

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

- (1) the discount rate of the Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills;
  - (b) Shall be for periods of not to exceed 15 calendar days;
  - (c) Shall cover only Government securities maturing within 15 months; and
  - (d) Shall be used as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.
2. Reports of such transactions shall be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.
  3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank of New York shall be sold in the market or transferred to the System Open Market Account.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Shepardson, and Szymczak. Vote against this action: Mr. Robertson.

The foregoing authorization had been renewed by the Committee in March of each year since it was approved unanimously by the Committee at a meeting on August 2, 1955. At this meeting, Mr. Robertson expressed the view that in recent times there had been a tendency to use repurchase agreements more frequently than had been contemplated at the time of the Committee's action in August of 1955. He felt that the Committee should minimize the use of such agreements and maximize cash trading. In addition, he suggested amendment of the authorization so as to confine the rates to the discount rate at the Federal Reserve Bank of New York, rather than to allow under some circumstances the use of a rate lower than the discount rate. This was because he considered it inequitable to permit nonbank dealers to borrow from the Federal Reserve System at rates below those prescribed for member banks.

In voting to renew the authority in its existing form, the majority of the Committee took the position that the repurchase instrument had proved to be a convenience to the Federal Re-

## FEDERAL RESERVE SYSTEM

serve System and of great importance in carrying out monetary policy, that its use should not be minimized, and that the authorization should not be changed to eliminate the right to use a rate lower than the discount rate under certain circumstances, if that appeared desirable.

Mr. Robertson dissented from the renewal of the existing authorization for the reasons indicated by him.

### 3. Review of continuing authorities or statements of policy.

This being the first meeting of the Federal Open Market Committee following the election of and assumption of duties by new members from the Federal Reserve Banks for the year beginning March 1, 1960, the Committee reviewed and reaffirmed all continuing statements of policy and authorities for operations. These included three statements of policy that had been renewed by the Committee each year since 1953 regarding the objectives of monetary and credit policy, the confining of operations for the System Account generally to short-term securities, and the preclusion unless expressly authorized by the Committee of transactions for the purpose of altering the maturity pattern of the System's portfolio by means of offsetting purchases and sales of securities.

By prearrangement, extensive consideration was given to the three statements of policy relating to these matters, but at the conclusion of the discussion the Committee decided to review the subject further in the light of certain suggestions that had been made. Accordingly, the action taken was to continue these three operating policies on a temporary basis with the understanding that they would be brought up again at a subsequent meeting.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

March 22, 1960

### 1. Authority to effect transactions in System Account.

Although underlying forces in the economy continued to re-

flect strength, moderate declines had occurred in certain indices of activity. Industrial production, as measured by the Board's index, slipped slightly from January to February, while housing starts in February were at a seasonally adjusted annual rate approximately 20 per cent below the peak reached in the spring of 1959. Retail sales had been affected in the past several weeks by adverse weather conditions that prevailed throughout large areas of the country. On the other hand, unemployment and employment statistics showed improvement in February, new orders were up slightly in that month, and a recent survey of plant and equipment expenditure expectations indicated that plans were in line with earlier estimates. In summary, the balance of economic forces showed little change from three weeks earlier, and the more moderate appraisal of business prospects that had developed after the turn of the year continued to prevail generally.

Financial developments were highlighted by a continued decline in money rates, in contrast to the usual increase in such rates over the March tax and dividend period. During the three weeks since the previous Committee meeting, a significant decline occurred in rates on U.S. Government securities, particularly short-term issues, as exemplified by the establishment of a rate of 3.03 per cent in the weekly auction of 3-month Treasury bills on March 21, compared with 4.28 per cent in the auction on February 29. A heavy demand for Government securities from nonbank sources persisted. Federal Reserve operations, after absorbing a portion of the reserves released by the decline in bank deposits and in required reserves during February, subsequently added somewhat to the availability of reserves. Currently available figures indicated that the money supply, defined in terms of currency and demand deposits, had declined by about a billion dollars in February, accompanied by an accelerated rate of deposit turnover, and preliminary statistics for early March suggested that the downward trend of the money supply had not been reversed.

There was a clear consensus, in the light of current business

uncertainties, the nature of financial developments, and the imminence of Treasury financing, scheduled for announcement around the end of the month, that open market operations during the period immediately ahead should be directed toward maintaining about the existing situation, with no tightening and with no further relaxation.

In the circumstances, the Committee continued the policy directive adopted at the preceding meeting (March 1, 1960), which provided for fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

## 2. Review of continuing authorities or statements of policy.

At the meeting on March 1, 1960, it was agreed to continue the Committee's statements of certain operating policies on a temporary basis, with the understanding that the matter would be brought up again at a subsequent meeting. After additional discussion at this meeting, the operating policies were reaffirmed, as follows:

a. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

b. Operations for the System Account in the open market, other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

c. Transactions for the System Account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

Votes for this action: Messrs. Martin, Balderston, Bryan, Fulton, Leedy, Mills, Robertson, Shepardson, and Szymczak.

Votes against this action: Messrs. Hayes and Bopp.

In voting to reaffirm these policies, it was noted that any of them could be changed by majority vote at any meeting of the Federal Open Market Committee and that, according to their wording, the policies were to be followed only until such time as they might be superseded or modified by further action of the Committee. These policies had been carried as Committee statements since 1953, and, as provided therein, exceptions had been made on certain occasions when authorized by the Committee. It being felt that the experience with the operating policies had been satisfactory, the majority of the Committee found no sufficient reason to change their wording at this time.

Mr. Hayes voted against reaffirmation of the operating policies in their existing form, since he felt that the Committee should not take any action which, in his opinion, would voluntarily tie its hands, and it should not create an impression of an excessively rigid approach to open market operations. Further, he felt that the operating policies did not reflect his view that monetary policy involved more than consideration of bank reserves alone. He would have accepted various suggestions for reformulating the operating policies, including the rewording that he had suggested in March 1958 and in March 1959, except that, in statement "a," in order that there be no question of his belief that monetary policy involved more than concern with bank reserves alone, he would substitute the word "primarily" for the word "solely."

Mr. Bopp felt that inasmuch as the Federal Open Market

Committee was meeting regularly on approximately a three-week basis, it was not necessary to have these continuing operating policies. If the operating policies were to be retained, however, he believed they should be so phrased as to indicate that exceptions might be made as circumstances warranted.

April 12, 1960

1. Authority to effect transactions in System Account.

While economic activity continued generally at a satisfactory level, developments in the 3-week period since the preceding Committee meeting were somewhat mixed and did not serve to dispel the atmosphere of uncertainty with respect to the business outlook that had prevailed since shortly after the turn of the current year. With the advent of more favorable weather, substantial improvement occurred in department store and automobile sales during the latter part of March, while surveys of consumer attitudes and buying plans suggested continued optimism. Less favorable factors included a contraseasonal rise in unemployment in March, a declining trend in the rate of steel production, and a persistent downward movement in construction activity. Commodity prices were substantially unchanged. The latest available statistics on exports and imports reflected continuation of the encouraging trend of the past several months, and boom or near-boom conditions continued to develop in most industrialized countries abroad.

Total credit demands in the first quarter of the current year had not been as large as during the similar period of 1959. The Federal Government retired more debt than in the first quarter of any year since 1956, and borrowing in the long-term capital market by corporations and by State and local governments was substantially smaller than in recent years. Although short-term borrowing by business at banks continued at a high level in March, and consumer borrowing showed an increase, the total volume of bank credit continued to decline as the aforementioned