MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 19, 1966

The third statutory meeting of the Federal Advisory Council for 1966 was convened in the Board Room of The Madison, Washington, D.C., on September 19, 1966, at 9:30 A.M.

Present:

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
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary

On motion duly made and seconded, the mimeographed notes of the meeting held on June 20-21, 1966, copies of which had been sent previously to the members of the Council were approved.

A complete list of the items on the Agenda for the meeting and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council,* which follows on pages 22, 23, 24 and 25.

The meeting adjourned at 12:45 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 19, 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, William L. Day, 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.

The members of the Board's staff, Division of Research and Statistics and Division of International Finance, including Messrs. J. Charles Partee, Tynan Smith and John E. Reynolds, participated in an audio-visual presentation on recent domestic and international developments.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

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, William L. Day, 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.

The Council reviewed its conclusions regarding the items on the Agenda and sent to the office of the Secretary of the Board of Governors the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 22, 23, 24 and 25, listing the Agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 7:45 P.M., on September 19, 1966.

The meeting adjourned at 6:50 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MEMORANDUM TO THE BOARD OF GOVERNORS

FROM THE

FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON SEPTEMBER 20, 1966

1. Economic conditions and prospects.

   A. How does the Council appraise prospects for business costs and prices during the remainder of 1966?

The Council anticipates that upward pressures on business costs and prices will intensify during the remainder of 1966. This will reflect a continuation of expanding demands as well as an exceedingly tight labor situation and the probability of increasing wage costs.

   B. Have Council members observed any significant recent changes in business expenditures or expenditure plans in response to tighter conditions in markets for labor, materials, and credit? Have there been any significant changes in inventory policies?

The members of the Council have not observed any significant recent changes in either business expenditures or plans. However, tighter conditions in the markets for labor, materials and credit, together with the proposed suspension of (1) the 7 per cent investment tax credit, and (2) the liberalized depreciation allowances, may result in some moderation in business investment plans and outlays in the months ahead.

The members of the Council are not aware of any significant change in inventory policies. While there have been substantial additions to inventories, the inventory-sales ratio has not changed appreciably.

2. Banking Developments.

   A. By how much, if at all, does the Council expect the fall demand for business loans to exceed normal seasonal projections? Do the members expect banks to have difficulty in raising funds to meet such demands? If so, to what extent are banks resorting to refusals or discouragement of business loan requests?

A number of members of the Council report that in addition to loan requests from regular borrowers they are receiving loan applications from customers with excellent credit standings who have maintained good balances for years but have never previously borrowed, and who feel they are entitled to credit. The Council expects the fall demand for business loans to exceed normal seasonal expectations.

Bankers expect to have considerable difficulty in raising funds to meet the credit demands of the economy. Some bankers are not at all certain that they will be able to meet adequately the seasonal requirements of their customers or commitments already existing. As a consequence, there is a wide expectation that banks will continue to be obliged to refuse or discourage a growing volume of business loan requests.

B. How have recent developments affected the ability and willingness of banks to attract funds through issuance of large-denomination negotiable CD's? Through issuance of small-denomination consumer-type CD's? What is the prospect for renewed emphasis on sales of consumer-type CD's?

The rise in interest rates in recent weeks which has lifted yields on prime short-term investments above the Regulation Q ceiling has limited the ability of banks in the money centers to maintain their volume of large-denomination negotiable CD's. Although there is no evidence of unwillingness of the money center banks to continue to bid for these funds, the ceiling has substantially curtailed their competitive ability. The present tendency to shorter maturities for CD's further aggravates the practice of borrowing short and lending long.

Banks generally continue to find the small-denomination consumer-type CD a helpful instrument in competing for individual savings. However, some banks are experiencing a net decline in consumer-type savings despite the use of CD's. The persistence of a strong demand for credit and the present high interest rate structure suggest the continued reliance on consumer-type CD's to help retain deposits. The ability to do so will depend to a great extent on any regulations which may be issued under the new legislation.

C. How does the Council appraise the current and prospective state of the market for municipal securities and for Federal agency issues?

