FORTY-SEVENTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1960

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.

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.

lease of additional vault cash to be counted as required reserves or through a reduction of the reserve requirement against demand deposits of member banks in central reserve cities, both of which actions would serve to implement the reserve requirement legislation enacted in 1959.

Insofar as it described the objectives of domestic monetary policy, the existing directive to the New York Reserve Bank was regarded as continuing to be appropriate. However, in view of the increasing import of international developments in relation to problems within the Open Market Committee's jurisdiction, a matter to which the Committee had been giving close attention for some time, it was considered desirable that specific reference now be made to such developments in the policy directive. Accordingly, clause (b) of the directive was amended for that purpose. The other change in the first paragraph of the directive, enlarging the permissible magnitude of Open Market Account operations until the next Committee meeting, was made in recognition of the volume of transactions that might have to be conducted by the Account in pursuing a program such as envisaged by the consensus.

November 22, 1960

Authority to effect transactions in System Account.

Although the downward drift of certain key statistical indicators that had been in process since about the middle of the year leveled off in October, this appeared to be attributable for the most part to temporary or unusual factors; no fundamental moderation of recessionary tendencies in the general economy was believed to have occurred. As to prospects for the near-term future, recently released surveys of the expectations of business-

men and consumers failed to provide a basis for optimism regarding any significant reversal of trends. The October rise in the seasonally adjusted rate of unemployment was a matter of concern, especially since normal seasonal trends might be expected to result in a further increase in the number of unemployed over the next several months. The prevailing tone was therefore one of mild deterioration, but the declines in economic activity that had occurred thus far were less severe than those in 1954 and 1957-58, and the available evidence did not seem to suggest impending acceleration of the rate of decline.

Statistics through the end of October indicated that some monetary expansion, in accordance with the objectives stated by the Committee in its current policy directive, had been taking place. Over a 4-month period total loans and investments of all commercial banks had increased almost 4 per cent, with the growth concentrated in holdings of Government securities. While most of this growth in earning assets reflected expansion in time deposits, the active money supply (demand deposits and currency) also had risen. The increase in member bank total reserves in the 6-month period ending with October was a direct reflection of the credit-easing actions taken by the Federal Reserve, which, in the attainment of domestic credit policy objectives, had more than compensated for the impact on reserves of the outflow of gold.

The fairly large outflows of capital from the United States that began earlier in the year appeared to have been continuing, and foreign gold purchases thus far in November exceeded the total for each of the two preceding months. Apart from capital movements, however, the United States apparently was close to equality of its international receipts and payments, with the merchandise trade surplus continuing to be substantial.

It was the consensus that no change in the current degree of monetary ease was called for and that a comfortable reserve position should be maintained in the market. One member of the

Committee, however, expressed the strong feeling that, in the light of prevailing economic conditions and in order to give monetary policy a chance to contribute toward reversing the trend of the economy, the total volume of bank reserves should be permitted to rise further—an action that he felt would fall within the bounds of the present directive.

In view of the fact that the recent actions of the Board of Governors with respect to member bank reserve requirements, including the release of all vault cash to be used in meeting required reserves, were soon to become effective, statistical yardsticks seemed likely to be less indicative than usual of the actual state of the money market, making it necessary in the forthcoming period to rely more than usual on the feel of the market in gauging operations for the System Open Market Account. The weight of opinion within the Committee was to the effect that the Management of the Account should not act hastily to counteract temporary bulges in reserves that might result from the action on vault cash, particularly since previous experience suggested that it might take some little time for the newly available reserves at banks located outside of central reserve and reserve cities to find their way into the money market. The rather general hope continued to be expressed that System open market operations could be so conducted as not to contribute to any significant reduction of short-term market rates below prevailing levels.

The directive to the New York Reserve Bank, which provided for encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments, was renewed except that the latitude for increasing or decreasing the portfolio of the System Account, which at the preceding meeting had been raised to $1.5 billion, was restored to the customary figure of $1 billion.

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

December 13, 1960

Authority to effect transactions in System Account.

The slowing of the downward drift of economic activity suggested by some October statistics had now proved to be clearly temporary as subsequently available evidence revealed further mild contraction in November and early December. The labor market had weakened further, and industrial production in November fell to a point about 5 per cent below the peak reached in the second quarter of the year. New orders for durable goods declined, order backlogs were further reduced, and inventory liquidation was sizable, while retail sales showed little change from the October level. According to a survey that had recently become available, business outlays for plant and equipment decreased in the third quarter of the year and business plans indicated additional decline in the fourth quarter.

The demand for bank loans, especially business loans, continued to be slack in November, and the money supply was down sharply. The decline in the U.S. gold stock in November had been about $500 million, reflecting continued outflows of capital and some purchases of gold by smaller countries to increase the gold proportion of their reserves.

It was agreed by the Committee that ample reserves should be available in the market to meet seasonal credit needs and any revival in credit demands, and to compensate for the outflow of gold. In view of the persistent downward drift of domestic economic activity and in light of the monetary contraction that occurred in November following the rise in October, some Committee members were inclined to feel that a moderately greater degree of ease than had prevailed recently should be sought, and at least one urged an increase in the volume of bank reserves even if the level of short-term interest rates were to decline. It was the majority view, however, that a continuation of the current degree of ease would be the preferable objective. This view reflected the feeling that, at a time when signs of cyclical revival in credit demands were not more definite, little would be accom-