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.

One member of the Committee, Mr. Mills, voted against the implementation of policy in the manner indicated by the consensus, believing that policy should now move more positively toward a lesser degree of ease. While he would contemplate a reserve base ample to support the credit needs of the economy, in his judgment more than enough reserves were available to satisfy such needs. Mr. Mills felt that the Committee must move back from the present degree of ease cautiously and experimentally. However, he was apprehensive about the degree of liquidity of the commercial banking system and felt that a start should be made toward limiting further expansion in, or perhaps absorbing some of, that liquidity to the end that a resulting firming in the interest rate structure, besides paving the way toward a possible increase in the discount rate of the Federal Reserve Banks to 3½ per cent, would reduce the disparity between short-term interest rates in the United States and Great Britain and in that way give visible evidence of a determination to use monetary policy as one means of keeping balance of payments problems and inherent inflationary tendencies under control.

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. Balderston, Irons, King, Mills, Mitchell, Shepardson, Swan, Wayne, and Treiber. Votes against this action: Messrs. Allen and Robertson.

The recording of votes on the authorization reflected no changes from previously expressed attitudes except in one case. Mr. Mills stated that he continued to oppose purchases of longer-term securities for the System Open Market Account and to

favor reduction of the volume of such securities held in the portfolio. He now felt, however, that further experience had justified operations in short-term Government securities other than bills as being in the interest of a flexible conduct of monetary policy. The advantages of policy flexibility that had been gained through these dealings would be enhanced, in his opinion, if more emphasis were placed on sales of such securities when withdrawing reserves as compared with the weight that had been given to purchases for the purpose of supplying reserves.

October 24, 1961

1. Authority to effect transactions in System Account.

The New York Reserve Bank was again directed to administer open market operations with a view to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors.

> Votes for this action: Messrs. Hayes, Allen, Balderston, Irons, King, Mills, Mitchell, Robertson, Shepardson, Swan, and Ellis. Votes against this action: none.

The latest available statistical data, mostly for the month of September, reflected some hesitation in the pace of business expansion, as attested by a faltering in the industrial production index. However, there had been certain transitory factors at work, including abnormal weather conditions in parts of the country and a strike in the automotive industry, and it was difficult to determine how much of the deceleration of economic advance was attributable to such factors. Unemployment had not been reduced significantly, and retail sales figures failed to suggest buoyancy. Also, the rate of increase of personal income had slowed somewhat in August and September. Wholesale prices remained below the level that had prevailed in March of this year. On the other hand, gross national product was estimated to have advanced significantly from the second to the third quarter, and scattered evidence indicated that October trends were such as to support a more optimistic appraisal of the business outlook than the September statistics might suggest.

Total bank credit expanded significantly in September and in the third quarter as a whole, the conventionally defined money supply showed in September the first substantial increase in several months, and time deposits at commercial banks continued their rapid growth. These developments were aided by substantial new cash offerings of Treasury securities, which had been acquired in large part by the banks. Treasury bills had been relatively firm, with 3-month bill rates moving generally within the 2.25 - 2.35 per cent range in which they had fluctuated since late August. Within about a week, the Treasury was expected to announce the terms of a large November refunding.

In the third quarter, transfers to foreigners of gold, convertible foreign currencies, and dollars were at a seasonally adjusted annual rate of more than $3 billion, as compared with an annual rate of less than $2 billion in the second quarter, after eliminating the influence of special debt repayments. Within the third quarter, moreover, September appeared to have been the weakest month, and such October figures as were available suggested little, if any, improvement. Whereas in the second quarter basic U. S. payments were approximately in balance, the third-quarter figures reflected a deficit. The main reasons for the deterioration were that imports had increased faster than expected and the net capital outflow had failed to diminish.

Consideration of these diverse factors resulted in a consensus that a continuation of the monetary policy the Committee had been following would be appropriate from the standpoint of domestic conditions, though with a tendency to resolve any doubts arising in the conduct of open market operations on the side of less ease. It was agreed that the System should meet seasonal needs for reserves and also that it should endeavor, in accordance with its practice of long standing, to maintain steady money market conditions in view of the Treasury's refinancing program. Because of international factors, however, the consensus favored giving more than usual attention to short-term rates.

Mr. Mills dissented from the implementation of policy in the

manner indicated by the consensus because, as he had indicated at the October 3 meeting, he felt that Federal Reserve policy aimed at encouraging the expansion of bank credit had resulted in an increase in banking, industrial, and commercial liquidity that was approaching an inflationary status and had already tended to damage the fabric of the money market. In the circumstances, including the ramifications of the international situation, he believed that a start should be made toward implementing a moderately restraining monetary and credit policy.

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 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. Hayes, Balderston, Irons, King, Mills, Mitchell, Shepardson, Swan, and Ellis. Votes against this action: Messrs. Allen and Robertson.

No changes were indicated in previously expressed positions of members of the Committee concerning the authorization and operations thereunder.

November 14, 1961

1. Authority to effect transactions in System Account.

The Committee renewed without change the directive to the Federal Reserve Bank of New York providing 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.

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