FORTY-SEVENTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1960

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1960

Period	Action	Purpose of action
January-March	Reduced System holdings of U.S. Government securities by about $1.6 billion. Member bank borrowings at the Federal Reserve Banks dropped from an average of $900 million in December to $635 million in March.	To offset the seasonal inflow of reserve funds, mainly from the post-holiday return of currency from circulation, while permitting some reduction in borrowed reserves.
Late March-July	Increased System holdings of Government securities by nearly $1.4 billion. Member bank borrowings at Reserve Banks declined to an average of less than $400 million in July.	To promote further reduction in the net borrowed reserve positions of member banks and, beginning in May, to provide reserves needed for moderate bank credit and monetary expansion.
June	Reduced discount rates from 4 to 3½ per cent at all Reserve Banks.	To reduce the cost of borrowed reserves for member banks and to bring the discount rate closer to market interest rates.
July	Reduced margin requirements on loans for purchasing or carrying listed securities from 90 to 70 per cent of market value of securities.	To lower margin requirements from the high level in effect since October 1958 in recognition of decline in volume of stock market credit outstanding and lessened danger of excessive speculative activity in the market.
August	Authorized member banks to count about $500 million of their vault cash as required reserves, effective for country banks August 25 and for central reserve and reserve city banks September 1. Reduced reserve requirements against net demand deposits at central reserve city banks from 18 to 17½ per cent, effective September 1, thereby releasing about $125 million of reserves.	To provide mainly for seasonal needs for reserve funds, and to implement 1959 legislation directed in part toward equalization of reserve requirements of central reserve and reserve city banks.

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1960—Cont.

Period	Action	Purpose of action
August-September	Reduced discount rates from 3½ to 3 per cent at all Reserve Banks.	To reduce further the cost of borrowing from the Reserve Banks and reduce the differential between the discount rate and market rates of interest.
August-November	Bought or sold at different times varying amounts of Government securities with a net increase in System holdings of about $1 billion, including securities held under repurchase agreement and issues with short maturities other than Treasury bills. Member bank borrowing declined further to average below $150 million in October and November.	To encourage bank credit and monetary expansion by meeting changing reserve needs and offsetting the impact of a large gold outflow without exerting undue downward pressure on short-term Treasury bill rates that might stimulate further outflow of funds.
Late November-December	Authorized member banks to count all their vault cash in meeting their reserve requirements and increased reserve requirements against net demand deposits for country banks from 11 to 12 per cent. The net effect of these two actions, effective November 24, was to make available about $1,050 million of reserves. Reduced reserve requirements against net demand deposits at central reserve city banks from 17½ to 16½ per cent, effective December 1, thereby releasing about $250 million of reserves. Sold U.S. Government securities except for seasonal purchases in last week of December. Member bank borrowings at the Reserve Banks averaged less than $90 million in December.	To provide, on a liberal basis, for seasonal reserve needs, to complete implementation of legislation directed in part toward equalization of reserve requirements of central reserve and reserve city banks, and to offset the effect of continued gold outflow, while avoiding direct impact on short-term rates that might stimulate further outflow of funds.

c. Transactions for the System Account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

Votes for this action: Messrs. Martin, Balderston, Bryan, Fulton, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: Messrs. Hayes and Bopp.

In voting to reaffirm these policies, it was noted that any of them could be changed by majority vote at any meeting of the Federal Open Market Committee and that, according to their wording, the policies were to be followed only until such time as they might be superseded or modified by further action of the Committee. These policies had been carried as Committee statements since 1953, and, as provided therein, exceptions had been made on certain occasions when authorized by the Committee. It being felt that the experience with the operating policies had been satisfactory, the majority of the Committee found no sufficient reason to change their wording at this time.

