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.

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

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

Transactions under the authorization given at the meeting on April 12, 1960, and renewed at the three subsequent meetings, to acquire up to $150 million of 1-year Treasury bills maturing July 15, 1960, either by outright purchase or by swapping other bills, had resulted in acquisitions of such bills to the full extent of the authorization. In the circumstances, and since there appeared to be no need for acquiring additional quantities of such bills through "swap" transactions, the outstanding authorization was terminated, effective immediately.

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

July 26, 1960

Authority to effect transactions in System Account.

Available information indicated that during the period since the previous meeting of the Open Market Committee there had been no significant change in the over-all economic situation. Activity continued at a high level, although with a gradual increase in unutilized plant capacity and manpower and without indication of any significant upward thrust. A continued high rate of consumer spending was one of the more favorable aspects of the picture, but in general favorable signs in some sectors of the economy were being counterbalanced by signs of weakness in other sectors. The existing uncertainties were being reflected in reports of some deterioration of sentiment regarding business prospects.

Longer term interest rates had declined further during July, and credit demands did not appear to be particularly vigorous. While the reserve positions of city banks had eased, the positions

of country banks continued to reflect tightness, largely because of seasonal factors. A renewal of the gold outflow had occurred recently, evidently due in some part to a movement of capital attracted by higher interest rates available in other markets. The Treasury had announced its intention to carry out the refunding of a large issue of notes maturing August 15, 1960, through a cash refunding technique, with the terms of the offering to be announced shortly.

Upon appraisal of business and financial developments, it was the consensus of the Committee that open market operations should continue to make reserves for bank deposit expansion readily available. Accordingly, the directive to the New York Bank which called for fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion was renewed.

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

August 16, 1960

Authority to effect transactions in System Account.

At this meeting clause (b) of the first paragraph of the Committee's policy directive was changed to provide that open market operations should be conducted with a view "to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment." The preceding directive, in effect since May 24, 1960, had called for operations with a view to "fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion."

Votes for this action: Messrs. Balderston, Bopp, Bryan, Leedy, Mills, Robertson, and Treiber. Votes against this action: Messrs. King, Shepardson, Szymczak, and Allen.

Relative steadiness in industrial production, construction activity, employment, retail trade, and prices tended to support the view that economic activity was continuing at about the same over-all rate as had prevailed at the end of the second quarter of the year. Business inventories, in the aggregate, did not appear excessive in relation to product sales, especially final sales to consumers; indeed, consumer demand seemed to be a sustaining influence in maintaining the level of economic activity, although there was no evidence that it was providing a further stimulus to the economy. Recently released data on second-quarter corporate profits showed declines from the high year-ago level and from the first quarter, and perhaps more importantly the declines were quite general throughout the various industrial categories. As to the U.S. balance of payments, data for the second quarter of the year reflected improvement in the trade balance at an annual rate of nearly $1 billion. Beginning in July, however, the outflow of gold had been intensified, reflecting the continuing deficit in the over-all balance of payments.

The strong demand for bank loans that had been evident during the first half of the year appeared now to have tapered off, and a shift from loans toward investments had contributed to some improvement in bank liquidity positions. The seasonally adjusted end-of-month money supply increased in July for the second consecutive month, while total reserves, nonborrowed reserves, and required reserves all increased over the 3-month period through July. Market interest rates, on balance, had shown substantial further declines, with most yield series on U.S. Government securities close to their lows for the year.

Federal Reserve actions announced since the previous Open Market Committee meeting included a reduction of margin requirements, a reduction of the discount rate to 3 per cent at several Reserve Banks, a further release of vault cash to be counted by banks toward meeting required reserves, and a reduction of the reserve requirement for central reserve city banks. These actions were effective, or to become effective, on dates from late July to the first of September.

For several months Committee policy had been directed toward providing reserves needed for moderate bank credit expansion, and the consensus of the meeting was that this objective should be emphasized. For the period immediately ahead, it was also the consensus, particularly in view of the uncertainty as to the extent to which banks would use released vault cash to expand credit, that doubts arising in the conduct of open market operations should be resolved on the side of ease and that such operations should take into account, even more than usual, the tone of the market rather than statistical measures.

After consideration of several suggestions for revision of the policy directive in a manner that would more strongly suggest a positive attitude toward increasing the availability of reserves, it was voted to change clause (b) of the directive in the manner heretofore indicated. The members of the Committee who voted against a change in the directive were not in disagreement with the aforementioned consensus as to open market operations. They felt, however, that such operations could be carried out within the framework of the existing directive or, to express it another way, that the consensus did not contemplate a sufficient modification in the course and objectives of open market operations to necessitate a change in the directive.

September 13, 1960

Authority to effect transactions in System Account.

Although the trend of aggregate economic activity continued to be sideways at a relatively high level, reports at this meeting suggested more strongly than before that a renewed upsurge of activity was not an immediate prospect and that the greater likelihood was for an extension of the sideways movement or some downward drift. Unfavorable developments, in addition to the continued underutilization of manpower and industrial resources, included evidence of a weakening in the demand for residential construction and a leveling off of current and prospective plant and equipment expenditures, apparently reflecting in part a re-