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.

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-