FORTY-NINTH

# Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1962

| *Period* | *Action* | *Purpose of action* |
| --- | --- | --- |
| January-February | Reduced System holdings of U. S. Government securities by about $500 million through net sales and redemptions. Member bank borrowings from the Reserve Banks averaged less than $100 million. | To permit further bank credit and monetary expansion by absorbing only part of seasonal inflow of reserve funds, mainly from post-holiday return of currency from circulation, while minimizing downward pressures on short-term interest rates. |
| February | Authorized open market transactions in foreign currencies. | To moderate and offset short-term pressures on the dollar in the foreign exchange market. |
| March-mid-June | Increased System holdings of U. S. Government securities by about $1.3 billion, of which half represented purchases of securities with maturities of more than 1 year. Member bank borrowings from Reserve Banks continued to average less than $100 million. | To promote further bank credit and monetary expansion while avoiding sustained downward pressures on short-term interest rates. |
| Mid-June-late October | Increased System holdings of U. S. Government securities by about $200 million with net sales and redemptions of Treasury bills of about $700 million being more than offset by purchases of coupon issues, of which two-thirds were issues maturing in more than 1 year. Member bank borrowings from Reserve Banks averaged less than $100 million. | To permit moderate increase in bank credit and money supply while avoiding redundant bank reserves that would encourage capital outflows, taking into account gradual improvement in domestic economy and possibilities for further advance, while recognizing the bank credit growth of past year and continuing adverse balance of payments. |
| July | Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities. | To take into account the recent sharp reduction in stock market credit and the abatement in speculative psychology in the stock market. |
| October | Reduced reserve requirements against time deposits from 5 to 4 per cent, effective October 25 for reserve city banks and November 1 for other member banks, thereby releasing about $780 million of reserves. | To help meet seasonal needs for reserves, while minimizing downward pressures on short-term interest rates, and to provide for the longer-term growth in bank deposits needed to facilitate the expansion in economic activity and trade. |
| Late October-December | Increased System holdings of U. S. Government securities by about $1.0 billion, with more than half of the net increase in issues maturing in more than 1 year. Member bank borrowing from the Reserve Banks rose gradually over period, but only to an average of about $200 million. | To help further in meeting seasonal needs for reserve funds while encouraging moderate further increase in bank credit and the money supply and avoiding money market conditions unduly favorable to capital outflows internationally. In mid-December open market operations were modified to provide a somewhat firmer tone in money markets and to offset the anticipated seasonal easing in Treasury bill rates. |

early in the year and the flow of investment funds normally is large.

The November balance of payments deficit was sharply lower than the record October figure, which had been affected considerably by temporary factors. For the year to date, however, the deficit was only a little short of that for 1961, and there was still no indication that the basic accounts in the payments balance had improved significantly. Foreign exchange and gold markets had remained calm in recent weeks, and the net gold outflow was small.

At this meeting, as at the preceding one, there were varied judgments as to the precise degree of monetary ease to be sought. A large minority—taking into account the relatively high level of domestic activity, the degree of liquidity in the economy and the banking system, and the desirability of help with the balance of payments problem—felt that it was important to follow a policy of slightly less ease. A smaller number of members, influenced more by the persistently low rates of manpower and other resource utilization, felt that a little more ease could help to stimulate domestic employment; this group also questioned whether slightly less ease could contribute significantly to the solution of the balance of payments deficit. After discussion, the majority of the Committee members, including in the end some of those who initially had indicated a preference for shadings of slightly more or slightly less ease, voted in favor of no change at this time from the policy adopted at the November 13 meeting. The wording of the current economic policy directive was changed to delete, as no longer needed, the reference to international emergency conditions contained in the last sentence of the first paragraph of the November 13 directive and to recognize the 2-week, instead of 3-week, interval before the next meeting. The policy directive issued to the Federal Reserve Bank of New York was as follows:

In view of the recent stability of economic activity, with a margin of underutilized resources and an absence of inflationary pressures, it is the





current policy of the Federal Open Market Committee to encourage moderate further increase in bank credit and the money supply, while avoiding money market conditions unduly favorable to capital outflows internationally.

To implement this policy, operations for the System Open Market Account during the next 2 weeks shall be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a steady tone in money markets.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. Vote against this action: Mr. Hayes.

Mr. Hayes voted against this directive for essentially the same reasons that he had opposed the directive at the previous meeting—namely, that in view of ample domestic liquidity and an unsatisfactory balance of payments situation a somewhat less easy policy was appropriate.

