FORTY-EIGHTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1961

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1961

Period	Action	Purpose of action
January	Limited net sales of U.S. Government securities from Federal Reserve portfolio to about $500 million. Member bank borrowing at Reserve Banks averaged only $50 million.	To encourage bank credit and monetary expansion by absorbing only part of seasonal inflow of reserve funds not otherwise offset by a large gold outflow.
February-August	Bought substantial amounts of U.S. Government securities with maturities over 1 year, following February 20 announcement that System open market operations would include securities outside the short-term area. These purchases were partly offset by net sales of short-term securities. Total System holdings of Governments increased about $700 million. Member bank borrowings averaged $75 million.	To encourage bank credit and monetary expansion while avoiding direct downward pressure on short-term interest rates, thereby moderating pressures on the U.S. balance of payments from outflow of short-term capital attracted by higher interest rates abroad.
September-December	Bought or sold at different times varying amounts of U.S. Government securities, including securities with longer maturities. Total System holdings of Government securities increased about $1.6 billion. Member bank borrowings at Reserve Banks remained generally low.	To continue to encourage bank credit and monetary expansion while allowing for changing reserve needs due to seasonal and other factors, including a large gold outflow, and while continuing to give consideration to the balance of payments problem.
December	Raised, effective Jan. 1, 1962, maximum interest rates payable by member banks on any savings deposit from 3 to 3½ per cent, and to 4 per cent on those left in the bank for 1 year or more; also raised maximum rates on time deposits with a maturity of 6 months to 1 year from 3 to 3½ per cent, and to 4 per cent on those deposits with a maturity of a year or longer.	To enable banks to compete more effectively for savings and other time deposits, including foreign time deposits, thus moderating pressures on the U.S. balance of payments, and, over the long run, to offer additional incentive for the accumulation of savings required for financing future economic growth.

System Open Market Account. The directive that was in effect at the beginning of 1961 instructed the New York 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 encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments, 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 10, 1961

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 13, 1960, calling for operations with a view to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments.

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

The downward drift that had characterized economic developments since the summer of 1960 continued in December. While there were no signs of accelerating downward momentum, neither was there evidence of a revival near at hand, and a further contraction of modest proportions seemed to be the most likely prospect for the near future. Preliminary estimates indicated that gross national product had held about even in the fourth quarter of 1960, but that industrial production was off 1 or 2 points in December from the November level, bringing the decline from July to around 6 per cent. Unemployment rose, with indications that further increases were likely, while prices of sensitive materials continued to decline and the average of all wholesale prices also drifted down a little. Total retail sales, seasonally adjusted, had also fallen off in December, reflecting primarily a softening of automobile sales. However, the downdrift that the economy had been experiencing was milder than during comparable recession phases of other postwar cycles, and it appeared possible that manufacturers of most products had about completed their inventory adjustments, particularly as to raw materials and goods in process.

There was continuous ease in the money market during the 4 weeks preceding this meeting, as evidenced by a Federal funds rate averaging substantially below the discount rate and a further decline in borrowing at the Federal Reserve Banks. Bank credit in December showed a strong rise, with much of the strength attributable to borrowing by financial institutions and business concerns around the mid-December tax and dividend payment dates. The money supply, defined to include currency in circulation and privately held demand deposits, showed a modest increase in December; most of the deposit increase recently had been in the time category. Prospects were that the sizable amounts of reserves released in late December and early January by seasonal decreases in required reserves and currency in circulation would be partly offset by declines in float and a continued gold outflow. During the first week in January, gold outflow was at the rate of $130 million.

Although available reports suggested that the U. S. balance of trade was showing some improvement, the over-all balance of payments continued to pose a serious problem for the international strength of the dollar.

Taking all of these factors into consideration, it was the consensus of the Committee that in view of the state of the domestic economy the System should seek to maintain approximately the same amount of ease in the market as it had since the preceding meeting, at the same time paying close attention to developments in the international area. There was a minority view favoring greater ease in order to do what was possible to reverse the trend of the economy in this country. There were, on the other hand, some who believed that the System should "mop up" more of the ease that had prevailed, it being argued that the System had injected sufficient credit into the market and should concern itself more at this point with endeavoring to assure a short-term interest rate level conducive to checking the outflow of funds and possibly reversing it.

January 24, 1961

Authority to effect transactions in System Account.

The Federal Open Market Committee directed the Federal Reserve Bank of New York to continue to conduct open market operations with a view toward encouragement of monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments.

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

The decline in economic activity was continuing, with no discernible signs of a bottom having been reached. There was evidence of a continued rise in seasonally adjusted unemployment figures, and declines in employment and in industrial production were rather general. A further weakening in personal income and retail sales, along with a sharp drop in housing

starts during December, had also contributed to the decline. However, some encouraging developments were beginning to appear in the economic picture, including a continued large export surplus, signs of greater availability of mortgage money, though this had not yet led to noticeably lower interest charges or to expansion in residential construction, and slight signs of pick-up in steel production and orders.

There was ample evidence of continuing money market ease. However, after taking into account the usual seasonal patterns, bank credit developments during the first part of January were somewhat mixed. Bank loan-deposit ratios, while still relatively high by historic standards, had declined somewhat. Also, while there had been only a modest gain in the money supply proper during the second half of 1960, total nonbank liquid assets had risen at a rate almost equal to the average for the last 10 years.

A delicate situation existed in international financial markets, stemming mainly from the continued U. S. balance of payments deficit, and this created something of a dilemma for monetary policy. The problem was one of providing sufficient reserves to the banking system to encourage growth of the domestic economy, which was operating at a relatively low level, while endeavoring to prevent short-term rates from declining to levels that might aggravate the already sizable payments deficit of the United States. The consensus as to policy for the period immediately ahead was that there should be no change in the existing degree of monetary ease and that in operating the Open Market Account the Management should continue to give close attention to the level of short-term rates in view of the current international financial situation. However, at least one member of the Committee (Mr. Robertson) favored a moderately greater degree of ease, in view of the level of domestic economic activity.

February 7, 1961

1. Authority to effect transactions in System Account.

The Committee's directive to the Federal Reserve Bank of New York, calling for the encouragement of monetary expan-