FIFTY-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.

broad commodity price averages, even though additional price increases have occurred in some materials markets; and the recent reduction in bank credit and monetary expansion from the high rates of summer. It also gives consideration to the persistence of a sizable deficit in the U.S. balance of payments.

To implement this policy, and taking into account the current Treasury financing, 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, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Hayes.

Mr. Hayes favored undertaking operations designed to encourage somewhat firmer money market conditions immediately after the current Treasury financing was completed. He thought the situation posed by the persistence of a balance of payments deficit at the current rate was sufficiently serious to outweigh other considerations that might argue against a change in policy at this meeting. In his judgment the domestic economy was fully strong enough to withstand a moderate policy change without damage. Moreover, he saw merit in a slight policy change from the domestic standpoint, in light of his views that bank credit had grown at a rapid rate thus far in 1964 and that a threat of inflationary developments existed at present. Accordingly, he dissented from this action.

2. Amendment of continuing authority directive.

On the recommendation of the Account Manager, Section 1(b) of the continuing authority directive to the Federal Reserve Bank of New York was amended to raise the dollar limit on

System Open Market Account holdings of bankers' acceptances from $75 million to $125 million. The concurrent percentage limit on holdings, of 10 per cent of the total of bankers' acceptances outstanding, was left unchanged. With this amendment, Section 1(b) read as follows:

To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $125 million or 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

In 1958, when the $75 million limit on System Account holdings of bankers' acceptances had been established, the dollar volume of acceptances outstanding in the market was less than half of its current level. The increase in the dollar limit to $125 million was considered appropriate in view of the substantial growth in the market since that time.

November 24, 1964

Authority to purchase and sell foreign currencies.

On the day preceding this meeting, which was held by telephone, the Bank of England had raised its discount rate from 5 to 7 per cent in another of a series of actions taken in response to heavy pressure on sterling in foreign exchange markets.[1] At this meeting the Special Manager of the System Account reported that pressure on sterling had abated for only a brief period following this action, and had subsequently been renewed in force. He indicated that a number of central banks were consulting regarding the possibility of developing a broad package of financial assistance to Britain, designed to reinforce that country's efforts to defend sterling. On recommendation of the Special Manager, the Committee authorized an increase in the reciprocal currency (swap) arrangement with the Bank of England from $500 million to $750 million, subject to the agreement of the Bank of England and to the satisfactory development of a broad package of credits to Britain.

Concurrently, the Committee raised the dollar limit specified in the first paragraph of the continuing authority directive for foreign currency transactions on the aggregate amount of foreign currencies held under reciprocal currency arrangements by $250 million to $2.35 billion.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

December 1, 1964

Authority to effect transactions in System Account.

Domestic financial markets had reacted in a moderate and orderly fashion to the preceding week's official actions, which followed the sterling crisis. These actions included successive increases in discount rates by the Bank of England, the Federal Reserve Banks, and the Bank of Canada; an increase in the maximum interest rates permitted on time and savings deposits of member banks under the Federal Reserve Board's Regulation Q; and announcement of a $3 billion package of short-term credits to Britain by 11 countries, including the United States, and the Bank for International Settlements.

Interest rates, particularly on short-term instruments, adjusted upward promptly in response to the official rate actions. Yields on 3-month Treasury bills advanced about 25 basis points to about 3.85 per cent, and Federal funds frequently traded at the new Federal Reserve discount rate of 4 per cent. The rise in bond yields, however, was quite modest; yields on long-term Treasury issues advanced about 5 basis points on the average, and those on outstanding corporate and municipal bonds appeared to have adjusted to about the same extent. Common stock prices dropped only slightly on somewhat heavier trading volume, and neither spot nor futures markets for sensitive commodities showed unusual changes in price quotations or activity. A number of commercial banks raised rates offered on time and savings deposits, but announcements of increases in prime lending rates by a few banks (all outside New York) were not followed immediately by others.

From reports at this meeting it appeared that the domestic business situation had remained strong in recent weeks, although current measures of activity continued to reflect the effects of recent and threatened work stoppages. Retail sales declined by about 3 per cent in October and somewhat further in early November, both because of a shortage of new cars resulting from the recent auto industry strikes and because of unseasonably warm weather. Industrial production was estimated to have returned in November to about the September level as auto output was partly restored and as production in other industries

[1] As indicated in the entry for Nov. 23, 1964, in the preceding Record of Policy Actions of the Board of Governors, on the same date the Board approved increases in Federal Reserve discount rates from 3½ to 4 per cent and amended the Supplement to Regulation Q to raise maximum permissible interest rates on time and savings deposits of member banks.