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.

The Federal Open Market Committee further authorizes the Federal Reserve Bank of New York to enter into repurchase agreements with nonbank dealers in bankers' acceptances covering prime bankers' acceptances of the kinds designated in the regulations of the Federal Open Market Committee, subject to the same conditions on which the Federal Reserve Bank of New York is now or may hereafter be authorized from time to time by the Federal Open Market Committee to enter into repurchase agreements covering U.S. Government securities, except that the maturities of such bankers' acceptances at the time of entering into such repurchase agreements shall not exceed 6 months, and except that in the event of the failure of the seller to repurchase, such acceptances shall continue to be held by the Federal Reserve Bank or shall be sold in the open market. Such repurchase agreements shall be at the same rate as that applicable, at the time of entering into such agreements, to repurchase agreements covering U.S. Government securities.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Irons, King, Mills, Shepardson, Swan, Szymczak, and Wayne. Vote against this action: Mr. Robertson.

In voting against the continuation of the authority, Mr. Robertson stated that he felt the Federal Reserve System should encourage the utmost freedom of market forces and therefore should withdraw from active participation in the acceptance market in the absence of clear indication that such participation would yield specific public interest benefits. He was not aware of evidence that such benefits had been realized since the authorization was given to the Federal Reserve Bank of New York in 1955. He opposed the use of repurchase agreements covering bankers' acceptances not only for these reasons but also for the reasons he had expressed in opposing the use of repurchase agreements covering Government securities.

In support of the majority position favoring reaffirmation of the authorization, it was stated that the Federal Reserve System had taken an active interest in promoting and assisting the acceptance market since the inception of that market, that the System had a legitimate interest in doing its part to make that market as broad and as sound as possible, and that acceptances were inherently a desirable medium for operations by a central bank.

March 28, 1961

1. 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 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, Hayes, Allen, Balderston, Irons, King, Mills, Robertson, Shepardson, Swan, Szymczak, and Wayne. Votes against this action: none.

Additional information on economic developments in February that had become available since the previous Committee meeting tended generally to confirm the estimates presented at that time. While the prevailing tone of growing business optimism might be considered somewhat premature, nevertheless there were further indications that the economy was at least close to a bottoming out of the recession. Several key economic series that previously had been falling for some time had now either leveled off or turned upward. These included such items as new orders for durable goods, manufacturers' sales of durable goods, industrial production, and retail sales. In addition, the relatively small prospective decline from 1960 in business plant and equipment expenditures was encouraging; and housing starts, at a seasonally adjusted annual rate, had risen from the December low, although they still remained below the year-earlier level. While employment had risen in February to a level above a year earlier, the rate of unemployment increased slightly and the actual number of unemployed attained a postwar peak.

The money market had been generally easy in the past 3 weeks, a period when more tightness might ordinarily have been expected in view of the midmonth tax date. Total loans and investments at city banks declined during the first part of March. Although business loans increased about as much as usual, loans to finance companies showed a contraseasonal decline, and loans to dealers in Government securities also declined by a sizable amount. City bank holdings of Treasury bills and of Government securities maturing after 1 year fell, while holdings of other securities increased. The money supply, which increased sharply in January, had shown little further growth since the early part of February, and the daily average for the first half of March was only slightly larger than a year earlier.

Data now available indicated that, whereas an improvement in the over-all balance of payments occurred in January, with a $100 million surplus for that month, in February there may have been a deficit of some $200 million. There was also some evidence that this adverse trend had continued in March, in part as a result of repercussions from the German currency revaluation. Therefore, since the atmosphere in international financial markets remained delicate, the short-term interest rate continued to be an important factor in the formulation of System open market policy.

After consideration of the range of economic and financial information that had been accumulated, it was the consensus, from which Messrs. Balderston, Robertson, and Swan dissented, that until the next meeting of the Committee the policy directive should be implemented by open market operations seeking to maintain about the existing degree of ease.

