

FORTY-SEVENTH
Annual Report

OF THE
BOARD OF GOVERNORS
of the Federal Reserve System



COVERING OPERATIONS FOR THE YEAR
1960

ANNUAL REPORT OF BOARD OF GOVERNORS

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.

FEDERAL RESERVE SYSTEM

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.

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 avail-

ability 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.

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

The authorization given at the meeting on April 12, 1960, and renewed at the May 3 meeting, to acquire up to \$150 million of 1-year Treasury bills maturing July 15, 1960, either by outright purchase or by swapping other bills, was continued until the date of the next meeting of the Committee.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Fulton, King, Leedy, Mills, Shepardson, and Irons. Mr. Robertson voted "no" on this action insofar as it extended to the acquisition of the 1-year bills by "swap" transactions.

June 14, 1960

1. Authority to effect transactions in System Account.

The data presented for the Committee's consideration included an extensive review of domestic and international business and financial developments since the recession low of 1958. Attention was drawn to the developing business investment boom abroad and to the fact that in many foreign countries the current problems of adjusting monetary policy to economic events stood in contrast to those in the United States. The domestic situation reflected an absence of dramatic business or financial developments since the breakdown of the Summit Conference in Paris four weeks earlier. While exports were expanding relative to imports, in none of the broad categories of domestic demand—inventory accumulation, capital goods, residential building, consumer spending, or Government activity—was a marked upsurge evident. In general, activity continued at a comparatively high level, with prices relatively stable.

The privately held money supply declined substantially in May while, on the other hand, the rate of turnover of deposits continued at an advanced level, and holdings of liquid assets other than money appeared to have risen further. Interest rates in markets for both short-term and long-term funds had been moving downward recently, reflecting not only the sharp reduction in Treasury requirements this year but also some slackening of other credit demands.

Net borrowed reserves of member banks had been progressively reduced since the beginning of the year as required reserves declined more than seasonally. In recent weeks the Federal Reserve System had purchased Government securities, and the net borrowed reserve position of banks gave way in early June to small free reserve positions. A reduction from 4 per cent to 3½ per cent in the discount rates of the Federal Reserve Banks, accomplished within the past two weeks, also tended further to ease restraint on bank credit expansion. Despite the easing of reserve positions, however, no significant expansion of total bank credit had occurred. Although borrowings from the Federal Reserve Banks were considerably below the levels prevailing earlier in the year, city banks still had a large volume of other indebtedness, consisting mostly of purchases of Federal funds from other banks. The banking system also continued to dispose of holdings of Government securities, principally Treasury bills and other short-term securities. In view, however, of the continued demand for short-term investments from nonbank investors, bill rates declined further and the gap between such rates and the discount rate continued to be substantial.

Since no marked shifts in the economic situation were visible, and since the degree of responsiveness of the banking system to the recent easing of reserve positions and to interest rate differentials was still uncertain, the consensus at this meeting favored waiting watchfully in the period immediately ahead, although with the understanding that any deviations in the conduct of open market operations should be on the side of ease rather than restraint. In the light of this consensus, the policy directive adopted at the meeting on May 24, 1960, which provided for fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion, was renewed without change.

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