FORTY-EIGHTH

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1961

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1961

Period	Action	Purpose of action
January	Limited net sales of U.S. Government securities from Federal Reserve portfolio to about $500 million. Member bank borrowing at Reserve Banks averaged only $50 million.	To encourage bank credit and monetary expansion by absorbing only part of seasonal inflow of reserve funds not otherwise offset by a large gold outflow.
February-August	Bought substantial amounts of U.S. Government securities with maturities over 1 year, following February 20 announcement that System open market operations would include securities outside the short-term area. These purchases were partly offset by net sales of short-term securities. Total System holdings of Governments increased about $700 million. Member bank borrowings averaged $75 million.	To encourage bank credit and monetary expansion while avoiding direct downward pressure on short-term interest rates, thereby moderating pressures on the U.S. balance of payments from outflow of short-term capital attracted by higher interest rates abroad.
September-December	Bought or sold at different times varying amounts of U.S. Government securities, including securities with longer maturities. Total System holdings of Government securities increased about $1.6 billion. Member bank borrowings at Reserve Banks remained generally low.	To continue to encourage bank credit and monetary expansion while allowing for changing reserve needs due to seasonal and other factors, including a large gold outflow, and while continuing to give consideration to the balance of payments problem.
December	Raised, effective Jan. 1, 1962, maximum interest rates payable by member banks on any savings deposit from 3 to 3½ per cent, and to 4 per cent on those left in the bank for 1 year or more; also raised maximum rates on time deposits with a maturity of 6 months to 1 year from 3 to 3½ per cent, and to 4 per cent on those deposits with a maturity of a year or longer.	To enable banks to compete more effectively for savings and other time deposits, including foreign time deposits, thus moderating pressures on the U.S. balance of payments, and, over the long run, to offer additional incentive for the accumulation of savings required for financing future economic growth.

The Committee renewed the authorization, with two dissents, on a basis that continued to vest in the Management of the Open Market Account discretion, within the scope of current Committee policy objectives, for determining the extent to which the authority should be utilized in the light of market developments. One member of the Committee, Mr. King, favored continuing the authorization in effect, but disengaging from operations under it for the time being, while another member, Mr. Mills, voted for continuation of the authority with the recommendation that it be used, when practicable, for reduction of the Open Market Account's portfolio of securities other than Treasury bills. Mr. Robertson, one of the two members who dissented from renewal of the authorization, cited the shrinkage in private retail buying interest in the long-term Government securities market which had accompanied the continuation of official purchases of such securities, and the lack of any apparent major benefits from such purchases. Although he believed that cessation of operations in longer-term securities would be the wisest course, he suggested that the Committee begin by returning to the initial standard, set on February 7, 1961, of barring operations in securities maturing beyond 10 years. This, he felt, would lay the foundation for progressively further limitations later as, in the Committee's view, conditions might make such action appropriate.

September 12, 1961

1. Authority to effect transactions in System Account.

The Committee renewed without change the directive to the Federal Reserve Bank of New York calling for open market operations with a view to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors.

> Votes for this action: Messrs. Martin, Allen, Balderston, Irons, King, Mitchell, Robertson, Shepardson, Swan, Wayne, and Treiber. Votes against this action: none.

Available economic data, mostly relating to the month of August, indicated the continuation of a recovery movement in

which almost all economic indicators had risen above their earlier peaks, but without evidence, however, of an attitude of excessive exuberance on the part of the business community. Some stimulation from additional defense expenditures appeared to be about offset by a lower level of consumer spending than might ordinarily be expected at the current stage of the business cycle. Consumer credit outstanding, which declined in July, appeared to have declined further in August. While the recovery movement appeared to be dependent to a considerable extent on the stimulus provided by the public sector of the economy, there was no suggestion that the stimulus from that sector would be withdrawn. On the other hand, while the vastly increased liquidity of the economy, especially in the hands of consumers, constituted a reservoir of potential spending, there was no present evidence of a significant increase in consumer spending.

Commercial bank loans and investments declined somewhat in August following the large increase in July, which had been due mainly to Treasury financing operations. Business borrowing from banks had thus far shown a rise of no more than usual seasonal proportions. The money supply, narrowly defined to include only currency and demand deposits, changed little in August for the fifth successive month, while the rise in time and savings deposits at commercial banks slackened slightly after having maintained a sharp rate of increase, seasonally adjusted, earlier in the summer.

As to the balance of payments, it appeared that the large transfer of gold and dollars from the United States to foreigners in July could be accounted for mainly by temporary factors, including a large outward capital movement, a reduced trade surplus reflecting a contraseasonal rise in imports, and a seasonal increase in tourist expenditures. Preliminary indications suggested that the deficit may have been reduced in August. Nevertheless, even if the July deficit reflected temporary factors, the gravity of any tendency toward deterioration of the U. S. international payments position was apparent, particularly when viewed in the light of the accumulated deficit over a period of years and the resulting diminution in the margin of monetary reserve protection.

Views on monetary policy for the ensuing 3-week period were influenced by the fact that throughout this period the Treasury would be in the market with large and complex new cash and refinancing operations. This circumstance suggested the desirability of a steady money market. Even apart from this factor, however, the consensus was favorable to continuation of essentially the same degree of ease that had prevailed, although there was general agreement that the Committee should continue to be particularly alert to the emergence of developments that might call for some shift of policy. A minority of Committee members, while agreeing generally with the consensus as to operations during the forthcoming period, suggested that such questions as might arise in the conduct of operations be resolved on the side of less ease, particularly since the risk of a faltering of domestic economic expansion seemed to have receded while the risk of further deterioration in the international financial position of the United States appeared to have increased.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

> Votes for this action: Messrs. Martin, Balderston, Irons, King, Mitchell, Shepardson, Swan, Wayne, and Treiber. Votes against this action: Messrs. Allen and Robertson.

The comments on the renewal of this authority did not reveal any significant change in the views of the Committee members,

as previously expressed, regarding the desirability or utilization of the authority.

October 3, 1961

1. Authority to effect transactions in System Account.

The directive to the Federal Reserve Bank of New York, calling for open market operations with a view to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors, was renewed without change.

> Votes for this action: Messrs, Balderston, Allen, Irons, King, Mills, Mitchell, Robertson, Shepardson, Swan, Wayne, and Treiber. Votes against this action: none.

There was no evidence of substantial change in the economic and financial picture since the preceding meeting of the Committee, although the pace of expansion appeared to have moderated somewhat. The demand for bank loans had been roughly in line with business developments, with no indication of exceptional borrowing in expectation of higher interest rates or inventory needs. Prices continued to exhibit stability, and there remained an underutilization of plant capacity and a high rate of unemployment.

In these circumstances, and in view of current Treasury financing operations, the consensus favored continuation during the period immediately ahead of approximately the same degree of ease that had prevailed during recent weeks, in the belief that a need for some additional credit and monetary expansion existed in order to achieve higher levels of resource utilization. A minority of the Committee suggested, however, that doubts arising in the conduct of open market operations be resolved on the side of less ease, principally in the thought that a gradual move in such direction would place the System in a more advantageous position if and when forces should accumulate that would call for a positive shift towards a less stimulative monetary policy.