FORTY-SEVENTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1960

Digest of Principal Federal Reserve Policy Actions, 1960

Period	Action	Purpose of action
January-March	Reduced System holdings of U.S. Government securities by about $1.6 billion. Member bank borrowings at the Federal Reserve Banks dropped from an average of $900 million in December to $635 million in March.	To offset the seasonal inflow of reserve funds, mainly from the post-holiday return of currency from circulation, while permitting some reduction in borrowed reserves.
Late March-July	Increased System holdings of Government securities by nearly $1.4 billion. Member bank borrowings at Reserve Banks declined to an average of less than $400 million in July.	To promote further reduction in the net borrowed reserve positions of member banks and, beginning in May, to provide reserves needed for moderate bank credit and monetary expansion.
June	Reduced discount rates from 4 to 3½ per cent at all Reserve Banks.	To reduce the cost of borrowed reserves for member banks and to bring the discount rate closer to market interest rates.
July	Reduced margin requirements on loans for purchasing or carrying listed securities from 90 to 70 per cent of market value of securities.	To lower margin requirements from the high level in effect since October 1958 in recognition of decline in volume of stock market credit outstanding and lessened danger of excessive speculative activity in the market.
August	Authorized member banks to count about $500 million of their vault cash as required reserves, effective for country banks August 25 and for central reserve and reserve city banks September 1. Reduced reserve requirements against net demand deposits at central reserve city banks from 18 to 17½ per cent, effective September 1, thereby releasing about $125 million of reserves.	To provide mainly for seasonal needs for reserve funds, and to implement 1959 legislation directed in part toward equalization of reserve requirements of central reserve and reserve city banks.

Digest of Principal Federal Reserve Policy Actions, 1960—Cont.

Period	Action	Purpose of action
August-September	Reduced discount rates from 3½ to 3 per cent at all Reserve Banks.	To reduce further the cost of borrowing from the Reserve Banks and reduce the differential between the discount rate and market rates of interest.
August-November	Bought or sold at different times varying amounts of Government securities with a net increase in System holdings of about $1 billion, including securities held under repurchase agreement and issues with short maturities other than Treasury bills. Member bank borrowing declined further to average below $150 million in October and November.	To encourage bank credit and monetary expansion by meeting changing reserve needs and offsetting the impact of a large gold outflow without exerting undue downward pressure on short-term Treasury bill rates that might stimulate further outflow of funds.
Late November-December	Authorized member banks to count all their vault cash in meeting their reserve requirements and increased reserve requirements against net demand deposits for country banks from 11 to 12 per cent. The net effect of these two actions, effective November 24, was to make available about $1,050 million of reserves. Reduced reserve requirements against net demand deposits at central reserve city banks from 17½ to 16½ per cent, effective December 1, thereby releasing about $250 million of reserves. Sold U.S. Government securities except for seasonal purchases in last week of December. Member bank borrowings at the Reserve Banks averaged less than $90 million in December.	To provide, on a liberal basis, for seasonal reserve needs, to complete implementation of legislation directed in part toward equalization of reserve requirements of central reserve and reserve city banks, and to offset the effect of continued gold outflow, while avoiding direct impact on short-term rates that might stimulate further outflow of funds.

interest rates and an unusually heavy seasonal loan demand, money conditions eased notably in January. Interest rates declined, and bank loans were reduced, about as much as they had increased in December. Stock prices, after rising close to the 1959 high at the end of December, declined sharply thereafter and presently were near the low of the past 12 months. In contrast, bonds had risen in price since the first of the year, and yields on long-term U.S. Government bonds were back to November levels. Yields on intermediate-term Government securities had declined to around the lowest levels of October 1959, while yields on Treasury bills had fallen to the lowest levels since late August.

Together, figures for money supply and turnover of bank deposits indicated a rate of growth in total monetary transactions of nearly 4 per cent a year since mid-1957, but the money supply, which appeared to have declined slightly in January, was only about one-half of 1 per cent larger than the year-ago level. The current figure was a little more than $5 billion larger than the peak of mid-1957, representing an average annual rate of increase of less than 2 per cent.

In appraising open market policy at this juncture, the Committee took into account all of the aforementioned elements, along with the fact that the easier money situation had resulted from market forces rather than any change in monetary policy. There was unanimity of opinion that any tightening in the degree of restraint should be avoided. On the contrary, while a majority favored watchful waiting during the period immediately ahead, there were several within that group who leaned toward slightly less restraint, and the views of some members of the Committee were more positively in that direction. It was felt rather generally that a moderate increase in the money supply would be desirable.

In the light of the current situation, consideration was given to the possibility of a modification of the policy directive to the Federal Reserve Bank of New York so as to place emphasis, in

clause (b), upon the fostering of sustainable growth in economic activity and employment rather than upon restraint of inflationary credit expansion. In support of such a modification it was pointed out, among other things, that business and financial attitudes and trends were less exuberant than in May 1959, when the existing policy directive was first adopted. The consensus, however, did not favor a change at this time, on the grounds that it would indicate a basic shift in open market policy and that such a shift was not called for at present.

Therefore, the action taken was to renew the directive, which called for restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

> Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Erickson, Johns, King, Robertson, Shepardson, Szymczak, and Leedy. Vote against this action: Mr. Mills.

Mr. Mills continued to favor a change in the directive along the lines he had suggested at the past several meetings, which would provide for fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion.

