

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.

January 26, 1960

Authority to effect transactions in System Account.

The Federal Reserve Bank of New York was directed by the Federal Open Market Committee to conduct open market operations that would continue the policy of restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Deming, Erickson, Johns, King, Robertson, Shepardon, and Szymczak. Vote against this action: Mr. Mills.

Reports at this meeting, both national and regional, continued to reflect the high level of economic activity that had been noted at the meeting of the Committee two weeks earlier. Recovery in production and employment from the lower levels reached during the steel strike had been rapid. The reports indicated a somewhat less buoyant attitude among businessmen than had been reported at the preceding meeting, however, and contrasted to some degree with earlier expectations in some quarters of an explosive surge of activity following settlement of the steel strike. Seasonal contraction in bank credit appeared to be occurring about as usual, and signs of strain in the credit and capital markets were less than a few weeks earlier. A marked easing of Treasury bill rates, reflecting heavy demand from nonbank investors, had taken place despite substantial sales of bills from the System Account portfolio. Nevertheless, a feeling of tightness in credit markets was reported, and the question was raised as to whether growth of savings, increased velocity of the money supply, and willingness of member banks to increase their borrowings from the Reserve Banks would be sufficient in the aggregate to meet the credit demands needed to support prospective expansion in economic activity.

The Committee's decision as to policy for the period immediately ahead was to continue substantially the same degree of restraint on credit expansion that had been followed for some weeks past. However, had a large Treasury financing not been

imminent, several Committee members would have preferred, in view of reported economic developments, to move slightly in the direction of reducing the degree of pressure on bank reserve positions. No Committee member favored increasing the degree of restraint at this time.

Mr. Mills voted against renewal of the policy directive because of his continued preference for a directive that would provide for fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion, wording which he felt called for somewhat less restraint than had been applied during the past few months.

February 9, 1960

Authority to effect transactions in System Account.

Indicators of economic output continued to show strength. Gross national product was still expected to attain an annual rate close to \$500 billion for the first quarter, and earlier estimates of the Board's index of industrial production for January were being revised upward as preliminary data became available. Employment apparently was being well maintained. After a record Christmas trade, seasonally adjusted department store sales continued at about the same level in January as in December, while construction activity, seasonally adjusted, moved upward to an annual rate that represented the highest January on record. Recent figures indicated that exports were likely to provide somewhat greater stimulus to the economy than in the past year.

While economic activity was clearly proceeding at a satisfactory pace, nevertheless the extremely optimistic attitudes that had prevailed in some quarters around the turn of the year were being reevaluated. Evidence of the boom widely anticipated following termination of the steel strike had not yet appeared, and there were few, if any, signs of undue fervor.

The abatement of enthusiasm concerning the business outlook had been reflected in financial developments. Following extreme tightness in the money market in December, with sharply rising

interest rates and an unusually heavy seasonal loan demand, money conditions eased notably in January. Interest rates declined, and bank loans were reduced, about as much as they had increased in December. Stock prices, after rising close to the 1959 high at the end of December, declined sharply thereafter and presently were near the low of the past 12 months. In contrast, bonds had risen in price since the first of the year, and yields on long-term U.S. Government bonds were back to November levels. Yields on intermediate-term Government securities had declined to around the lowest levels of October 1959, while yields on Treasury bills had fallen to the lowest levels since late August.

Together, figures for money supply and turnover of bank deposits indicated a rate of growth in total monetary transactions of nearly 4 per cent a year since mid-1957, but the money supply, which appeared to have declined slightly in January, was only about one-half of 1 per cent larger than the year-ago level. The current figure was a little more than \$5 billion larger than the peak of mid-1957, representing an average annual rate of increase of less than 2 per cent.

In appraising open market policy at this juncture, the Committee took into account all of the aforementioned elements, along with the fact that the easier money situation had resulted from market forces rather than any change in monetary policy. There was unanimity of opinion that any tightening in the degree of restraint should be avoided. On the contrary, while a majority favored watchful waiting during the period immediately ahead, there were several within that group who leaned toward slightly less restraint, and the views of some members of the Committee were more positively in that direction. It was felt rather generally that a moderate increase in the money supply would be desirable.

In the light of the current situation, consideration was given to the possibility of a modification of the policy directive to the Federal Reserve Bank of New York so as to place emphasis, in

clause (b), upon the fostering of sustainable growth in economic activity and employment rather than upon restraint of inflationary credit expansion. In support of such a modification it was pointed out, among other things, that business and financial attitudes and trends were less exuberant than in May 1959, when the existing policy directive was first adopted. The consensus, however, did not favor a change at this time, on the grounds that it would indicate a basic shift in open market policy and that such a shift was not called for at present.

Therefore, the action taken was to renew the directive, which called for restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Erickson, Johns, King, Robertson, Shepardson, Szymczak, and Leedy. Vote against this action: Mr. Mills.

Mr. Mills continued to favor a change in the directive along the lines he had suggested at the past several meetings, which would provide for fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion.

March 1, 1960

1. Authority to effect transactions in System Account.

Clause (b) of the first paragraph of the Committee's policy directive was revised at this meeting so as to provide that open market operations should be conducted with a view "to fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion." This replaced the clause of the directive that had been in effect since May 26, 1959, calling for operations with a view "to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities."