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.

mercial banking system by way of creating additional near-money substitutes.

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 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, King, Mills, Shepardson, Swan, Wayne, and Johns. Votes against this action: Messrs. Allen and Robertson.

After extensive discussion of the pattern of operations in intermediate- and longer-term securities since this authorization was first given by the Committee on February 7, 1961, it was the consensus that the original criteria for such operations, as indicated in the policy record entry of that date, should not be broadened at this time, considering among other things the inconclusiveness of the evidence concerning the effect of the operations. On the other hand, it was felt by the majority that an interpretation that the System was disengaging from operations in the intermediate- and longer-term areas should be avoided. One member of the Committee, Mr. Mills, voted for renewal of the authorization subject to the qualification that for the present the Management of the Open Market Account should abstain from operations outside the bill market. Messrs. Allen and Robertson voted against renewal of the authorization for the reasons that they had expressed on previous occasions. In addition, Mr. Robertson felt a diminution of private participation in market pricing and distribution was beginning to be apparent and could become worse if the trend of official purchases of intermediate- and long-term Government securities were continued.

August 1, 1961

1. Authority to effect transactions in System Account.

The Committee renewed the directive to the Federal Reserve Bank of New York calling for 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, King, Mills, Shepardson, Swan, Wayne, Johns, and Treiber. Votes against this action: none.

Although it appeared that the rate of economic expansion in June and July had not been as rapid as in preceding months, the economy was still moving toward higher levels of activity. Employment, income, sales, industrial production, and construction all continued to move upward. At the same time, prices continued stable. There remained a substantial underutilization of plant capacity, along with a high level of unemployment. Total bank credit had increased substantially further due to the acquisition of Government securities by banks as a result of the Treasury's recent financing program, and the bank loan picture was somewhat stronger in July than it had been in June. The money market had been quite easy.

Developments since the July 11 meeting having special significance from the standpoint of the formulation of monetary policy included a request by the President of the United States for substantial additional defense expenditures, giving rise to the prospect of an increased Federal deficit. The prospective stimulus of greater deficit spending upon the domestic economy suggested a need for alertness to lessen the degree of monetary ease in case speculative or inflationary tendencies should develop. The second significant development since the preceding meeting was the raising of the Bank of England's bank rate (discount rate) to 7 per cent, in line with a general governmental program designed to limit expansion of domestic demand in order to cope with an unfavorable external payments position. It was recognized that the resulting differential between British and U. S. short-term interest rates and credit availability, to the extent that it induced a flow of funds from this country to the United Kingdom, would be a force working to limit further decline in short-term rates domestically and perhaps exerting some upward pressure on them. Another possible effect would be some worsening of the over-all deficit in the U. S. balance of payments, particularly in view of the adverse tendencies indicated by second-quarter developments of the current year.

Balancing the considerations pertinent to the formulation of monetary policy under current conditions, the Committee concluded that although alertness to developing factors, both domestic and international, was in order, a policy of continued ease, while at the same time avoiding a decline in short-term interest rates, would be appropriate for the period immediately ahead in order to help foster domestic economic recovery at a reasonable pace. Therefore, the consensus favored continuation of approximately the same degree of ease that had been maintained recently.

Mr. Mills was of the opinion that both domestic considerations related to inflationary potentials inherent in too broad a reserve base and international considerations calling for a closer alignment between U. S. Treasury bill and foreign bill rates required a reduction in the supply of reserves, which would serve to bring some upward pressure on short-term interest rates.

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 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, King, Mills, Shepardson, Swan, Wayne, Johns, and Treiber. Vote against this action: Mr. Allen.

Developments since the preceding meeting, including those focusing attention upon the relationship of U. S. short-term rates to rates in other countries, had resulted in substantial purchases of securities other than bills by the Open Market Account in order to provide needed reserves but not contribute directly to a further decline in Treasury bill rates. The renewal, with one dissent, of the authorization for operations in longer-term securities was given without restriction on the discretion of the Management of the Open Market Account to take such actions as seemed appropriate in the light of market developments and the effectuation of over-all monetary policy. However, there was some opinion within the Committee that, if feasible, a lesser volume of System purchases of securities in the longer maturity range, or even a reduction of Account holdings, would be advisable.

August 22, 1961

1. Authority to effect transactions in System Account.

Clause (b) of the directive to the Federal Reserve Bank of New York was changed to provide for open market operations with a view to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors. The previous directive, which had been in effect since June 6, 1961, provided for 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, Irons, King, Mills, Robertson, Swan, Wayne, and Treiber. Votes against this action: none.

Although industrial production increased to a record rate in July, it remained well below capacity levels. The consumer and