The Council is not certain that the recent modest improvement in the market for municipal securities and for Federal agency issues will persist. The present yields on these investments have made them attractive to certain institutional and private investors. However, the possibility of further sales by banks as they seek additional funds to meet seasonal loan requirements poses a threat that overhangs the market.

D. How does the Council appraise the prospect of continued intensive competition for savings among banks, savings and loan associations, mutual savings banks, and market borrowers?

The Council anticipates continued intensive competition for savings among banks, savings and loan associations, mutual savings banks, and market borrowers. The ability to compete also depends on any regulations which may be issued under the new legislation.

3. Balance of Payments.

A. Are outstanding U. S. bank loans to foreigners likely to decline substantially further during the next six months?

The Council does not anticipate that outstanding U. S. bank loans to foreigners will decline substantially further during the next six months. However, the continued tightness of credit suggests that there will be no important increase in foreign lending by U. S. banks in the months immediately ahead.

B. Would the Council expect any significant easing of domestic credit conditions during the course of 1967 to be followed fairly promptly by renewed expansion of U. S. bank loans to foreigners?

Although it is difficult at present to see any significant easing of domestic credit conditions during the course of 1967, such a development is possible if restrictive fiscal policies are employed. In these circumstances, U. S. bank loans to foreigners might expand, although there is no assurance that this would take place.

With domestic credit demands tending to limit U. S. bank loans to foreigners, it might be appropriate now to consider the repeal of the present voluntary foreign credit restraint program.

C. Have Council members observed any significant recent changes in U. S. business plans to expand their operations abroad through foreign branches and subsidiaries?

The Council members have not observed any significant recent changes in U.S. business plans to expand their operations abroad through foreign branches and subsidiaries. Presumably some plans may have been delayed or postponed because of the strength of the domestic demands and also the difficulty of obtaining funds both here and abroad.

D. To what extent would the Council judge that U.S. merchandise exports are being hampered by supply bottlenecks and delivery delays or by limited availability of export financing?

The Council is not aware that U.S. merchandise exports are being materially hampered by supply bottlenecks, delivery delays, or by limited availability of export financing. This is not to say, however, that exports could not be larger if domestic demand were less strong.

E. How does the Council appraise the effects on the balance of payments of U.S. bank borrowing from the Euro-dollar market?

It is difficult to appraise the effects on the balance of payments of U.S. bank borrowing from the Euro-dollar market without determining the use to which the funds are put. For example, if the funds are used to finance domestic transactions, the effect on our balance of payments may be different than if the funds are used to pay for imports. On the other hand, to the extent that U.S. bank borrowing in the Euro-dollar market reduces the supply of funds available to finance foreign buying of U.S. goods, our exports and the balance of payments may presumably be adversely affected.

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

In general, the Council approves the continuation of a policy of monetary restraint in the critical period ahead. This policy implies (1) sufficient flexibility to meet seasonal demands and an orderly growth in the economy, and (2) time to make adjustments that may prove necessary in the banks' assets and liabilities.

The members of the Council are apprehensive about the impact on the credit and financial markets and the resulting distortions in the economy if monetary policy alone is to continue to be relied on to restrain demand. As a consequence, the members of the Council and bankers generally approve the recently expressed intent of the Administration to use fiscal policy and are greatly hopeful that fiscal policy will be employed to an increasing degree to restrain the economy. Such a program would include a reduction in Federal expenditures and, if necessary, an increase in taxes.

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

September 20, 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 J. L. Robertson; Governors Chas. N. Shepardson, George W. Mitchell, J. Dewey Daane, Sherman J. Maisel and Andrew F. Brimmer; 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, William L. Day, 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.

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 22, 23, 24 and 25 of these minutes. A brief discussion followed.

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

In an effort to appraise the intensity of the strong loan demand described by the members of the Council, Governor Maisel inquired about the extent of anticipatory borrowing.

Several members of the Council said they had knowledge of companies who were trying to firm up credit arrangements and were willing to pay commitment fees to be sure that the money would be available when needed.

In the discussion about the September 1 letter that had been sent to member banks, Governor Mitchell emphasized that there was no disposition to try to curb all further expansion. It was recognized, he added, that allowance should be made for seasonal requirements.