Mr. Hayes voted against reaffirmation of the operating policies in their existing form, since he felt that the Committee should not take any action which, in his opinion, would voluntarily tie its hands, and it should not create an impression of an excessively rigid approach to open market operations. Further, he felt that the operating policies did not reflect his view that monetary policy involved more than consideration of bank reserves alone. He would have accepted various suggestions for reformulating the operating policies, including the rewording that he had suggested in March 1958 and in March 1959, except that, in statement "a," in order that there be no question of his belief that monetary policy involved more than concern with bank reserves alone, he would substitute the word "primarily" for the word "solely."

Mr. Bopp felt that inasmuch as the Federal Open Market

Committee was meeting regularly on approximately a three-week basis, it was not necessary to have these continuing operating policies. If the operating policies were to be retained, however, he believed they should be so phrased as to indicate that exceptions might be made as circumstances warranted.

April 12, 1960

1. Authority to effect transactions in System Account.

While economic activity continued generally at a satisfactory level, developments in the 3-week period since the preceding Committee meeting were somewhat mixed and did not serve to dispel the atmosphere of uncertainty with respect to the business outlook that had prevailed since shortly after the turn of the current year. With the advent of more favorable weather, substantial improvement occurred in department store and automobile sales during the latter part of March, while surveys of consumer attitudes and buying plans suggested continued optimism. Less favorable factors included a contraseasonal rise in unemployment in March, a declining trend in the rate of steel production, and a persistent downward movement in construction activity. Commodity prices were substantially unchanged. The latest available statistics on exports and imports reflected continuation of the encouraging trend of the past several months, and boom or near-boom conditions continued to develop in most industrialized countries abroad.

Total credit demands in the first quarter of the current year had not been as large as during the similar period of 1959. The Federal Government retired more debt than in the first quarter of any year since 1956, and borrowing in the long-term capital market by corporations and by State and local governments was substantially smaller than in recent years. Although short-term borrowing by business at banks continued at a high level in March, and consumer borrowing showed an increase, the total volume of bank credit continued to decline as the aforementioned increases were more than offset by a decline in other loans and by a further reduction in bank holdings of securities. Reserves released by the greater than seasonal decline in deposits had been used by banks principally to reduce indebtedness. Final statistics on the money supply through the end of March were not yet available, but it appeared that the declining trend of the past several months may have continued for at least part of the month.

Although some members of the Committee were inclined to feel that conditions were such as to warrant continuation of the prevailing degree of restraint, the consensus as to open market policy for the ensuing three weeks favored easing further the reserve positions of member banks, and thus encouraging an increase in the money supply, this to be done, however, in a modest way. Subject to this understanding, the Committee renewed the outstanding directive to the Federal Reserve Bank of New York which called for fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion.

Votes for this action: Messrs. Martin, Balderston, Bopp, Bryan, Fulton, Leedy, Mills, Robertson, Shepardson, Szymczak, and Treiber. Votes against this action: none.

2. Authority to acquire Treasury bills through "swap" transactions.

The Committee authorized the Management of the System Account to acquire up to $150 million of 1-year Treasury bills maturing July 15, 1960, between this date and the date of the next Committee meeting, by means of outright purchases or by swap transactions for other Treasury bills.

Votes for this action: Messrs. Martin, Balderston, Bopp, Bryan, Fulton, Leedy, Mills, Shepardson, Szymczak, and Treiber. Vote against this action: Mr. Robertson.

This authorization represented an exception to two of the Committee's continuing operating policies, last renewed at the meeting on March 22, 1960. One of the exceptions was the de-

parture in some degree from the policy that "intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy," since the purpose of these proposed transactions was to smooth the refinancing of an instrument—the 1-year Treasury bills maturing on July 15, 1960—that had not as yet been afforded a full test of market receptivity. The other exception was to the operating policy providing that transactions for the System Account in the open market shall be entered into "solely for the purpose of providing or absorbing reserves . . . and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System portfolio."

