FORTY-EIGHTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1961

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1961

Period	Action	Purpose of action
January	Limited net sales of U.S. Government securities from Federal Reserve portfolio to about $500 million. Member bank borrowing at Reserve Banks averaged only $50 million.	To encourage bank credit and monetary expansion by absorbing only part of seasonal inflow of reserve funds not otherwise offset by a large gold outflow.
February-August	Bought substantial amounts of U.S. Government securities with maturities over 1 year, following February 20 announcement that System open market operations would include securities outside the short-term area. These purchases were partly offset by net sales of short-term securities. Total System holdings of Governments increased about $700 million. Member bank borrowings averaged $75 million.	To encourage bank credit and monetary expansion while avoiding direct downward pressure on short-term interest rates, thereby moderating pressures on the U.S. balance of payments from outflow of short-term capital attracted by higher interest rates abroad.
September-December	Bought or sold at different times varying amounts of U.S. Government securities, including securities with longer maturities. Total System holdings of Government securities increased about $1.6 billion. Member bank borrowings at Reserve Banks remained generally low.	To continue to encourage bank credit and monetary expansion while allowing for changing reserve needs due to seasonal and other factors, including a large gold outflow, and while continuing to give consideration to the balance of payments problem.
December	Raised, effective Jan. 1, 1962, maximum interest rates payable by member banks on any savings deposit from 3 to 3½ per cent, and to 4 per cent on those left in the bank for 1 year or more; also raised maximum rates on time deposits with a maturity of 6 months to 1 year from 3 to 3½ per cent, and to 4 per cent on those deposits with a maturity of a year or longer.	To enable banks to compete more effectively for savings and other time deposits, including foreign time deposits, thus moderating pressures on the U.S. balance of payments, and, over the long run, to offer additional incentive for the accumulation of savings required for financing future economic growth.

if the Treasury should decide to undertake an advance refunding in the near future, then he would feel that no change in existing monetary policy would be appropriate. Mr. Mills dissented because of his belief that implementation of policy according to the consensus would fail to take the initiative that the Federal Reserve System should properly take at this juncture. In his view the monetary and credit situation to which he had addressed himself at the two previous meetings of the Committee had since worsened. It continued to be imperative, in his opinion, to restrict the supply of reserves to such extent that the expansion of bank credit would be contained largely within the bounds of the resources already at the banks' disposal, at the same time that a firmer structure of interest rates would serve to discourage the transfer of gold and dollars abroad. In combination, the effect of these actions should, he thought, give public evidence of a determination to follow orthodox principles in defending the international exchange value of the dollar.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

> Votes for this action: Messrs. Martin, Hayes, Irons, King, Mills, Mitchell, Swan, and Wayne. Votes against this action: Messrs. Allen and Robertson.

The renewal of the authorization was without indication of change in the views stated regarding it when the authority was previously renewed.

December 5, 1961

1. Authority to effect transactions in System Account.

The policy directive to the Federal Reserve Bank of New York calling for open market operations with a view to encouraging

credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors, was renewed at this meeting without change.

> **Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Mitchell, Robertson, Shepardson, Swan, Wayne, and Fulton. Votes against this action: none.**

On the basis of more complete data for October than had been available at the preceding Committee meeting, together with preliminary data for November, it appeared that after a period of hesitation in August and September a strong growth trend in the economy had resumed, although without indication of excesses or undue exuberance. December production schedules, particularly in steel and automobiles, suggested a further upward movement in industrial production by year-end, and the tone of business sentiment, as reflected in district reports, was generally on the optimistic side. Additional improvement was noted in retail sales, as well as in manufacturers' sales and orders. Also, although there continued to be a substantial amount of unutilized manpower, preliminary unemployment statistics for November indicated a significant percentage reduction, for the first time in a year. Prices continued to show general stability. Despite recent improvement, there remained a degree of uncertainty regarding the probable future pace of consumer outlays, and there was likewise little evidence of an upward surge in plans for plant and equipment expenditures.

Despite the apparently accelerated pace of economic expansion in November, the rate of bank credit and deposit expansion seemed to have slackened, following the pronounced increase in September and October. Nevertheless, money markets were relatively firm in November until the end of the month, and interest rates generally rose somewhat. Treasury bill yields rose in the latter part of the month to or slightly above the peaks reached at various times of seasonal pressure during the past 15 months.

There was no evidence of improvement in the international payments position of the United States, perhaps some further deterioration. Preliminary reports on the balance of payments for November suggested that the deficit was about equal in size to the October and September deficits.

The Open Market Committee, in considering the appropriate course of monetary policy for the period ahead, observed that the recent tendency toward a firming of money market conditions reflected pressures generated within the market itself rather than positive action on the part of the System. The fact that market forces had resulted in increasing somewhat the Treasury bill rate level was regarded as fortunate, in view of the balance of payments problem, and it was not felt that System operations to offset the effect of the prevailing market forces would be warranted. In fact, a minority of the Committee believed that the expansionary trend and current strength of the domestic business situation would justify some lessening in the volume of reserves placed at the disposal of the banking system as a basis for further expansion of credit. However, due to the absence of stresses and strains in the economy at the present time and in light of the several remaining points of uncertainty that tended to cast some doubt on the pattern of future economic developments, the consensus favored maintaining for the immediate future approximately the same policy in respect to the supplying of reserves that the Committee had been pursuing for some time.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Federal Reserve Bank of New York was authorized, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mitchell, Shepardson, Swan, Wayne, and Fulton. Vote against this action: Mr. Robertson.

No change was indicated in positions previously expressed with respect to this authorization.

December 19, 1961

1. Authority to effect transactions in System Account.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the current policy of the Committee to permit further bank credit and monetary expansion so as to promote fuller utilization of the economy's resources, together with money market conditions consistent with the needs of both an expanding domestic economy and this country's international balance of payments problem.

To implement this policy, operations for the System Open Market Account shall be conducted with a view to providing reserves for bank credit and monetary expansion (with allowance for the wide seasonal movements customary at this time of the year), but with a somewhat slower rate of increase in total reserves than during recent months. Operations shall place emphasis on continuance of the 3-month Treasury bill rate at close to the top of the range recently prevailing. No overt action shall be taken to reduce unduly the supply of reserves or to bring about a rise in interest rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, Shepardson, Swan, Wayne, and Fulton. Votes against this action: Messrs. King, Mills, Mitchell, and Robertson.

(This directive was the first issued by the Committee under new procedures instituted at this meeting—explained in a subsequent entry of this date—under which the substance of the Committee's previous directive was to be divided between a "current economic policy directive" and a "continuing authority directive.")

Data for November available to the Committee at this meeting indicated continued expansion in economic activity on many fronts and a substantial rise in consumer outlays, an area with respect to which there had earlier been some uncertainty. Final figures for November industrial production indicated a rise of 1 point in the Board's index, with prospects for another 1- or 2-point increase in December. New orders for durable goods were