The President of the Council read the third item on the Agenda and the Council's response.

Governor Robertson stated that he thought it would be unwise to terminate the voluntary foreign credit restraint program at this time not so much because it was needed for the banking system, but because it was needed in other areas.

The fourth item on the Agenda and the Council's reply were then read by President Moorhead. There followed a long discussion on current monetary and credit developments, including the administration of the discount window in the light of the recent directive to member banks.

The meeting adjourned at 12:40 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

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

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

The Secretary's notes of the meeting of the Federal Advisory Council on September 19, 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.

The Council approved the Secretary's notes for the meeting of June 20-21, 1966.

ITEM I A AND B

ECONOMIC CONDITIONS AND PROSPECTS.

A. HOW DOES THE COUNCIL APPRAISE PROSPECTS FOR BUSINESS COSTS AND PRICES DURING THE REMAINDER OF 1966?

B. HAVE COUNCIL MEMBERS OBSERVED ANY SIGNIFICANT RECENT CHANGES IN BUSINESS EXPENDITURES OR EXPENDITURE PLANS IN RESPONSE TO TIGHTER CONDITIONS IN MARKETS FOR LABOR, MATERIALS, AND CREDIT? HAVE THERE BEEN ANY SIGNIFICANT CHANGES IN INVENTORY POLICIES?

President Moorhead read Item I A and B and invited comment from members of the Council. The discussion disclosed that they were unanimous in their opinion that upward pressures on business costs and prices will intensify during the remainder of 1966. This will reflect a continuation of expanding demands as well as the exceedingly tight situation that characterizes the labor market in practically every district. As a result, increasing wage costs are widely anticipated.

Although the members of the Council have not observed any significant recent changes in either business expenditures or plans, most of them expect that tighter conditions in the markets for labor, materials and credit, together with the proposed suspension of the 7 per cent investment tax credit and the liberalized depreciation allowance may result in some moderation in business investment plans and outlays in the months ahead.

Inventory policies, according to the members of the Council, apparently have not changed significantly. Several members acknowledged that despite the additions to stocks on hand, the inventory-sales ratio has not changed appreciably.

ITEM II A

BANKING DEVELOPMENTS.

A. BY HOW MUCH, IF AT ALL, DOES THE COUNCIL EXPECT THE FALL DEMAND FOR BUSINESS LOANS TO EXCEED NORMAL SEASONAL PROJECTIONS? DO THE MEMBERS EXPECT BANKS TO HAVE DIFFICULTY IN RAISING FUNDS TO MEET SUCH DEMANDS? IF SO, TO WHAT EXTENT ARE BANKS RESORTING TO REFUSALS OR DISCOURAGEMENT OF BUSINESS LOAN REQUESTS?

President Moorhead read Item II A. An extended discussion followed with several members reporting loan applications from customers with excellent credit standings who have maintained good balances for years but who have never previously borrowed and who feel they are entitled to credit. This, together with loan requests from regular borrowers, indicates the fall demand for business loans will exceed normal seasonal expectations. As a consequence, most bankers expect to have considerable difficulty in raising funds to meet credit demands. Several members reported that some bankers are not certain that they will be able to meet adequately the seasonal requirements of their customers or commitments already existing. Accordingly, there is wide expectation that banks will be obliged to continue to refuse or discourage a growing volume of business loan requests.

ITEM II B

B. HOW HAVE RECENT DEVELOPMENTS AFFECTED THE ABILITY AND WILLINGNESS OF BANKS TO ATTRACT FUNDS THROUGH ISSUANCE OF LARGE-DENOMINATION NEGOTIABLE C/D'S? THROUGH ISSUANCE OF SMALL-DENOMINATION CONSUMER-TYPE C/D'S? WHAT IS THE PROSPECT FOR RENEWED EMPHASIS ON SALES OF CONSUMER-TYPE C/D'S?

President Moorhead then read Item II B. A brief discussion followed. The Council readily agreed that the rise in interest rates in recent weeks, which has lifted the yields on short-term investments above the Regulation Q ceiling, has limited the ability of banks in the money centers to maintain their volume of large-denomination negotiable C/D's. In view of the tightness of money, there obviously is no evidence of unwillingness on the part of the money center banks to continue to bid for these funds. The ceiling, however, has substantially curtailed their competitive ability. Several members observed that the recent tendency to shorter maturities for C/D's aggravates the practice of borrowing short and lending long.

