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.<br><br>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.<br><br>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. |

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 of the July bills pursuant to that action, the previous authorization was renewed, effective until the date of the next Committee meeting.

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

Mr. Robertson's negative vote reflected the views he had stated at the meeting on April 12, 1960, with respect to "swap" transactions.

## May 24, 1960

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

Clause (b) of the first paragraph of the Committee's policy directive was changed at this meeting to provide that open market operations should be conducted with a view "to fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion." The preceding directive, in effect since March 1, 1960, had called for operations with a view "to fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion."

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Irons. Votes against this action: none.

Preliminary information for the first part of May suggested that the rates of gain, in sectors of the economy where gains were recorded from March to April, may not have continued. In addition, the improvement during April was not shared by certain basic industries; new orders in durable goods manufacturing were off somewhat further in that month. Steel output continued to decline through April and the first weeks of May as new orders ran considerably below current production.

Recent credit developments indicated that neither borrowers nor lenders had responded with alacrity to the increased availability of lendable funds at the commercial banks. Interest rates continued below the peak levels reached several months earlier but tended to fluctuate widely in reflection of actual or anticipated variations in supply or demand conditions. The most significant point of contrast between the credit situation this year and a year ago was the shift in the fiscal position of the Federal Government to one of debt reduction, and other credit demands had not increased sufficiently to offset the decline in Government borrowing. Although bank reserve positions, over-all, were under somewhat less pressure at this time than during the latter half of 1959, total member bank borrowing, including Federal Reserve advances, resort to the Federal funds market, interbank loans, and reverse repurchase agreements with nonbank sources, continued to be substantial. The volume of borrowing, together with the margin between the Reserve Bank discount rate and short-term market rates, was partly responsible for wide fluctuations in Treasury bill rates in response to variations in market forces.





International developments had been highlighted by the breakdown during the past week of the so-called Summit Conference, a meeting of the chiefs of state of principal nations in Paris. However, it was not yet possible to appraise the extent, or even the direction, of the impact of this occurrence upon the U.S. economy.

The consensus resulting from evaluation of the current situation favored a further supplying of reserves through open market operations with a view to permitting a moderate expansion of bank credit and encouraging an increase in the money supply, which thus far had failed to respond to the easing steps taken by monetary policy. In line with this consensus, and since the prospect of undue credit expansion in the near-term future seemed to have become remote, the Committee changed clause (b) of the directive so as to emphasize that the providing of reserves needed for moderate expansion of bank credit constituted an objective of policy at this stage.