

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	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.  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.	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	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.  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.	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.

**2. Authority to acquire Treasury bills through "swap" transactions.**

The authorization given at the meeting on April 12, 1960, and renewed at the May 3 meeting, to acquire up to \$150 million of 1-year Treasury bills maturing July 15, 1960, either by outright purchase or by swapping other bills, was continued until the date of the next meeting of the Committee.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Fulton, King, Leedy, Mills, Shepardson, and Irons. Mr. Robertson voted "no" on this action insofar as it extended to the acquisition of the 1-year bills by "swap" transactions.

June 14, 1960

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

The data presented for the Committee's consideration included an extensive review of domestic and international business and financial developments since the recession low of 1958. Attention was drawn to the developing business investment boom abroad and to the fact that in many foreign countries the current problems of adjusting monetary policy to economic events stood in contrast to those in the United States. The domestic situation reflected an absence of dramatic business or financial developments since the breakdown of the Summit Conference in Paris four weeks earlier. While exports were expanding relative to imports, in none of the broad categories of domestic demand—inventory accumulation, capital goods, residential building, consumer spending, or Government activity—was a marked upsurge evident. In general, activity continued at a comparatively high level, with prices relatively stable.

The privately held money supply declined substantially in May while, on the other hand, the rate of turnover of deposits continued at an advanced level, and holdings of liquid assets other than money appeared to have risen further. Interest rates in markets for both short-term and long-term funds had been moving downward recently, reflecting not only the sharp reduction in Treasury requirements this year but also some slackening of other credit demands.

Net borrowed reserves of member banks had been progressively reduced since the beginning of the year as required reserves declined more than seasonally. In recent weeks the Federal Reserve System had purchased Government securities, and the net borrowed reserve position of banks gave way in early June to small free reserve positions. A reduction from 4 per cent to 3½ per cent in the discount rates of the Federal Reserve Banks, accomplished within the past two weeks, also tended further to ease restraint on bank credit expansion. Despite the easing of reserve positions, however, no significant expansion of total bank credit had occurred. Although borrowings from the Federal Reserve Banks were considerably below the levels prevailing earlier in the year, city banks still had a large volume of other indebtedness, consisting mostly of purchases of Federal funds from other banks. The banking system also continued to dispose of holdings of Government securities, principally Treasury bills and other short-term securities. In view, however, of the continued demand for short-term investments from nonbank investors, bill rates declined further and the gap between such rates and the discount rate continued to be substantial.

Since no marked shifts in the economic situation were visible, and since the degree of responsiveness of the banking system to the recent easing of reserve positions and to interest rate differentials was still uncertain, the consensus at this meeting favored waiting watchfully in the period immediately ahead, although with the understanding that any deviations in the conduct of open market operations should be on the side of ease rather than restraint. In the light of this consensus, the policy directive adopted at the meeting on May 24, 1960, which provided for fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion, was renewed without change.

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

## ANNUAL REPORT OF BOARD OF GOVERNORS

### 2. Authority to acquire Treasury bills through "swap" transactions.

The authorization given at the meeting on April 12, 1960, and renewed at the two subsequent meetings, to acquire up to \$150 million of 1-year Treasury bills maturing July 15, 1960, either by outright purchase or by swapping other bills, was continued until the date of the next meeting of the Committee.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, and Szymczak. Mr. Robertson voted "no" on this action insofar as it extended to the acquisition of the 1-year bills by "swap" transactions.

July 6, 1960

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

Available data indicated that at midyear economic activity was at a high, probably close to record, level. Little upward momentum was evident, however, and uncertainty regarding future trends continued to be widespread in business circles. According to preliminary estimates, industrial production had been maintained in June at approximately the May level, which was slightly higher than April, while gross national product in the second quarter of the year appeared to have shown a modest advance over the first quarter, due principally to a somewhat greater seasonally adjusted rate of inventory accumulation than had been anticipated earlier. Retail sales of automobiles and consumer goods increased in June following declines in May, and prices, particularly at wholesale, continued to be quite stable. The level of unemployment remained relatively high, steel mill operations declined further through the month of June, and the seasonally adjusted rate of total construction outlays also had declined. April data on U.S. foreign trade and preliminary May figures indicated a slow but steady increase in exports and, if anything, a slight decline in imports; thus, improvement in the

## FEDERAL RESERVE SYSTEM

trade sector of the balance of payments was tending to offset an opposite trend in the capital sector.

In the period since the preceding Committee meeting there had been varied and substantial pressures on money and credit markets, but for the period as a whole large net Federal Reserve purchases of Government securities kept those pressures from constricting bank reserve positions. During the month of June there was a further drop in interest rates, particularly in the short-term sector; except for the summer of 1958, Treasury bill rates were lower than at any time since early 1956. The decline in interest rates reflected mainly fundamental market forces that had been in process earlier, including the changed position of the Federal budget from large deficit to small surplus, the lessened fear of inflation, and a tendency to shift a greater part of the public's liquid asset holdings from cash to securities. However, the reduced pressure on the reserve position of banks and the reduction of Federal Reserve discount rates in the first half of June also exerted an influence. In June there was a substantial expansion in the volume of new financing in private capital markets, but the seasonal increase in bank loans and the seasonal decline in bank holdings of securities were both moderate in amount. While demand and time deposits increased, it seemed unlikely that the seasonally adjusted rise in demand deposits was sufficient to offset the sharp drop in May. Treasury deposits continued at a high level in June, and at the time of this meeting financing operations that would help to meet large cash needs during the next two months were in process.

Although some Committee members favored moving somewhat further in the direction of making reserves available to the banking system, the consensus for the period immediately ahead was to continue to provide reserves at approximately the present rate, within the general framework of the existing policy directive to the New York Bank which called for fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion. Accordingly, the directive was renewed.