It was reported that banks generally continue to find the small-denomination consumer-type C/D a helpful instrument for competing for individual savings. Despite their use, however, some banks are experiencing a net decline in consumer savings. The present tightness of money suggests that banks will continue to employ a consumer-type C/D in an effort to obtain funds. Concern was expressed over the possibility of regulations which may be issued under the new legislation which could limit the ability of banks to effectively compete for this type of savings.

ITEM II C

C. HOW DOES THE COUNCIL APPRAISE THE CURRENT AND PROSPECTIVE STATE OF THE MARKET FOR MUNICIPAL SECURITIES AND FOR FEDERAL AGENCY ISSUES?

President Moorhead read Item II C. The ensuing discussion disclosed that the Council was not certain that the recent modest improvement in the market for municipal securities and for federal agency issues will persist. The strong and growing demand for community facilities and services suggests the flotation of new issues. Moreover, the possibility of further sales by banks from their portfolios as they seek additional funds to meet seasonal loan requirements poses a threat that overhangs the market.

ITEM II D

D. HOW DOES THE COUNCIL APPRAISE THE PROSPECT OF CONTINUED INTENSIVE COMPETITION FOR SAVINGS AMONG BANKS, SAVINGS AND LOAN ASSOCIATIONS, MUTUAL SAVINGS BANKS, AND MARKET BORROWERS?

The President of the Council then read Item II D. Depending somewhat on any regulations which may be issued under the new legislation, the Council anticipates continued intensive competition for savings among banks, savings and loan associations, mutual savings banks and market borrowers.

ITEM III A, B AND C

BALANCE OF PAYMENTS.

A. ARE OUTSTANDING U.S. BANK LOANS TO FOREIGNERS LIKELY TO DECLINE SUBSTANTIALLY FURTHER DURING THE NEXT SIX MONTHS?

B. WOULD THE COUNCIL EXPECT ANY SIGNIFICANT EASING OF DOMESTIC CREDIT CONDITIONS DURING THE COURSE OF 1967 TO BE FOLLOWED FAIRLY PROMPTLY BY RENEWED EXPANSION OF U.S. BANK LOANS TO FOREIGNERS?

C. HAVE COUNCIL MEMBERS OBSERVED ANY SIGNIFICANT RECENT CHANGES IN U.S. BUSINESS PLANS TO EXPAND THEIR OPERATIONS ABROAD THROUGH FOREIGN BRANCHES AND SUBSIDIARIES?

President Moorhead then read Item III A, B and C. The Council does not anticipate that outstanding U.S. bank loans to foreigners will decline substantially further during the next six months. Moreover, because of the tightness of credit, no important increase is anticipated. The members of the Council find it difficult to see any significant easing of domestic credit conditions during the course of 1967. If this should develop, however, several members cautioned that there is no assurance that U.S. bank loans to foreigners would expand. It was suggested that inasmuch as domestic credit demands are tending to limit U.S. bank loans to foreigners, it might be appropriate now to consider the repeal of the present voluntary foreign restraint program.

The Council members are not aware of any significant recent changes in U.S. business plans to expand their operations abroad. However, several thought that some plans may have been delayed or postponed because of the strength of domestic demands and also because of the difficulty of obtaining funds both here and abroad.

ITEM III D

D. TO WHAT EXTENT WOULD THE COUNCIL JUDGE THAT U.S. MERCHANDISE EXPORTS ARE BEING HAMPERED BY SUPPLY BOTTLENECKS AND DELIVERY DELAYS OR BY LIMITED AVAILABILITY OF EXPORT FINANCING?

The Council is not aware that U.S. merchandise exports are being materially hampered by supply bottlenecks, delivery delays or by the limited availability of export financing. There was some feeling that exports might be larger if domestic demands were less strong.

ITEM III E

E. HOW DOES THE COUNCIL APPRAISE THE EFFECTS ON THE BALANCE OF PAYMENTS OF U.S. BANK BORROWINGS FROM THE EURO-DOLLAR MARKET?