## December 18, 1962

**Authority to effect transactions in System Account.**

Information that had become available in the 2 weeks since the preceding meeting of the Committee confirmed the mixed picture of the economic situation. The feeling of increased business optimism with regard to prospects appeared to be continuing, but evidence of solid additional achievement was still limited.

Retail sales, as expected, proved to be higher in November than in October; steel output rose; average weekly hours of work at factories increased; and new orders for machinery advanced again. Automobile sales continued relatively strong in November and early December, and stocks of cars in dealers' hands were low. Early Christmas buying, however, appeared to be somewhat disappointing. Industrial production in November remained unchanged, and nonagricultural employment showed no improvement, both being at about midyear levels. Wholesale commodity price averages continued unchanged.

Gross national product was estimated at a seasonally adjusted annual rate of $562 billion to $563 billion for the fourth quarter, compared with $555 billion in the third quarter. If realized, the fourth-quarter rate would be 4.5 per cent above a year earlier and 11 per cent above the preceding cyclical peak in the spring of 1960.

Bank credit continued to expand vigorously in November, although the rise was less rapid than in the preceding 3 months. The money supply rose substantially further and apparently continued upward in early December. Time deposits continued their rapid rise. Free reserves in the 2 weeks preceding this meeting were at the lowest level in 2 years, but their decrease apparently produced no undue restraining effect in central money markets. Short-term interest rates continued more or less stable, and member bank borrowing at the Reserve Banks held around the somewhat higher level reached in November.

A time of year was approaching when seasonal factors, which for some weeks had been exerting an upward influence on short-term rates, would normally begin to exert a downward influence. For this reason, a slightly firmer tone in money markets might become necessary if the current level of short-term interest rates were to be maintained.

The balance of payments deficit in November showed a sharp drop from the record level of October, when certain temporary factors were at work. In the first half of December the improvement observed in November seemed to continue. Gold and foreign exchange markets remained generally calm, and the monetary gold stock had not declined for several weeks.

The shadings of policy preference expressed at this meeting were relatively limited, with no Committee member recommending a decisive move in the direction of either more or less monetary ease. There continued to be some differences of opinion, however, as among policies of slightly more ease, slightly less ease, or the same degree of ease that had prevailed, the reasons for these views being largely the same as those expressed at other recent meetings. At those meetings, several members who sup-





ported a continuation of prevailing policy had at the same time expressed the view that a somewhat less easy policy might be appropriate after the economy had passed the peak of seasonal credit demand. This now proved to be the majority position.

The majority position took into account the anticipated downward pressures on short-term rates of a seasonal nature, it being felt that a continuation of the current degree of monetary ease in an environment of substantial seasonal decline in interest rates might have unfavorable effects, especially from the standpoint of the balance of payments. The majority also noted the relatively high rate of increase in bank reserves in recent weeks and the degree of liquidity in the economy. In their view, monetary and credit policy had made a significant contribution to the stimulation of domestic economic expansion.

The position taken by the minority reflected doubt that net capital outflows would be much affected by some seasonal easing of U.S. interest rates in the present slightly improved atmosphere in international financial markets. Those holding this view preferred to continue undiminished the prevailing financial stimulus to domestic activity.

To reflect the views of the majority, the current economic policy directive issued to the Federal Reserve Bank of New York was modified to read as follows:

It is the current policy of the Federal Open Market Committee to accommodate moderate further increases in bank credit and the money supply, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the lack of any significant improvement in the U.S. balance of payments and the recent substantial increase in bank credit, but at the same time recognizes the unsatisfactory level of domestic activity, the continuing underutilization of resources, and the absence of inflationary pressures.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to offsetting the anticipated seasonal easing of Treasury bill rates, if necessary through maintaining a firmer tone in money markets, while continuing to provide moderate reserve expansion in the banking system.

Votes for this action: Messrs. Martin, Hayes, Balderston, Ellis, Fulton, King, and Shepardson. Votes against this action: Messrs. Bryan, Deming, Mills, Mitchell, and Robertson.

Mr. Robertson, one of those who dissented from the action taken by the Committee, believed that it would be a mistake to undertake a firming of the money market simply in order to offset anticipated declines in Treasury bill rates. With the pace of domestic business activity still undesirably slow and short-term international financial flows less troublesome than earlier, he felt that it would be appropriate to maintain reserve availability at a level that would sustain a gradual further monetary expansion even if some seasonal decline in short-term interest rates developed.