Miss Muehlhaus

The Honorable Wright Patman,
Chairman,
Joint Economic Committee,
Congress of the United States,
Washington, D. C.

Dear Mr. Chairman:

When I appeared before the Joint Economic Committee on June 2, 1961 in connection with the hearings on the Board's 47th Annual Report, you presented a list of 13 questions to which you asked that answers be submitted later on.

The answers to 12 of these questions have been completed and are enclosed herewith. A response to the 13th question is in the course of preparation and it is expected that it will be sent to you in the near future.

At those hearings, there was also presented, to Mr. Hayes as well as to me, a request for a statement on the quickness of effects of reserve requirement changes and open market operations. That statement also is in preparation and should be ready for transmission to you within the next several days.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

MS:me

1. In framing its directive to the Manager of the Account and reporting to the Congress, what, if any, difference is there in the terms "credit expansion" as in the revision of May 24, and "monetary expansion" as in the revision of August 16? Are we to understand these terms to apply to an expansion of total loans and investments, of demand deposits, of demand deposits plus time deposits, or currency in circulation plus demand deposits?

No difference was meant by the two terms "bank credit expansion" as used in the May 24 revision of the Federal Open Market Committee's policy directive, and "monetary expansion" as used in the August 16 revision.

The term "bank credit expansion" refers more precisely to an increase in the total loans and investments of commercial banks, that is, in their principal assets. "Monetary expansion" relates to an increase in the nation's money supply, usually defined to include demand deposits of banks and currency in circulation. Technically speaking, the terms differ in that "bank credit expansion" approaches the problem from the bank asset side, while "monetary expansion" approaches it from the bank liability side. Since demand deposits are at the same time the major component of the money supply and the main, although not the sole, offsetting liability to bank assets, bank credit expansion and monetary expansion are essentially two sides of the same coin.

July 7, 1961

2. What is the reason for including the limitation in various directives restricting changes in security holdings of the System to $1 billion or later to $1.5 billion: Have these limitations at any time during the past year restricted or controlled the actions taken?

The dollar limitation contained in the directive issued to the Federal Reserve Bank of New York by the Federal Open Market Committee is intended simply to set a ceiling on the total change that may be made between meetings in System Account holdings of Government securities without further consideration by the Committee. The limitation did not preclude operations in pursuit of the Committee's policy objectives at any time during the past year.

The usual limitation of $1 billion is high enough to cover any normal variations in the System portfolio required over the usual three-week period between meetings. On occasion estimates may indicate that an exceptionally large absorption, or release, of reserves from the operation of other factors may require a larger change in the System portfolio in order to meet Committee objectives. On such occasions, the Manager of the System Open Market Account or any member of the Committee may request that the limit be changed. This was the case at the meeting of October 25, 1960. At that time estimates of factors affecting member bank reserves over the succeeding weeks indicated that changes in float and currency circulation alone would absorb about $3/4 billion bank reserves before November 10 and suggested that implementation of the Committee's directive to conduct open market operations with a view "to encouraging monetary expansion" might require a change in the System's security holdings of more than $1 billion. Accordingly, the Manager of the System Open Market Account requested that the limit be raised to $1.5 billion and the Committee granted this request. As it turned out, the change in System outright holdings of securities over the period amounted to $991 million. During the period, reserves supplied temporarily by the acquisition of Government securities under repurchase agreement amounted, however, to as much as $640.5 million, although the net change in securities held under repurchase agreement for the whole period was only $80 million. It might be noted that the limitation does not apply to such repurchase agreements, which are made for the account of the Federal Reserve Bank of New York and which provide reserves on a temporary basis, nor does it apply to purchases and sales of bankers' acceptances.

The limitation stipulated in the directive did not inhibit the Manager in the conduct of operations during 1960, and it remains a useful device, since it ensures that a decision of the full Committee, which can be obtained on short notice through a telephone meeting if necessary, must be made if unexpected developments in the money or securities market suddenly require open market operations in excess of the limitation.