After a brief discussion on U.S. bank borrowing from the Euro-dollar market, it was concluded that it is difficult to appraise the effects on the balance of payments without determining the use to which the funds are put.

ITEM IV

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

President Moorhead read Item IV. A long discussion followed in which reference was made to the September 1 letter to member banks and the differing interpretations given to this policy directive by the discount officers at the various local Federal Reserve banks. It was concluded that the Council approves a continuation of a policy of monetary restraint in the critical period ahead. Such a policy implies (1) sufficient flexibility to meet seasonal demands and an orderly growth in the economy, and (2) time to make adjustments that may prove necessary in the banks' assets and liabilities.

Considerable apprehension was expressed by the members about the impact on the credit and financial markets and the resulting distortions in the economy if monetary policy alone is to continue to be relied on to restrain demand. The members of the Council are greatly hopeful that fiscal policy will be employed to an increasing degree in an effort to restrain the economy. The Council has been encouraged by recent statements to this effect by the Administration.

The meeting adjourned at 12:45 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C, AT 2:30 P.M., ON SEPTEMBER 19, 1966. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

The members of the Board's staff, Division of Research and Statistics, Division of International Finance, including Messrs. J. Charles Partee, Tynan Smith and John E. Reynolds, participated in an audio-visual presentation on recent domestic and international developments.

THE COUNCIL RECONVENED AT 5:30 P.M., ON SEPTEMBER 19, 1966, IN THE BOARD ROOM OF THE MADISON. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on September 20, 1966. The Memorandum was delivered to the Federal Reserve Building at 7:45 P.M.

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 SEPTEMBER 20, 1966

1. Economic conditions and prospects.

A. How does the Council appraise prospects for business costs and prices during the remainder of 1966?

The Council anticipates that upward pressures on business costs and prices will intensify during the remainder of 1966. This will reflect a continuation of expanding demands as well as an exceedingly tight labor situation and the probability of increasing wage costs.

B. Have Council members observed any significant recent changes in business expenditures or expenditure plans in response to tighter conditions in markets for labor, materials, and credit? Have there been any significant changes in inventory policies?

The members of the Council have not observed any significant recent changes in either business expenditures or plans. However, tighter conditions in the markets for labor, materials and credit, together with the proposed suspension of (1) the 7 per cent investment tax credit, and (2) the liberalized depreciation allowances, may result in some moderation in business investment plans and outlays in the months ahead.

The members of the Council are not aware of any significant change in inventory policies. While there have been substantial additions to inventories, the inventory-sales ratio has not changed appreciably.

2. Banking Developments.

A. By how much, if at all, does the Council expect the fall demand for business loans to exceed normal seasonal projections? Do the members expect banks to have difficulty in raising funds to meet such demands? If so, to what extent are banks resorting to refusals or discouragement of business loan requests?

A number of members of the Council report that in addition to loan requests from regular borrowers they are receiving loan applications from customers with excellent credit standings who have maintained good balances for years but have never previously borrowed, and who feel they are entitled to credit. The Council expects the fall demand for business loans to exceed normal seasonal expectations.

Bankers expect to have considerable difficulty in raising funds to meet the credit demands of the economy. Some bankers are not at all certain that they will be able to meet adequately the seasonal requirements of their customers or commitments already existing. As a consequence, there is wide expectation that banks will continue to be obliged to refuse or discourage a growing volume of business loan requests.

B. How have recent developments affected the ability and willingness of banks to attract funds through issuance of large-denomination negotiable CD's? Through issuance of small-denomination consumer-type CD's? What is the prospect for renewed emphasis on sales of consumer-type CD's?

The rise in interest rates in recent weeks which has lifted yields on prime short-term investments above the Regulation Q ceiling has limited the ability of banks in the money centers to maintain their volume of large-denomination negotiable CD's. Although there is no evidence of unwillingness of the money center banks to continue to bid for these funds, the ceiling has substantially curtailed their competitive ability. The present tendency to shorter maturities for CD's further aggravates the practice of borrowing short and lending long.