Mr. Balderston dissented because he felt that with the gold outflow stopped, at least for the moment, the Committee should experiment with an increased availability of reserves until the money supply responded more vigorously. The extent to which additional reserves would be needed for that purpose could be determined only by probing operations, which in his view should be started. While this probing was under way, he recognized that the short-term rate might decline despite the support available from factors such as the increased supply of bills being offered by the Treasury. Since he did not wish to see the bill rate decline significantly in view of the continuing balance of payments problem, he felt that the Committee should continue to employ whatever devices were available to avoid undue pressure on that

rate. However, it seemed to him that the time had arrived to risk some decline in short-term rates in view of the importance he attached to stimulating the growth of the money supply. If the cyclical bottom had been reached, he pointed out, the economy should be prepared to put additional reserves to constructive use.

Mr. Robertson dissented from the decision to maintain, until the next meeting, the existing degree of ease. At the past several meetings, as at this one, he had voted to approve the policy directive on the ground that it correctly specified that open market operations should be conducted with the aim of encouraging monetary expansion. However, in the last few months the degree of ease which he thought appropriate to achieve the aim of the directive, and which he thought had been sought by the Committee, was not reached principally, in his opinion, because too much emphasis had been attached to seeking to prevent a reduction in the interest rate (i.e., yield) on short-term Government bills. Consequently, in his view monetary policy had been precluded from making its full contribution to a reversal of the economic downtrend. Now that the gold outflow had abated, Mr. Robertson believed there was even less reason than heretofore to gear open market action to the maintenance of a particular bill rate rather than to the provision of what he would think were sufficient bank reserves to stimulate business activity and economic growth, and thus contribute to the solution of the serious economic problems that arise from failure to utilize fully our human and material resources. Believing as he did that the supply of bank reserves should be increased to encourage monetary expansion and thereby to promote economic recovery, at a time when there was little danger of reviving inflationary pressures by such further ease as he sought, he deemed the proposed policy decision inadequate to meet the needs of the time.

Mr. Swan dissented from the decision on implementation of the directive because it did not contemplate probing toward the higher level of reserves mentioned by Mr. Balderston. In view of current developments, he felt that the System might be in a position to increase the availability of reserves somewhat without undue downward pressure being exerted on the short-term rate.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities, or to change the holdings of such securities, in an amount not to exceed $500 million.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, Szymczak, and Wayne. Votes against this action: Messrs. Allen and Robertson.

This action amended the special authorization first given at the meeting on February 7, 1961, by removing the restriction that had limited transactions to securities with a maturity of not more than 10 years, this removal having been recommended by the Ad Hoc Subcommittee that had been named at the meeting on January 10, 1961, to study and make recommendations with respect to the Committee's operating procedures. It was felt that the removal of the restriction on maturities would, by increasing the flexibility of Account operations, facilitate the evaluation of the feasibility and effect of System operations in other than the short-term market. The Ad Hoc Subcommittee also recommended, and the Committee agreed, that it would be desirable to take more time, during which the experience in operating in all maturities could be studied, before deciding on any possible revision of the Committee's operating policy statements.

Mr. Allen voted against continuing the special authorization on the same basis that he had previously dissented at the March 7 meeting. However, inasmuch as the authorization to operate in longer-term securities was being continued by majority vote, he did not object to the removal of the restriction against operating in maturities beyond 10 years.

Mr. Robertson had expressed at the February 7 meeting his reasons for dissenting from the proposals to carry on open market operations in other than short-term Government securities. He now dissented from the action to expand the original proposal not only on the basis of his conviction that the whole operation was unwise—the risks being too great to be offset or counterbalanced by the alleged potential benefits—but also because this proposal represented a further delegation of authority by the Committee to the Manager of the System Open Market Account without any plan or program to guide him in his operations. He did not believe that the Manager could be expected to carry out the Committee's unspecified objectives—whatever they were—solely on the basis of his own intuitions.

April 18, 1961

1. Authority to effect transactions in System Account.

At this meeting clause (b) of the first paragraph of the Committee's policy directive to the Federal Reserve Bank of New York was changed to provide that open market operations should be conducted with a view "to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery that appear to be developing in the economy, while giving consideration to international factors." The preceding directive, which had been in effect since October 25, 1960, called 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. Hayes, Allen, Balderston, Irons, King, Mills, Robertson, Shepardson, Swan, and Wayne. Votes against this action: none.

For some time open market policy had aimed at making a contribution toward arresting recessionary influences in the domestic economy, at the same time giving due regard to the level of short-term interest rates in view of problems related to the