July 7, 1961

3. What significance did you expect the Manager or the Congress, in later reading of directives, to attach to the phrase in the August 16 meeting "to take into account even more than usual the tone of the market rather than statistical measures"? What statistical measures were referred to and why were they to be downgraded in importance?

In providing that operations for the System Account during the period immediately following the August 16 meeting should "take into account, even more than usual, the tone of the market rather than statistical measures," the Committee expected the Manager to rely to greater degree than customarily would be the case on his intimate knowledge of current money market conditions, as a basis for his judgment of the degree of ease actually prevailing from day to day and of the transactions to be effected in pursuit of the Committee's objective of encouraging monetary expansion. In line with regular Committee procedure, this particular authorization applied only to the period until the next meeting of the Committee, when the directive would again be reviewed and reconsidered.

In the ordinary course and as part of his job, the Manager of the Account is expected to use his special and expert knowledge of market conditions, along with statistical estimates or projections of available reserves and information regarding the distribution of such reserves, in measuring the prevailing tone of the market. His judgment on this point is, of course, of key importance in combination with statistics in arriving at a determination of the particular transactions needed on any given day in order to attain the Committee's objective. Among the most pertinent statistics he examines are daily projections of total reserves, excess reserves, and borrowings, in the aggregate and by class of bank. He also has available figures on current positions and financing needs of Government securities dealers and the flow of securities through the market, as well as market prices and yields on U. S. Government securities, the prevailing rate on Federal funds, and a variety of other money market data.

By his examination of such statistics and by observing current market developments, the Manager of the Account is aided in determining the actions needed to maintain or bring about the objectives indicated by the Committee's directive and policy consensus. However, there is no single statistical measure that states or reflects precisely the degree of ease or tightness prevailing in the market at any given time, or the change in the degree of ease or tightness that would be produced by the injection or withdrawal of a given amount of additional reserves. One of the functions of the Account Manager is to interpret the available statistical data in the light of his expert judgment, and thus to initiate operations that will attain the Committee's objective.

At the August 16 meeting, the Committee felt it desirable to place relatively greater emphasis than usual on the Manager's evaluation of the tone and feel of the market. This was because the customary statistical indicators were likely to provide less precise guidance as to the degree of ease or tightness prevailing in the market during the next few weeks as a result of uncertainty regarding member bank response to the actions taken by the Board of Governors of the Federal Reserve System on August 8, 1960. Those actions made additional reserves available through (1) authorizing the counting of vault cash by banks in meeting their reserve requirements effective August 25 and September 1, and (2) reducing reserve requirements for central reserve city banks effective September 1.

July 7, 1961

4. Assuming that the System Manager is, as is apparently the case, expected and allowed to translate "shades of opinion" into operational dollar terms, do you feel that this is an adequate explanation to the Congress of the "determination of open market policies and the reasons underlying the action," as required by statute?

The policy actions of the Federal Open Market Committee and the reasons underlying such actions are, it is believed, adequately explained in the Annual Report of the Board of Governors. The directive and the accompanying entry that appears in the Annual Report covering each policy action provide Congress with an explanation of the "determination of open market policies and the reasons underlying the action," as required by statute. This material is supplemented by the general analytical text covering the events of the year as presented on pages 1-33 of the Annual Report for 1960.

Significant shades of opinion regarding policy that emerge in the course of Committee discussions are reflected in the Committee consensus and are recorded in the entries for the policy record, later published in the Annual Report. The bearing that such observations have upon the policy actions taken by the Committee thereby becomes part of the public record.

Additional comment on the use of shades of opinion by the management of the System Open Market Account appears in the answer to Question 5.

July 7, 1961

5. In translating these "shades of opinion," is the Manager expected to consider the number of members voting for or against the directive and assign different weights to the opinions of different members, depending upon what seems to him to have been the most persuasive and best articulated reasons?

The Manager of the System Open Market Account is expected and instructed by the Federal Open Market Committee to pursue operations that will attain the objectives specified by the directive issued by the Committee at any given meeting. He is not expected or authorized to "assign different weights to the opinions of different members, depending upon what seems to him to have been the most persuasive and best articulated reasons."