Banks generally continue to find the small denomination consumer-type CD a helpful instrument in competing for individual savings. However, some banks are experiencing a net decline in consumer-type savings despite the use of CD's. The persistence of a strong demand for credit and the present high interest rate structure suggest the continued reliance on consumer-type CD's to help retain deposits. The ability to do so will depend to a great extent on any regulations which may be issued under the new legislation.

C. How does the Council appraise the current and prospective state of the market for municipal securities and for Federal agency issues?

The Council is not certain that the recent modest improvement in the market for municipal securities and for Federal agency issues will persist. The present yields on these investments have made them attractive to certain institutional and private investors. However, the possibility of further sales by banks as they seek additional funds to meet seasonal loan requirements poses a threat that overhangs the market.

D. How does the Council appraise the prospect of continued intensive competition for savings among banks, savings and loan associations, mutual savings banks, and market borrowers?

The Council anticipates continued intensive competition for savings among banks, savings and loan associations, mutual savings banks, and market borrowers. The ability to compete also depends on any regulations which may be issued under the new legislation.

3. Balance of Payments.

A. Are outstanding U.S. bank loans to foreigners likely to decline substantially further during the next six months?

The Council does not anticipate that outstanding U.S. bank loans to foreigners will decline substantially further during the next six months. However, the continued tightness of credit suggests that there will be no important increase in foreign lending by U.S. banks in the months immediately ahead.

B. Would the Council expect any significant easing of domestic credit conditions during the course of 1967 to be followed fairly promptly by renewed expansion of U.S. bank loans to foreigners?

Although it is difficult at present to see any significant easing of domestic credit conditions during the course of 1967, such a development is possible if restrictive fiscal policies are employed. In these circumstances, U.S. bank loans to foreigners might expand, although there is no assurance that this would take place.

With domestic credit demands tending to limit U.S. bank loans to foreigners, it might be appropriate now to consider the repeal of the present voluntary foreign credit restraint program.

C. Have Council members observed any significant recent changes in U.S. business plans to expand their operations abroad through foreign branches and subsidiaries?

The Council members have not observed any significant recent changes in U.S. business plans to expand their operations abroad through foreign branches and subsidiaries. Presumably some plans may have been delayed or postponed because of the strength of the domestic demands and also the difficulty of obtaining funds both here and abroad.

D. To what extent would the Council judge that U.S. merchandise exports are being hampered by supply bottlenecks and delivery delays or by limited availability of export financing?

The Council is not aware that U.S. merchandise exports are being materially hampered by supply bottlenecks, delivery delays, or by limited availability of export financing. This is not to say, however, that exports could not be larger if domestic demand were less strong.

E. How does the Council appraise the effects on the balance of payments of U.S. bank borrowing from the Euro-dollar market?

It is difficult to appraise the effects on the balance of payments of U.S. bank borrowing from the Euro-dollar market without determining the use to which the funds are put. For example, if the funds are used to finance domestic transactions, the effect on our balance of payments may be different than if the funds are used to pay for imports. On the other hand, to the extent that U.S. bank borrowing in the Euro-dollar market reduces the supply of funds available to finance foreign buying of U.S. goods, our exports and the balance of payments may presumably be adversely affected.

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

In general, the Council approves the continuation of a policy of monetary restraint in the critical period ahead. This policy implies (1) sufficient flexibility to meet seasonal demands and an orderly growth in the economy, and (2) time to make adjustments that may prove necessary in the banks' assets and liabilities.

The members of the Council are apprehensive about the impact on the credit and financial markets and the resulting distortions in the economy if monetary policy alone is to continue to be relied on to restrain demand. As a consequence, the members of the Council and bankers generally approve the recently expressed intent of the Administration to use fiscal policy and are greatly hopeful that fiscal policy will be employed to an increasing degree to restrain the economy. Such a program would include a reduction in Federal expenditures and, if necessary, an increase in taxes.

ON SEPTEMBER 20, 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.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN ROBERTSON, GOVERNORS SHEPARDSON, MITCHELL, DAANE, MAISEL AND BRIMMER. 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 12:40 P.M.

* * * * *

The next meeting of the Council will be held on November 14-15, 1966.