March 1, 1960

1. Authority to effect transactions in System Account.

Clause (b) of the first paragraph of the Committee's policy directive was revised at this meeting so as to provide that open market operations should be conducted with a view "to fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion." This replaced the clause of the directive that had been in effect since May 26, 1959, calling for operations with a view "to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities."

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

National and regional reports at this meeting indicated continuance of underlying economic strength, with evidence lacking to suggest that 1960 would be other than a prosperous year. It appeared, however, that some of the earlier exuberant expectations were not being fully realized and that excesses in commitments and in credit extensions were not developing. The rapid inventory accumulation that occurred in January and which appeared to have continued in February, combined with a slight decline in new orders in January, suggested to some observers that the spurt of activity attributable to the resumption of production upon conclusion of the steel strike might be nearing an end before any other expansive factor had emerged to take its place. Also, while retail trade remained at a high level, there had been an edging-off from December to January in total retail sales, other than sales of automobiles, and data for the first three weeks in February suggested that department store sales, seasonally adjusted, had slipped slightly. It appeared that industrial production would show no further increase in February. In the stock market, prices were fluctuating erratically at levels slightly above the low reached early in February.

Abroad, near-boom conditions appeared to be developing in many countries. Interest rates in industrialized countries had been tending to rise in response to increased economic activity and speculative developments, and official policies were moving further in the direction of restraint. Following a substantial increase in U.S. exports in December, preliminary figures for January indicated a level which, if anything, was higher than December, along with a considerable drop in imports. However, a substantial over-all deficit in the balance of payments still was indicated.

During the first three weeks in February, loans of banks in leading cities expanded substantially, with the increase in business loans particularly large. In order to meet loan demands, banks continued to reduce their holdings of U.S. Government securities. However, demand deposits adjusted at city banks declined by a larger amount during February than in the same month of any other recent year except 1956, and country bank figures for the first half of the month failed to show the increase that occurred in the corresponding period of 1959. It appeared that the seasonally adjusted money supply may have declined further in February to a level below that of a year earlier.

System open market operations during the period since the previous meeting of the Committee had continued generally to maintain pressure on the reserve positions of banks. The mid-March tax and dividend dates were now approaching, and the money market might be under some degree of pressure to accommodate seasonal liquidity needs. In view of this short-run consideration, along with considerations relating to business and financial developments generally, the Committee concluded that it would be appropriate to supply reserves to the banking system somewhat more readily. Accordingly, the consensus favored, for the immediate future, a policy of moderately less restraint.

In the light of existing conditions, a policy directive calling for fostering sustainable growth in economic activity and employment, while guarding against excessive credit expansion, was deemed more appropriate than a directive emphasizing restraint on inflationary credit expansion, and the Committee unanimously agreed to change clause (b) accordingly.

2. Repurchase agreements covering U.S. Government securities.

The Committee voted to renew the existing authorization to the Federal Reserve Bank of New York to enter into repurchase agreements with nonbank dealers in U.S. Government securities, subject to the following conditions and to the understanding that the authority would be used sparingly in entering into repurchase agreements at rates below the discount rate:

1. Such agreements
   (a) In no event shall be at a rate below whichever is the lower of

(1) the discount rate of the Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills;

(b) Shall be for periods of not to exceed 15 calendar days;

(c) Shall cover only Government securities maturing within 15 months; and

(d) Shall be used as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.

2. Reports of such transactions shall be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.

3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank of New York shall be sold in the market or transferred to the System Open Market Account.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Shepardson, and Szymczak. Vote against this action: Mr. Robertson.

The foregoing authorization had been renewed by the Committee in March of each year since it was approved unanimously by the Committee at a meeting on August 2, 1955. At this meeting, Mr. Robertson expressed the view that in recent times there had been a tendency to use repurchase agreements more frequently than had been contemplated at the time of the Committee's action in August of 1955. He felt that the Committee should minimize the use of such agreements and maximize cash trading. In addition, he suggested amendment of the authorization so as to confine the rates to the discount rate at the Federal Reserve Bank of New York, rather than to allow under some circumstances the use of a rate lower than the discount rate. This was because he considered it inequitable to permit nonbank dealers to borrow from the Federal Reserve System at rates below those prescribed for member banks.

In voting to renew the authority in its existing form, the majority of the Committee took the position that the repurchase instrument had proved to be a convenience to the Federal Re-

serve System and of great importance in carrying out monetary policy, that its use should not be minimized, and that the authorization should not be changed to eliminate the right to use a rate lower than the discount rate under certain circumstances, if that appeared desirable.

Mr. Robertson dissented from the renewal of the existing authorization for the reasons indicated by him.

3. Review of continuing authorities or statements of policy.

This being the first meeting of the Federal Open Market Committee following the election of and assumption of duties by new members from the Federal Reserve Banks for the year beginning March 1, 1960, the Committee reviewed and reaffirmed all continuing statements of policy and authorities for operations. These included three statements of policy that had been renewed by the Committee each year since 1953 regarding the objectives of monetary and credit policy, the confining of operations for the System Account generally to short-term securities, and the preclusion unless expressly authorized by the Committee of transactions for the purpose of altering the maturity pattern of the System's portfolio by means of offsetting purchases and sales of securities.

By prearrangement, extensive consideration was given to the three statements of policy relating to these matters, but at the conclusion of the discussion the Committee decided to review the subject further in the light of certain suggestions that had been made. Accordingly, the action taken was to continue these three operating policies on a temporary basis with the understanding that they would be brought up again at a subsequent meeting.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

March 22, 1960

1. Authority to effect transactions in System Account.

Although underlying forces in the economy continued to re-