To assist him in carrying out the necessary operations, the Manager has the benefit of the full discussion at the meeting at which a policy decision is reached. The "shades of opinion" expressed by members at a meeting are not necessarily related to the number voting for or against a directive: such shades of opinion exist when a vote is unanimous, as is often the case, and they may relate to a variety of factors such as timing of operations or emphasis upon one or more of a series of statistical indicators.

In fact, the term "shades of opinion," as used in the introduction to the Record of Policy Actions of the Federal Open Market Committee appearing on page 34 of the Board's Annual Report for 1960, applies to all the Committee discussion, particularly those significant portions that are set forth in the subsequent entries appearing on pages 35-74 covering individual policy decisions. The purpose of the introductory general comment on this point was to indicate to the Congress and others that the Manager, by attendance at the meetings, is in a position to know immediately the full background of discussion leading to the wording of the directive and to the additional substantive instructions given by the Committee at the meeting, as set forth in the Record of Policy Actions.

Many examples of these shades of opinion are contained in the entries covering individual policy decisions. For example, several shades of opinion are reported at the January 12, 1960, meeting in the paragraph at the top of page 37, and in the second paragraph on that page a minority vote and the reasons given in support thereof are presented. The Management of the Account had the benefit of this full discussion in pursuing the directive calling for "operations with a view to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding opportunities." He was bound by the directive and consensus, however, which was for no change in the degree of restraint that prevailed at the time the meeting convened; and the Manager would not consciously have taken a move to change the situation without further instruction from the Committee.

At the January 26 meeting, the Committee decided to continue substantially the same degree of restraint on credit expansion but, to illustrate again the shades of opinion that existed, several members would have preferred to move slightly in the direction of reducing the degree of pressure on bank reserve positions if a large

Treasury financing had not been imminent. It was clear that no member then favored increasing the degree of restraint, and one again voted against the directive because he continued to feel that less restraint should be applied.

At the February 9 meeting, the shades of opinion expressed included (a) the unanimous view that any tightening in the degree of restraint should be avoided, (b) the views of several who leaned toward less restraint, and (c) a rather general view that a moderate increase in the money supply would be desirable. However, the majority action, and the wording of the directive issued, was for no change in the existing policy on the grounds that a basic shift in open market policy was not called for at the time.

At the next meeting, March 1, the directive and the accompanying consensus set forth in the policy record were changed by unanimous vote to wording that called clearly for moderately less restraint. Taking the period January 12 to March 1 as a whole, although the wording of the directive did not change, the shades of opinion recorded in the policy record entries for several meetings made clear that any doubts as to the effect of transactions in the System Account should be resolved on the side of no more restraint, rather than on the side of an increase in pressures on reserve positions of banks.

In sum, whether arrived at by a small or large majority or by unanimous vote, the Committee instruction as to policy and operation of the Account is the basic guide that the management of the Account is obligated to follow. The directive represents a general statement of Committee policy objectives, which is supplemented by the consensus that emerges from each meeting and forms the basis for the record of the policy decision. Thus, the policy record entry that appears in the Annual Report is a more complete spelling out of the Committee's instructions and reasoning than is the directive taken alone. Within the framework of the directive, however, the Manager of the System Account may be expected to derive assistance in understanding the intent of the Committee in issuing its instruction because of his knowledge of the views expressed in the process of arriving at the Committee's decision.

July 7, 1961

6. In purchasing or selling securities, do you ever expect or direct the Account to take an active forceful role by purchasing securities above or below the current price for the purpose of changing the level of interest rates? If this is never done, is not the role of the System reduced to that of a follower rather than a leader?

The Federal Open Market Committee does not direct the Account Management to make purchases above current prices, or to make sales below current prices, in carrying out transactions for the System Account. Transactions for the Account, rather, are made on a "best price" basis, that is, purchases are made at the lowest prices offered, and sales at the highest prices bid at the time the transactions are effected. This procedure is utilized in order to avoid arbitrary discrimination among dealers and disruptive market effects. Nevertheless, it permits the Federal Reserve to assume an active, forceful role in influencing conditions in the money and credit markets when this is deemed desirable. Such influence is exercised primarily through changes in the supply of bank reserves, although interest rate considerations may at times be of importance.

