliers of these funds anticipate a further rise in interest rates, they presently are reluctant to place them in CDs with long maturities.

- D. Do members of the Council have any comments regarding the proposed amendments to Regulations D and Q announced by the Board on January 20, 1966, that would in effect define "deposits" for the purposes of those regulations as including promissory notes and certain other forms of indebtedness of member banks?

The Council appreciates the problems which are involved in the issuance of promissory notes especially of very short maturity. The many aspects of this matter preclude adequate discussion within the limitations of this memorandum. Members of the Council may express their views orally or communicate in writing with the Board.

3. Balance of payments.

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

The Council believes there is evidence of increasing strength of foreign demand for U.S. bank funds. This demand is likely to grow

stronger the longer the voluntary foreign credit restraint program continues in force.

- 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 November?

In the Council's judgment, the effectiveness of the voluntary foreign credit restraint program has not changed materially since the Council met with the Board in November. However, the program is effective only as a temporary measure and not a solution to the basic problem.

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

In the last ninety days, the resources of the nation have neared maximum utilization. Despite continuing additions to plant capacity, output is pressing on capacity in many important industries, and there are increasing reports of tight labor situations, particularly of skilled workers. These developments reflect also the nation's growing involvement in Southeast Asia. As a consequence, aggregate demands are taxing the nation's productive capabilities with accelerating inflationary pressures. Unless there is a willingness to risk a serious inflation, or the imposition of controls, aggregate demands must be moderated. To accomplish this objective and thus lessen the threat to price stability, the Council believes that monetary policy must be employed. To be specific, the availability of reserves should be gradually reduced to more modest proportions through open market operations. In all likelihood it may also be necessary to increase the discount rate again.

The Council recognizes that monetary policy alone may not be adequate to meet present economic pressures. Fiscal policy involving a reduction in governmental expenditures is required, and an eventual increase in tax rates may also be necessary

ON FEBRUARY 15, 1966, 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, PRESIDENT, FIDELITY-PHILADELPHIA TRUST COMPANY, PHILADELPHIA, PENNSYLVANIA, ATTENDED AS AN ALTERNATE.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS ROBERTSON, SHEPARDSON, 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 12:15 P.M.

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The next meeting of the Council will be held on June 20-21, 1966.