

EIFTY-FIRST

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System



COVERING OPERATIONS FOR THE YEAR

1964

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS IN 1964

Period	Action	Purpose
January– mid-August	Increased the System's holdings of U.S. Government securities, after having reduced them seasonally early in the year. On balance, total holdings rose about \$1.1 billion, \$300 million of which represented net purchases of securities with maturities of over 1 year. Member bank borrowings averaged about \$275 million.	To provide for moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy while fostering improvement in the capital account of U.S. international payments, after offsetting seasonal downward pressures on short-term interest rates early in the period.
Mid-August– late November	Increased the System's holdings of U.S. Government securities by about \$1.5 billion, of which \$600 million represented net purchases of securities with maturities of more than 1 year. Member bank borrowings averaged about \$350 million.	To maintain slightly firmer conditions in the money market with a view to minimizing the outflow of funds attracted by higher short-term interest rates abroad while offsetting reserve drains and providing for growth needs of the domestic economy.
Late November	Raised discount rates from 3½ to 4 per cent. Raised maximum interest rates payable on savings deposits held for less than 1 year from 3½ to 4 per cent and those on other time deposits from 4 to 4½ per cent for maturities of 90 days or more and from 1 to 4 per cent for maturities of 30-89 days.	To counter possible capital outflows that might be prompted by any widening spread between money market rates in this country and the higher rates abroad, following a rise in official and market rates in London, while at the same time ensuring that the flow of savings to commercial banks remains ample for the financing of domestic investment.
Late November– December	Increased the System's holdings of U.S. Government securities by about \$765 million, part of which represented securities acquired under repurchase agreements. Member bank borrowings averaged about \$275 million.	To offset seasonal reserve drains and to accommodate further moderate expansion in aggregate bank reserves while ensuring that the rise in money market rates following the discount rate actions did not restrict the availability of domestic credit.

point in December but still was only fractionally above the level reached in July. Nonfarm employment also rose, but the unemployment rate in December was 5.5 per cent, the same as a year earlier. Retail sales advanced in December, and weekly reports for early January indicated that sales were holding close to the advanced December rate.

The weekly index of wholesale prices edged up in early January as some industrial prices strengthened and earlier sharp declines in livestock and meat prices were followed by some recovery. Over-all, however, wholesale prices remained in the narrow range that had prevailed for several years. Stock market prices rose further in January on large trading volume.

Seasonally adjusted bank credit apparently continued to expand in early January but at a much slower rate than in the preceding 2 months. The money supply and time and savings deposits both rose substantially further. Free reserves fluctuated widely from week to week, but it appeared that the January average would be about \$150 million, not much different from December.

The yield on 3-month Treasury bills had edged down slightly since the preceding meeting to 3.50 per cent, the same as the discount rate. The Treasury's recently completed advance refunding had little effect on yields on Government bonds, which were relatively stable near the levels reached at the year-end. Yields on new corporate bonds had eased recently from the highs recorded earlier in the month, and municipal yields also declined somewhat. It was reported that the Treasury would announce shortly the terms of its February refunding.

The consensus of the Committee at this meeting favored no change in monetary and credit policy. Among the reasons advanced by different members were the imminent Treasury financing, the lack of any significant change in the economic and financial situation, and the advantages seen in maintaining the present policy posture until the effects of the impending Federal tax cut could be observed. Some members noted that they con-

tinued to be concerned about recent rapid rates of growth in bank reserves, bank credit, and nonbank liquidity, and about actual and potential price developments.

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

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, and taking into account an imminent Treasury refunding, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Votes against this action: None. Abstaining: Mr. Mills.

Mr. Mills abstained because he felt that he could not subscribe to a policy directive that called for "no change" when in reality fluctuations in the supply of bank reserves in his judgment had signaled policy changes that were unrecognized in the directives.

February 11, 1964

1. Authority to effect transactions in System Account.

New data available since the previous meeting of the Committee reflected further improvement since the beginning of the year in the balance of payments, continuing high levels of domestic business activity, and stability in broad commodity price indexes. Business plans for 1964 now called for plant and equip-

ment outlays 9 per cent higher than in 1963, according to a special private survey taken in January. In October the same survey had indicated that 1964 outlays would be 4 per cent above the 1963 level.

There were no significant changes in January in industrial production, nonfarm employment, or the unemployment rate. Retail sales also were little changed from the advanced December level. Industrial commodity prices remained firm, and prices of farm products and foods increased from their low December level. Stock market prices rose further to new highs.