The System is a large participant in the Government securities market and its operations affect the expectations of other participants in that market as well as general expectations regarding money conditions. System transactions in Government securities consequently have an immediate effect on prices and yields, as do the large transactions of any other market participant. The magnitude of this effect, in the case of purchases, depends primarily on the size of the operation relative to the volume of securities available in the market, including those in dealers' positions as well as those flowing into the market from customers, at prices that are at, or close to, those currently being quoted. Similarly, the immediate impact of System sales will depend on the strength of bids for securities in the market, including those by dealers for positioning and for filling orders for customers. By operating on a "best price" basis, the System permits the market to adjust continuously to the volume of transactions actually effected. To operate otherwise would tend to weaken the value of the knowledge that a free market, where the individual decisions of buyers and sellers are worked out, can provide.

The immediate focus of System open market operations is to regulate the reserve positions of banks and in this way to make possible a flow of bank credit and money adjusted to the needs of the economy. The bulk of operations are designed to offset undesired short-term variations in other factors affecting bank reserves and to provide for seasonal and other temporary needs for reserves. Open market policy thus helps to dampen the very wide short-term variations in securities prices and yields which would tend to occur in the absence of System actions. From the standpoint of such day-to-day operations, therefore, the question of "leading" or "following" the market does not arise.

Contracyclical monetary policy is carried out simultaneously with operations conducted to provide for seasonal and other short-term reserve needs and in practice the two sets of operations cannot be separated. The extent to which factors making for temporary changes in reserves are in fact offset--or, occasionally, reinforced--by System operations depends on the direction in which monetary policy is moving in its economic stabilization function. It is in carrying out its continuing contracyclical function that the Federal Reserve may be said to have an active, leadership influence on money and credit flows and thereby on market interest rates.

Through influence on market expectations, bank credit and monetary policy also have effects on interest rates in addition to, or even prior to, those resulting from changes in bank reserve positions and in market supplies of securities. Expectational responses to System actions, by accelerating market adjustments in prices and yields of securities to cyclical movements in the economy, give monetary policy an additional leverage in its efforts to counter economic instability. At the same time, the risk that the response of market psychology may be excessive requires that the authorities be careful in undertaking actions or operations that might appear to signal an abrupt change in prevailing credit conditions.

July 7, 1961

7. Reference is made on several occasions to "relating the supply of money in the market to the needs of commerce and business." What significance has this statement in a policy directive unless related to some equilibrium level of interest rates?

Clause (1)(a) of the directive of the Committee has specifically provided for operations of the System Open Market Account to be undertaken with a view, among other objectives, to relating the supply of funds in the market to the needs of commerce and business. This is one method by which the Committee keeps clearly before its operating officials the responsibilities for accommodating commerce and business as established under Section 12A of the Federal Reserve Act.

This statement in the policy directive relates mainly to the function of the Federal Reserve System in offsetting seasonal, regional and random flows of funds that might suddenly cause undue stringency in bank reserve positions and in the money market. Prior to the establishment of the Federal Reserve System, such flows of funds at times aggravated, or even caused, serious financial and economic disturbances. The statement therefore refers to the more routine functions of the Federal Reserve System involved in preventing temporary distortions in money flows from having a disturbing effect on the economy. The policy instructions of the Committee are contained elsewhere (Clause (1)(b) ) in the directive to the New York Bank.

The needs of commerce and business are of course accommodated by a relatively stable reserve base, and the System's marginal operations referred to above must be related to these needs. Widely varying needs for funds are generated in the regular course of business activity. Holidays such as the Fourth of July and the Christmas season, for example, produce sharp increases in currency used by the public which, unless offset by Federal Reserve action, would produce strong temporary pressures upon bank reserve positions. Needs for credit accommodation are also associated with such seasonal developments as quarterly tax payments and the harvesting and processing of agricultural commodities. Variations in credit needs of a longer run nature accompany cyclical business expansions and the underlying trend of economic growth.

