

FORTY-SEVENTH  
*Annual Report*

OF THE  
BOARD OF GOVERNORS  
of the Federal Reserve System

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COVERING OPERATIONS FOR THE YEAR  
1960

ANNUAL REPORT OF BOARD OF GOVERNORS

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	<p>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.</p> <p>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.</p>	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.

FEDERAL RESERVE SYSTEM

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	<p>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.</p> <p>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.</p>	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.

ANNUAL REPORT OF BOARD OF GOVERNORS

RECORD OF POLICY ACTIONS  
FEDERAL OPEN MARKET COMMITTEE

The record of policy actions of the Federal Open Market Committee is presented in the Annual Report of the Board of Governors pursuant to the requirements of Section 10 of the Federal Reserve Act. That section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its Annual Report to the Congress a full account of such actions.

In the pages that follow, there is an entry with respect to the policy actions taken at each of the 17 meetings of the Federal Open Market Committee during the calendar year 1960, including the votes on the policy decisions as well as a resumé of the basis for the decisions, as reflected by the minutes of the Committee. It will be noted that in some cases the policy decisions were by unanimous vote, and that in other cases dissents were recorded. Further, as this record indicates, the fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy. The Manager of the System Open Market Account attends the meetings of the Committee, and the shades of opinion expressed at those meetings provide him with guides to be used in the conduct of open market operations, within the framework of the policy directive adopted by the Committee.

The policy directive of the Federal Open Market Committee that was in effect at the beginning of 1960 had first been adopted in such form at the meeting on May 26, 1959, and had been continued in that form at succeeding meetings during the re-

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mainder of the calendar year. The last such meeting was held on December 15, 1959. The directive, which was issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account, instructed that Bank:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities, and (c) to the practical administration of the Account; provided that the aggregate amount of securities held in the System Account (including commitments for the purchase or sale of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than \$1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate \$500 million.

January 12, 1960

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

The Federal Open Market Committee continued without change the directive to the Federal Reserve Bank of New York, most recently renewed at the meeting on December 15, 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, Allen, Balderston, Deming, Erickson, Johns, King, Robertson, Shepardson, and Szymczak. Vote against this action: Mr. Mills.

Indicators of business activity were almost all moving upward at the time of this meeting. Settlement of the steel strike, accomplished several days earlier following operations under a Taft-Hartley Act injunction for approximately two months, removed a major element of uncertainty from the economic picture, although it left unresolved questions with respect to steel prices and also with respect to wage and price consequences in other industries. The Board's revised index of industrial production, at 156 per cent of the 1947-49 average in November 1959, was estimated to have risen to 163 or 164 in December and in January appeared almost certain to surpass the prestrike peak of 166. On a seasonally adjusted basis, construction activity, which had been lagging for several months, was up in December. Gross national product was estimated at an annual rate of \$481 billion in the fourth quarter of 1959 and was expected to come close to an annual rate of \$500 billion in the first quarter of 1960. Wholesale prices were substantially unchanged from year-ago levels.

Increases in interest rates and severe pressures on the money market during December were attributed in part to large credit demands to cover seasonal needs, in part to restoration of inventories run down by the steel strike, and in part to market expectations as to forthcoming developments. With a lessening of seasonal financing pressures, some slackening in deferred inventory demands, and tardiness in the pickup of new issue flotations in the capital markets, interest rates steadied or declined slightly after the turn of the year. Factors influencing the money market included prospective Treasury financing operations, the announcement by the President of an anticipated small budget surplus for fiscal 1960, and the prospect of a larger surplus for fiscal 1961.

The consensus that developed from the examination by the Committee of the business and financial situation favored no change in credit and monetary policy, which had been directed for several months toward restraint on credit expansion. There was some sentiment for a slight lessening in the degree of restraint within the framework of the existing policy on the grounds that some moderate growth in the country's money supply should be encouraged in order to support the anticipated business expansion and to avoid excessive upward pressures on interest rates. However, other members of the Committee felt that the general attitude was clearly one of extreme optimism, that this was likely to stimulate excesses in credit use, that it was incumbent upon the System to maintain a posture of firmness in limiting credit expansion at this stage of the business cycle, and that any lessening of the existing degree of restraint ran the risk of increasing inflationary pressures, with resulting accelerated expansion in the dollar volume of activity, followed by painful readjustments. One or two of those present leaned slightly in the direction of a firmer degree of restraint than had prevailed recently.

The Committee's decision to continue without change the existing policy directive calling for operations to restrain inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities was reached after considering these several shades of opinion. Mr. Mills, who voted against the directive, renewed a proposal that the wording be changed to provide for operations fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary expansion. He expressed the belief that current conditions called for a policy of monetary restraint over the expansion of commercial bank credit, but he disagreed with the wording of the existing directive and its implementation to the extent that he did not think it allowed sufficient leeway for the volume of new credit that would foster an appropriate growth of the money supply.