While the express purpose of the acquisitions of the July 15 bills, whether by outright purchases or by swap transactions, would be to assist the Treasury in a forthcoming refinancing, such acquisitions would nevertheless be consistent with the objectives of credit and monetary policy to the extent that they were outright purchases and supplied additional reserves to the market in accordance with current Committee policy. The Committee's decision that acquisitions might be on a swap basis, if the specific issue of Treasury bills was not available for outright purchase or if outright purchase was not in accord with the reserve position at a particular time, reflected a view that it would be appropriate to experiment with swap transactions to the extent authorized as a means of helping to bring some of the specified securities into the System's portfolio in order to help a subsequent refinancing of these Treasury securities. The view was also expressed that the acquisition of securities in this manner would help to increase the flexibility and usability of the System's short-term portfolio, and thus contribute to the effectiveness of the operations for the Account.

In voting against this action, Mr. Robertson expressed the view that the authorization to engage in offsetting purchases and sales of securities for the System Account for the purpose of aiding the Treasury in its debt management functions would not be justified by the possible benefits to be derived therefrom by the Treasury. In his opinion, such an arrangement would inject an additional element of uncertainty into the Government securities market which might have the effect of providing a disincentive for dealers to take positions in issues that the System might be likely to buy or sell for purposes other than providing or absorbing reserves. In addition, he felt that this would appear to be a first step toward more general interference with market forces in all areas of the Government securities market and might lead ultimately to relatively frequent operations for purposes other than providing or absorbing reserves. At least, it might lead to a fear thereof, which in itself would be disruptive to a freely functioning market. It was his belief that, with institutional relationships like those prevailing within the Federal Reserve System and between the System and the Treasury, it was desirable to keep the lines of precedent as clear and clean as possible and to avoid muddying them by moves that might subsequently be used as levers for compromising basic monetary policy objectives, especially when the potential benefits of such moves appeared to be so limited.

May 3, 1960

1. Authority to effect transactions in System Account.

Available data suggested either fair strength or improvement in general economic indicators during the month of April, particularly in the area of consumer spending. With the advent of more favorable weather conditions, department store sales, seasonally adjusted, approached the peak level of July 1959, and automobile sales likewise strengthened. Thus, despite further cutbacks in steel output, it appeared that the Board's index of industrial production may have held at the March level or dropped only slightly. In summary, while the extent of unemployment continued to be a matter of concern in a number of areas, economic activity was generally at a relatively high level.

Business attitudes, however, were characterized by lack of exuberance and, although continued dominance of expansive forces seemed probable, current economic developments pointed to a moderate rather than a boom pace of expansion. The inflationary psychology that had been prevalent last year and earlier this year seemed definitely to have diminished.

The lack of exuberance in the business picture was evident also in the financial area, and interest rates had resumed a downward trend. Stock market prices, after a relatively brief thrust toward higher levels in late March and early April, had fallen back close to the lows of the first quarter of the year. Private demands for credit, although not as heavy as had been anticipated by some observers at the turn of the year, were generally quite strong, but banks were said to be less willing lenders because the trend of their liquidity positions had carried to a point regarded by many of them as undesirable.

It was the consensus of the Committee that current conditions justified moving modestly in the direction of increasing the supply of reserves available to the banking system. The Committee concluded that this further relaxation of restraint could be accomplished within the scope of the existing policy directive, which called for fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion. Accordingly, although some question was raised with regard to the appropriateness of the last part of that statement, the directive was renewed without change.

Votes for this action: Messrs. Martin, Balderston, Bopp, Bryan, Fulton, King, Leedy, Robertson, Shepardson, Szymczak, and Treiber. Votes against this action: none.

2. Authority to acquire Treasury bills through "swap" transactions.

On April 12, 1960, the Committee had authorized the acquisition, in the period between that date and the next meeting of the Committee, of up to $150 million of 1-year Treasury bills maturing July 15, 1960, either by outright purchase or by swapping other bills. Following discussion of a report on acquisitions