FORTY-NINTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1962

Period	*Action*	*Purpose of action*
January-February	Reduced System holdings of U. S. Government securities by about $500 million through net sales and redemptions. Member bank borrowings from the Reserve Banks averaged less than $100 million.	To permit further bank credit and monetary expansion by absorbing only part of seasonal inflow of reserve funds, mainly from post-holiday return of currency from circulation, while minimizing downward pressures on short-term interest rates.
February	Authorized open market transactions in foreign currencies.	To moderate and offset short-term pressures on the dollar in the foreign exchange market.
March-mid-June	Increased System holdings of U. S. Government securities by about $1.3 billion, of which half represented purchases of securities with maturities of more than 1 year. Member bank borrowings from Reserve Banks continued to average less than $100 million.	To promote further bank credit and monetary expansion while avoiding sustained downward pressures on short-term interest rates.
Mid-June-late October	Increased System holdings of U. S. Government securities by about $200 million with net sales and redemptions of Treasury bills of about $700 million being more than offset by purchases of coupon issues, of which two-thirds were issues maturing in more than 1 year. Member bank borrowings from Reserve Banks averaged less than $100 million.	To permit moderate increase in bank credit and money supply while avoiding redundant bank reserves that would encourage capital outflows, taking into account gradual improvement in domestic economy and possibilities for further advance, while recognizing the bank credit growth of past year and continuing adverse balance of payments.
July	Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities.	To take into account the recent sharp reduction in stock market credit and the abatement in speculative psychology in the stock market.
October	Reduced reserve requirements against time deposits from 5 to 4 per cent, effective October 25 for reserve city banks and November 1 for other member banks, thereby releasing about $780 million of reserves.	To help meet seasonal needs for reserves, while minimizing downward pressures on short-term interest rates, and to provide for the longer-term growth in bank deposits needed to facilitate the expansion in economic activity and trade.
Late October-December	Increased System holdings of U. S. Government securities by about $1.0 billion, with more than half of the net increase in issues maturing in more than 1 year. Member bank borrowing from the Reserve Banks rose gradually over period, but only to an average of about $200 million.	To help further in meeting seasonal needs for reserve funds while encouraging moderate further increase in bank credit and the money supply and avoiding money market conditions unduly favorable to capital outflows internationally. In mid-December open market operations were modified to provide a somewhat firmer tone in money markets and to offset the anticipated seasonal easing in Treasury bill rates.

outflows internationally. This policy takes into account, on the one hand, the gradualness of recent advance in economic activity and the availability of resources to permit further advance in activity. On the other hand, it gives recognition to the bank credit expansion over the past year and to the role of capital flows in the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a moderately firm tone in money markets.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Fulton, King, Mills, Shepardson, and Treiber. Votes against this action: Messrs. Mitchell and Bopp.

Messrs. Mitchell and Bopp dissented because they would have preferred a directive indicating a greater willingness to encourage monetary expansion, substantially like that adopted at the meeting of May 29, 1962. They thought that monetary policy could make a greater contribution to economic expansion without risking significantly adverse effects on the balance of payments. In their opinion, the virtual elimination of any prospect for a Federal tax cut in 1962 increased the importance of adopting a more stimulative monetary policy. Mr. Mitchell also expressed concern about the lack of growth in the money supply since November 1961 which, he felt, had interfered with economic expansion. In his view there had been no monetary expansion since late 1961. The rise in time deposits and total bank assets that had taken place thus far in 1962 was due to the growth of banks as savings institutions or financial intermediaries and not to monetary creation brought about by Federal Reserve policy. Recent policy, therefore, implicitly denied the need for the money supply to grow with an expanding economy.

September 11, 1962

Authority to effect transactions in System Account.

It appeared that the improved performance of the economy in July was not continuing. Reports to the Committee at this meeting, based partly on preliminary estimates, indicated that industrial production and retail sales had leveled off in August. Also, the seasonally adjusted unemployment rate had risen to 5.8 per cent, although this was reportedly due in part to special or technical influences. Surveys of consumer buying intentions and of business plans for inventory restocking and capital outlays suggested little change or only moderate gains in spending over the coming months.

