FIFTY-FIRST

# *Annual Report*

OF THE

## BOARD OF GOVERNORS
of the Federal Reserve System

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COVERING OPERATIONS FOR THE YEAR

1964

## Digest of Principal Federal Reserve Policy Actions in 1964

| Period | Action | Purpose |
|---|---|---|
| January–mid-August | Increased the System's holdings of U.S. Government securities, after having reduced them seasonally early in the year. On balance, total holdings rose about $1.1 billion, $300 million of which represented net purchases of securities with maturities of over 1 year. Member bank borrowings averaged about $275 million. | To provide for moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy while fostering improvement in the capital account of U.S. international payments, after offsetting seasonal downward pressures on short-term interest rates early in the period. |
| Mid-August–late November | Increased the System's holdings of U.S. Government securities by about $1.5 billion, of which $600 million represented net purchases of securities with maturities of more than 1 year. Member bank borrowings averaged about $350 million. | To maintain slightly firmer conditions in the money market with a view to minimizing the outflow of funds attracted by higher short-term interest rates abroad while offsetting reserve drains and providing for growth needs of the domestic economy. |
| Late November | Raised discount rates from 3½ to 4 per cent. Raised maximum interest rates payable on savings deposits held for less than 1 year from 3½ to 4 per cent and those on other time deposits from 4 to 4½ per cent for maturities of 90 days or more and from 1 to 4 per cent for maturities of 30-89 days. | To counter possible capital outflows that might be prompted by any widening spread between money market rates in this country and the higher rates abroad, following a rise in official and market rates in London, while at the same time ensuring that the flow of savings to commercial banks remains ample for the financing of domestic investment. |
| Late November–December | Increased the System's holdings of U.S. Government securities by about $765 million, part of which represented securities acquired under repurchase agreements. Member bank borrowings averaged about $275 million. | To offset seasonal reserve drains and to accommodate further moderate expansion in aggregate bank reserves while ensuring that the rise in money market rates following the discount rate actions did not restrict the availability of domestic credit. |

Treasury financing; they preferred to continue the current monetary policy as long as these circumstances obtained. For the immediate future, they saw no objection to somewhat lower short-term rates arising from seasonal or other market forces. Some members expressed the view that excessive stability in Treasury bill rates was undesirable on its own account.

The Committee's current economic policy directive to the Federal Reserve Bank of New York, as issued at this meeting, differed from that in effect at the beginning of the year only by the addition of a reference to Treasury financing in the second paragraph. It read as follows:

It is the Federal Open Market Committee's current policy to accommodate 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, and taking into account prospective Treasury financing, System open market operations shall be conducted with a view 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, Daane, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Vote against this action: Mr Mills.

Mr. Mills dissented from this action because he believed that a somewhat more liberal provision of reserves would yield beneficial economic returns, without complicating the Treasury's financing program.

**2. Amendment of continuing authority directive.**

On recommendation of the Account Manager, Section 1(a) of the continuing authority directive to the Federal Reserve





Bank of New York was amended to raise from $1 billion to $1.5 billion the limit on changes in holdings of securities in the System Open Market Account between meetings of the Committee. With this amendment, Section 1(a) read as follows:

(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account (including forward commitments but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than $1.5 billion during any period between meetings of the Committee.

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

## January 28, 1964

**Authority to effect transactions in System Account.**

Information available at this meeting confirmed earlier indications that the domestic economy had ended the year 1963 on a strong note, and scattered data for January suggested that activity was continuing to expand. GNP in the fourth quarter was now estimated at a $600 billion annual rate, a little higher than previous estimates. Prospects for a Federal income tax reduction early in 1964 recently had improved. However, businessmen's announced spending plans suggested quiet optimism rather than exuberance, and a substantial volume of unutilized resources was still available for further expansion.

Industrial production increased about one-half of a percentage point in December but still was only fractionally above the level reached in July. Nonfarm employment also rose, but the unemployment rate in December was 5.5 per cent, the same as a year earlier. Retail sales advanced in December, and weekly reports for early January indicated that sales were holding close to the advanced December rate.

The weekly index of wholesale prices edged up in early January as some industrial prices strengthened and earlier sharp declines in livestock and meat prices were followed by some recovery. Over-all, however, wholesale prices remained in the narrow range that had prevailed for several years. Stock market prices rose further in January on large trading volume.

Seasonally adjusted bank credit apparently continued to expand in early January but at a much slower rate than in the preceding 2 months. The money supply and time and savings deposits both rose substantially further. Free reserves fluctuated widely from week to week, but it appeared that the January average would be about $150 million, not much different from December.

The yield on 3-month Treasury bills had edged down slightly since the preceding meeting to 3.50 per cent, the same as the discount rate. The Treasury's recently completed advance refunding had little effect on yields on Government bonds, which were relatively stable near the levels reached at the year-end. Yields on new corporate bonds had eased recently from the highs recorded earlier in the month, and municipal yields also declined somewhat. It was reported that the Treasury would announce shortly the terms of its February refunding.

The consensus of the Committee at this meeting favored no change in monetary and credit policy. Among the reasons advanced by different members were the imminent Treasury financing, the lack of any significant change in the economic and financial situation, and the advantages seen in maintaining the present policy posture until the effects of the impending Federal tax cut could be observed. Some members noted that they con-





tinued to be concerned about recent rapid rates of growth in bank reserves, bank credit, and nonbank liquidity, and about actual and potential price developments.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Federal Open Market Committee's current policy to accommodate 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, and taking into account an imminent Treasury refunding, System open market operations shall be conducted with a view 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, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Votes against this action: None. Abstaining: Mr. Mills.

Mr. Mills abstained because he felt that he could not subscribe to a policy directive that called for "no change" when in reality fluctuations in the supply of bank reserves in his judgment had signaled policy changes that were unrecognized in the directives.

## February 11, 1964

**1. Authority to effect transactions in System Account.**

New data available since the previous meeting of the Committee reflected further improvement since the beginning of the year in the balance of payments, continuing high levels of domestic business activity, and stability in broad commodity price indexes. Business plans for 1964 now called for plant and equip-