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.

by no means secure as short-term funds continued to flow out. Accordingly, the Committee felt that there continued to be a need to pay close attention to developments in international markets.

In view of impending U. S. Treasury financing, the usual midyear demand for funds, and a desire to encourage the expansion of bank credit and the money supply, the Committee concluded that in the period until the next meeting it would be desirable to maintain approximately the same degree of ease as had prevailed recently, resolving any doubts on the side of ease and clearly avoiding any lessening of the availability of reserves.

At the same time, the Committee decided to change the wording of the policy directive to make clear that there was no doubt that forces of recovery were developing; thus, it deleted the words that indicated such forces only "appeared" to be developing. This modification did not indicate a change in the policy of ease that had been pursued for some months; as noted earlier, it was the consensus that any doubts as to the availability of reserves should be resolved on the side of ease and that there should be no tightening in the market.

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

The Federal Reserve Bank of New York was authorized, 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 of any maturity, 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, and Wayne. Votes against this action: Messrs. Allen and Robertson.

Before renewing this authorization, the Committee gave consideration to the question of the possible desirability of withdrawing from operations in intermediate- and longer-term securities as rapidly as feasible without impairing the structure

of the Government securities market. It was the consensus, however, that such operations should continue to be authorized in terms of the objectives of current policy, with decisions as to actual operations left to the discretion of the Manager of the System Open Market Account.

Mr. Allen, in dissenting from the continuation of the special authorization, said that at its inception he felt the operation was ill-advised and misguided and that the operations had, as he saw it, confirmed that judgment. Mr. Robertson, also dissenting, said that in his view this would be a good time to terminate the operation.

June 20, 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 expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery, while giving consideration to international factors.

> Votes for this action: Messrs. Martin, Allen, Balderston, Mills, Robertson, Shepardson, Swan, Wayne, Johns, and Treiber. Votes against this action: none.

Data that had become available in the 2-week interval since the preceding meeting of the Committee indicated that economic recovery was continuing in a satisfactory manner. During May industrial production was at 108 per cent of the 1957 average, up 6 points from the February low, and a further rise seemed likely in June. On the basis of these figures and other preliminary data it was estimated that in the second quarter of the year gross national product would be at an annual rate of at least $512 billion, about $12 billion above the first-quarter rate. However, there still remained questions as to the future strength and pattern of the upswing. Although inventory liquidation had apparently terminated, no significant accumulation was as yet evident. Further, approximately 5 million persons were still unemployed and the rate of unemployment remained close to the midwinter level, just under 7 per cent of the labor force on a seasonally adjusted basis. While retail sales were being maintained, there was not yet evidence of a real push in terms of increased consumer buying. The moderate level of demand and the availability of unused resources had been accompanied by generally stable prices.

In the financial area, recent bank credit developments had been about in line with expected movements for the current phase of the business cycle. There had been a large volume of financing in the capital markets, with a steady flow of investment funds into new issues. Bank liquidity had shown improvement in recent weeks, particularly at money market banks, and the demand for bank credit continued to be moderate. For a considerable time, the rate on 3-month Treasury bills had been within the range of 2⅛ to 2⅝ per cent, most of the time between 2¼ and 2½ per cent. International financial developments, especially the developing pressure on the British pound sterling and the continuing moderate deficit in the U. S. balance of payments, caused a number of Committee members to feel that it would be desirable if short-term interest rates could be maintained within the recently prevailing range.

In view of the current levels of liquidity and of resource utilization, and in the absence of inflationary price pressures, it was considered appropriate, during the forthcoming period, to continue to encourage expansion in bank credit and the money supply. Consequently, the consensus of the Committee was that open market policy should be directed toward maintaining substantially the same degree of reserve availability as had prevailed recently, with the understanding that any doubts arising in the operation of the System Open Market Account would continue to be resolved on the side of ease.

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

The Federal Reserve Bank of New York was authorized, 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 of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

> Votes for this action: Messrs. Martin, Balderston, Mills, Shepardson, Swan, Wayne, Johns, and Treiber. Votes against this action: Messrs. Allen and Robertson.

In renewing this special authorization, the Committee noted that there had been no occasion to operate in longer-term issues during the past 2 weeks. However, it was concluded that it would be advisable to continue to have the authority available, for use in the judgment of the Account Manager as circumstances might arise.

Messrs. Allen and Robertson dissented from continuing this special authorization for reasons similar to those they had expressed at earlier meetings.

July 11, 1961

1. Authority to effect transactions in System Account.

The Committee's directive to the Federal Reserve Bank of New York was renewed without change. It thus directed that open market operations 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, while giving consideration to international factors.

> Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, King, Mills, Robertson, Shepardson, Swan, Wayne, and Johns. Votes against this action: none.

In June the prerecession highs of mid-1960 had been reattained, or even surpassed, in a number of the major over-all measures of economic activity. Gross national product, expressed in current dollars, had risen from a seasonally adjusted annual rate of about $500 billion in the first quarter of the