

FIFTY SECOND

Annual Report

OF THE
BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR THE YEAR

1965

DIGEST OF PRINCIPAL FEDERAL

RESERVE POLICY ACTIONS IN 1965

<i>Period</i>	<i>Action</i>	<i>Purpose</i>
January	Reduced System holdings of U.S. Government securities by about \$500 million. Member bank borrowings averaged \$300 million.	To absorb seasonal reflow of bank reserves while maintaining about the same firmness in the money market as had prevailed in earlier weeks.
February	Introduced a program, at the request of the President and in cooperation with the Treasury, under which financial institutions were asked to limit voluntarily their expansion of foreign loans and investments.	To reduce the outflow of private capital and thus improve the U.S. balance of payments and strengthen the international position of the dollar.
February-March	Limited the increase in System holdings of U.S. Government securities to about \$1.0 billion, nearly one-fifth of which were securities maturing in over 1 year. Member bank borrowings rose to an average of nearly \$500 million in late March.	To move toward firmer conditions in the money market, while offsetting a \$600 million gold outflow, and to encourage more moderate growth in the reserve base, bank credit, and the money supply—in an effort to reinforce the voluntary foreign credit restraint program and avoid the emergence of inflationary pressures.
April-November	Limited the increase in System holdings of U.S. Government securities to about \$2.4 billion, nearly one-third of which were securities maturing in over 1 year. Member bank borrowings averaged \$500 million.	To offset a drain on bank reserves from market factors—as outflows of \$2.5 billion in currency and \$700 million in gold were only partly offset by reserves supplied from other technical factors—while attempting to maintain firm conditions in the money market in a period of rising credit demands and shifting expectations and at the same time accommodating no more than moderate growth in bank reserves, bank credit, and money.
Early December	(1) Raised the discount rate from 4 to 4½ per cent and (2) raised maximum interest rates payable by member banks on time deposits (other than savings deposits) from 4 to 5½ per cent for maturities of 30-89 days and from 4½ to 5½ per cent for longer maturities.	(1) To moderate additional bank reliance on short-term borrowings from the Federal Reserve to meet intensifying loan demand and (2) to enable banks to attract and retain time deposits of businesses and individuals and thus to assure an adequate flow of funds.
December	Increased System holdings of U.S. Government securities by about \$1.1 billion, one-fifth of which represented securities acquired under repurchase agreements. Member bank borrowings averaged about \$450 million.	To moderate adjustments in money and credit markets following the December discount rate increase and to offset part of the seasonal drain on bank reserves.

uncertainties a firmer policy was not warranted at present. In their judgment a reduction in the rate of over-all inventory accumulation was likely to act as an offset to the economic stimulus of developments in Viet Nam, and they saw little ground at the moment for expecting inflationary pressures to develop in the near future.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate that the domestic economy has expanded further, but with markets characterized by uncertainties as to possible developments in steel, sterling, and Viet Nam. Our international payments have reverted to deficit in August, and gold outflows have continued, although at a more moderate rate. In this situation, it remains the Federal Open Market Committee's current policy to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while taking into account unsettled conditions in securities and foreign exchange markets.

Votes for this action: Messrs. Martin, Balderston, Daane, Ellis, Galusha, Maisel, Mitchell, Robertson, Scanlon, Shepardson, and Irons. Vote against this action: Mr. Treiber.

Mr. Treiber dissented because he believed that domestic considerations warranted some restriction in credit availability before inflationary pressures gained momentum, and because in his judgment the need to bring about a fundamental improvement in the international payments of the United States was pressing. While agreeing that, in light of the various existing uncertainties, caution would be required in reducing the degree of credit availability, he felt that moderate action of that kind would not have untoward consequences.

September 8, 1965

Authority to purchase and sell foreign currencies.

At this meeting, which was held by telephone, the Committee amended the final paragraph of the continuing authority directive for foreign currency transactions to increase the dollar limit specified for purchases of sterling by the Federal Reserve Bank of New York on a covered or guaranteed basis in terms of the dollar to \$200 million equivalent from \$50 million equivalent.

Votes for this action: Messrs. Martin, Balderston, Daane, Ellis, Maisel, Robertson, Scanlon, Shepardson, Clay, Irons, and Treiber. Votes against this action: None.

For several weeks negotiations had been in process among Britain, the United States, and a number of other countries on a program designed to assist the recovery of sterling, and today's action was taken in connection with that program, on recommendation of the Special Manager of the System Open Market Account. The U.S. Treasury was planning to participate with the Federal Reserve in the package of assistance.

September 28, 1965

Authority to effect transactions in System Account.

Economic activity advanced further against a background of optimistic business sentiment, and most analysts reportedly