Bank credit declined a little more than seasonally in January following a period of vigorous growth in late 1963. Most categories of loans showed only moderate increases, and the expansion in total loans was more than offset by reductions in bank holdings of securities, particularly Treasury securities. The seasonally adjusted money supply declined in the second half of the month, after rising substantially in the first half. Time deposits expanded more in January than in other recent months, largely because of a sharp pick-up in negotiable time certificates of deposit outstanding.

In security markets, the yield on 3-month Treasury bills remained at or slightly above the discount rate. Treasury bond prices had firmed somewhat recently as investor demand improved under a combination of influences, including lower-than-anticipated estimates of Federal expenditures for the fiscal year 1965, statements by Federal officials suggesting that they expected bond yields to remain relatively stable in the period ahead, and the continued improvement in the balance of payments. Corporate security prices also were stronger than earlier. The volume of new corporate security issues, including private placements, was relatively large in January, but public offerings were light, as is usual early in the year.

Tentative figures indicated that in January the deficit in the U.S. balance of payments was at a rate slightly below the reduced level of the second half of 1963. Cyclical expansion under way

in most industrialized foreign countries apparently was maintaining its momentum at the year-end.

The Committee agreed that its recent monetary and credit policy remained appropriate in view of the continued high rate of unemployment and the lack of immediate inflationary pressures domestically, and the reduction in the balance of payments deficit internationally. It was noted, however, that the improvement in the payments balance might later prove to have been temporary, and that price developments warranted close watching in light of the present state of business optimism and the likely expansionary effect of the prospective Federal tax reduction. It also was noted that the tax cut might have been anticipated to some extent by spenders and investors, and that the magnitude and timing of effects still to come were highly uncertain. Several members expressed the view that it would be inappropriate to modify policy in the direction of less ease at present in the absence of clear and convincing evidence of the need for such a change.

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

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Daane, Irons, Mitchell, Robertson, Scanlon, Shepardson, and Treiber. Votes against this action: None. Abstaining: Mr. Mills.

Mr. Mills abstained on the same grounds as at the preceding meeting.

2. Amendment of continuing authority directive.

The Account Manager suggested that under present conditions the continuing authority directive to the Federal Reserve Bank of New York, which had been amended on January 7, 1964, to raise from \$1 billion to \$1.5 billion the limit on changes in the System Open Market Account holdings of securities in the period between meetings of the Committee, might appropriately be changed to restore the former figure of \$1 billion. Accordingly, the Committee amended Section 1(a) of that directive by inserting "\$1 billion" and deleting "\$1.5 billion."

Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Daane, Irons, Mills, Mitchell, Robertson, Scanlon, Shepardson, and Treiber. Votes against this action: None.

March 3, 1964

1. Authority to effect transactions in System Account.

Attention was focused at this meeting on two developments of major importance: (1) enactment on February 26 of legislation reducing Federal tax rates on personal and corporate incomes, effective as of the first of the year, and reducing withholding rates on personal incomes from 18 to 14 per cent, effective March 5; and (2) an increase on February 27 from 4 to 5 per cent in the discount rate of the Bank of England.

These events occurred against a background of strength in the domestic economy, a high degree of consumer and business confidence in economic prospects, and further improvement in the U.S. balance of payments. At the same time, commodity price averages were relatively stable, unemployment continued

high, and industrial capacity was being used at less than optimum rates.

In Government securities markets the initial reaction was quite mild both to the tax cut, which had been long anticipated, and to the increase in the Bank of England discount rate. Yields on intermediate- and longer-term issues rose slightly, and the 3-month Treasury bill rate moved up to 3.60 per cent from the levels closer to the 3½ per cent discount rate that had prevailed for several months.

At commercial banks, credit expansion appeared to have resumed in February after a small decline in January, according to the seasonally adjusted figures. The February expansion was relatively large, and the annual rate of growth for the first 2 months of the year probably was close to the 8 per cent average rate of increase in 1963. Preliminary figures indicated that the money supply had drifted down somewhat further from the early January high, but that it was 4 per cent above a year earlier. Savings deposits at commercial banks had tended to grow less vigorously since the first of the year than earlier, but the expansion in time deposits, including negotiable certificates, continued rapid. Preliminary figures indicated that free reserves in February averaged about \$100 million, somewhat below the average levels of December and January.

Although the volume of new private security issues was fairly light in February, yields on new corporate issues had been under some upward pressure in recent weeks. In part this reflected renewed market discussions of the possibility of higher interest rate levels in coming months.

Tentative figures on the U.S. balance of payments in February suggested that the deficit in that month was below the reduced January level despite a sizable increase in domestic acquisitions of foreign bonds. Through December the U.S. trade balance was continuing to improve, and in January imports were relatively stable for the eighth month in a row.

The Committee agreed that it was too early to assess the