After contracting in July, bank credit expanded markedly in August and grew slightly further in early September. Nevertheless, private demand deposits declined substantially in August. Treasury balances remained unusually high, and time and savings deposits at commercial banks continued to grow but at their recently reduced pace. The conventionally defined private money supply was at a level about 1 per cent below that at the end of 1961, after allowance for usual seasonal variations.

Long-term security yields were steady in early September, after declining during much of August. An advance refunding operation undertaken by the Treasury was still in progress at the time of the meeting, with early indications that it was being well received.

The international economic scene was reported to have changed little in recent weeks, with the deficit in the U.S. balance of payments about the same in August as in July (after allowing for the sizable foreign debt prepayments in July). Preliminary figures for late August and early September suggested some improvement, but it was too early to tell whether they indicated a trend.

A majority of the Committee concluded that, in view of continued evidence of adequate domestic liquidity and continuing indications of unsatisfactory progress with respect to the balance of payments, monetary policy should remain unchanged for the next 3 weeks. It was recognized that maintenance of the same general atmosphere of credit availability might require somewhat larger amounts of bank reserves than earlier, because of the concentration of money market pressures arising from large dealer financing requirements connected with the Treasury refunding superimposed upon seasonal needs for funds associated with corporate tax and dividend payments. Because of these developments, it was agreed that the Account Manager would have to give particular emphasis to the tone and feel of the market in managing the System Account. The current policy directive issued to the Federal Reserve Bank of New York was as follows:

It is the current policy of the Federal Open Market Committee to permit the supply of bank credit and money to increase further, but at the same time to avoid redundant bank reserves that would encourage capital outflows internationally. This policy takes into account, on the one hand, the gradualness of recent advance in economic activity and the availability of resources to permit further advance in activity. On the other hand, it gives recognition to the bank credit expansion over the past year and to the role of capital flows in the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a moderately firm tone in money markets.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, and Shepardson. Votes against this action: Messrs. Mills, Mitchell, and Robertson.

In explaining his dissent, Mr. Mills said that he considered the forestalling of further declines in the money supply to be an overriding necessity. In his view, therefore, a higher level of free reserves should be an objective of System policy. Mr. Mitchell dissented for reasons similar to those he had expressed at recent meetings. Mr. Robertson felt that greater monetary ease at this juncture could stimulate additional employment of resources domestically without prejudicing the international position of the dollar. In the credit field, he believed there was room for more aggressive loan competition among banks, at lower rates of interest. In his view, the ability of the economy to accommodate such additional credit stimulus was demonstrated, in part, by the relative absence of the kinds of credit abuses that could be engendered or remedied by changes in general credit controls. In

the field of public liquidity, he observed there was a clear need for renewed growth in the money supply. Although there had been times this year when the effects of a lagging money supply might have been cushioned by accelerated growth in time deposits and other liquid assets, such growth had since slowed. Furthermore, the channeling of private saving into financial claims, especially short-term Treasury securities, meant that the funds of businesses and consumers were being funneled into something less than the most stimulating channels, and Mr. Robertson felt that the prevailing interest-rate structure—fostered by existing monetary policy—must bear some of the responsibility for such a deflationary orientation of savings flows. He believed that greater monetary stimulation at this time—when there were unutilized human and material resources and when the gold stock was ample to protect against rumor-spawned speculative raids on the dollar—would contribute to a prosperous and more rapidly growing economy that would command renewed and more deeply rooted respect for both this country's economic system and its currency.

October 2, 1962

1. Authority to effect transactions in System Account.

Hesitation in the economy, apparent at the preceding meeting of the Committee, became clearer as final reports of August developments were examined, and the limited information available for September suggested little or no improvement in that month. The economy appeared rather delicately balanced between forces making for mild contraction and those making for further modest expansion. Unemployment, which rose in August to 5.8 per cent of the labor force, continued at that higher rate in September. Business psychology was appraised as not being optimistic; there was renewed weakness of stock market prices, and business fixed capital investment was indicated as lacking in vigor.

Consumer buying also was showing little significant change, with preliminary estimates suggesting a slight decline in total