

FIFTIETH
Annual Report

OF THE
BOARD OF GOVERNORS
of the Federal Reserve System



COVERING OPERATIONS FOR THE YEAR

1963

<i>Period</i>	<i>Description</i>	<i>Purpose</i>
January- mid-May	Reduced System holdings of U.S. Government securities and then increased them in line with seasonal and moderate growth needs of the economy. Total holdings rose about \$470 million on balance, owing mainly to net purchases of issues maturing in more than 1 year. Member bank borrowing rose slightly to a level of about \$150 million in the first half of May.	To offset seasonal downward pressures on short-term interest rates early in the period and to provide for growth in bank credit and the money supply at a rate consistent with minimizing capital outflows in accordance with the policy of slightly reduced reserve availability adopted at the December 18, 1962, meeting of the Federal Open Market Committee.
Mid-May- late-July	Reduced the degree of reserve availability slightly further. System holdings of U.S. Government securities increased nearly \$1.2 billion, about one-fifth representing net purchases of issues maturing in more than 1 year. Member bank borrowing increased further, averaging \$275 million over the period.	To achieve a slightly greater degree of firmness in the money market in order to minimize the outflow of capital while continuing to provide reserves for moderate monetary and credit growth.
Mid-July	Raised the discount rate from 3 to 3½ per cent. Raised maximum interest rates payable by member banks on time deposits (other than savings) and certificates of deposit with maturities of 90 days to 6 months from 2½ to 4 per cent and with maturities of 6 months to 1 year from 3½ to 4 per cent.	To help reduce short-term capital outflows by firming U.S. short-term money market rates and permitting member banks to compete more effectively for foreign and domestic funds.
Late-July- December	Reduced a little further the degree of reserve availability. System holdings of U.S. Government securities increased about \$1.1 billion, of which more than one-half represented purchases of securities with maturities of more than 1 year. Member bank borrowing averaged about \$325 million over the period.	To attain slightly more firmness in the money market, in the context of a higher discount rate, with a view to minimizing the outflow of funds abroad while offsetting seasonal reserve drains and providing for growth needs of the domestic economy.
November	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities. Also increased retention requirements on proceeds of sales from undermargined accounts from 50 to 70 per cent.	To help prevent excessive use of stock market credit, which had increased sharply since July 1962, when margin requirements were lowered from 70 to 50 per cent.

with the Guidelines and up to a total of \$100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mills, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: None.

November 26, 1963

Authority to effect transactions in System Account.

This meeting was held by telephone on the first business day following the death of President Kennedy. It was called for the purpose of considering whether action by the Committee was required to deal with any actual or potential unsettlement in domestic financial markets or in foreign exchange markets stemming from the President's death.

Reports by the Manager and the Special Manager of the System Open Market Account indicated that there was no evidence of adverse market developments as of late morning. The Account Manager reported that the Government securities market had opened with a confident tone, and that prices at the opening were unchanged or slightly higher on securities of various maturities. The stock market already had made a good recovery in early trading. The Special Manager noted that gold and foreign exchange markets were steady, and that where necessary central banks were acting to maintain foreign exchange rates at their previous levels.

The Committee decided that it was desirable, as a precautionary measure, to revise its current economic policy directive in order to insure that the Federal Reserve Bank of New York would have ample authority to deal with any unsettlement that might develop. The revision was confined to the second paragraph, and the directive was issued in the following form:

It is the Federal Open Market Committee's current policy to accom-

moderate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, System open market operations shall be conducted with a view to cushioning any unsettlement that might arise in money markets stemming from the death of President Kennedy and to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, Mitchell, Robertson, Scanlon, and Shepardson. Vote against this action: Mr. Mills.

Mr. Mills dissented for the same reasons he had dissented from the directive adopted at the meeting of November 12, 1963; he thought the Committee should modify its policy to one of greater ease.

December 3, 1963

1. Authority to effect transactions in System Account.

Information on economic and financial developments since the death of President Kennedy, while quite incomplete, suggested that the economy had shown little tendency to depart from the path of continued moderate advance in over-all activity and broad stability of commodity prices. Business and consumer confidence appeared to have remained firm and widespread. Unsettlement in sensitive commodity and security markets had been minimal, and corporate stock prices had quickly recovered from the losses suffered on November 22. Speculative switching out of dollars into other currencies or gold had been limited.

More complete data on domestic activity in October confirmed