Some of these types of shifting credit needs are sufficiently repetitive to be projected in advance on the basis of historical patterns. Other needs, less amenable to regular projection, may sometime be forecast or perceived soon after their inception. The Manager of the System Open Market Account has prepared daily estimates of aggregate reserve sources and uses for a number of days ahead which embody adjustments for many of these developments. In his operations, the Manager makes such allowance for these market developments as appears practicable within the degree of general monetary ease or restraint which the Federal Open Market Committee has directed to be maintained. In terms of volume, the open market operations undertaken by the Account to offset or compensate for market factors affecting reserves far overshadow the volume of operations necessary in order to achieve such changes in general reserve availability as are called for by the Committee.

The kinds of demands for funds outlined above interact in varying degrees with the prevailing state of credit availability and interest rates. Some repetitive needs for funds are sufficiently insensitive to interest rate changes to produce substantial upward fluctuations in market interest rates in the absence of offsetting reserve provisions. Such a pattern often materialized near the end of each year prior to the establishment of the Federal Reserve System, as the market worked to equilibrate insistent seasonal demands for funds with an inelastic supply. Federal Reserve operations, by providing appropriate adjustments in the credit base, aim to minimize the degree to which the onset of seasonal and other pressures can produce departures from the conditions of general credit availability being sought by over-all monetary policy.

July 7, 1961

8. In connection with the indications that the Board considers the growth of time deposits in commercial banks as having expansionary effects, precisely what is the Federal Reserve policy with respect to time deposits during periods of inflationary pressures or during periods when stimulation of general economic activity is desired?

Because of the diverse effects of the savings and liquidity aspects of time deposits in commercial banks on spending and economic activity, an appraisal of the significance of their growth must be based on constant study of the various forces underlying such growth. Over the long run, increases in time deposits in commercial banks as well as in other forms of savings facilitate investment and contribute to economic development. Over the economic cycle Federal Reserve policies tend to encourage bank credit and deposit expansion at times when stimulation of general economic activity is desired, and to restrain them during periods of inflationary pressures. Growth in time rather than demand deposits is preferable during periods of inflationary pressures since they are less liquid, but the form of deposits in which holders wish to keep their funds is mainly a function of the needs and desires of holders rather than the actions of the Federal Reserve. Thus, the amount of demand deposit expansion appropriate for any particular economic situation is affected to some extent by the concurrent rise in time deposits as well as in other forms of liquidity.

Time deposits in commercial banks are at the same time a form of savings and a reservoir of liquidity. They are a highly liquid form of asset and are readily convertible into cash, with no fluctuation in capital value, although some sacrifice of interest is usually involved.

As a form of both savings and liquidity, time deposits in commercial banks have some influence on the volume and timing of consumption and investment, and hence the course of activity over the economic cycle as well as in the longer run. Current additions to time deposits, in turn, also reflect the economy's decisions to spend or save. For example, when spending tends to diminish, consumers or businesses may add part of the additional unspent income to time deposits. Thus, movements of these deposits are, like many other facets of economic activity, both cause and effect of such activity.

Time deposits differ from many other forms of savings in that they are subject to more public regulation. Since most time deposits in commercial banks are liabilities of member banks of the Federal Reserve System, they are subject to legal reserve requirements and maximum interest rate regulation. Reserve requirements against time deposits limit the degree of multiple bank credit expansion that can be built up on the basis of a given amount of reserves in case some of the bank funds made available are held in the form of time deposits. Federal Reserve policy takes account of both the savings and liquidity aspects of time deposit growth at commercial banks.

July 7, 1961

9. Does the size of the Open Market Committee have anything to do with the vague and very general wording of the policy directives?

The size of the Federal Open Market Committee has little, if anything, to do with the wording of the policy directive, once the Committee has decided by unanimous vote or otherwise what its policy goal is to be.

Clause (b) of the first paragraph of the directive specifies the economic goal or objective of current policy. This is a statement that must guide operations over a period of several weeks and, appropriately, is in rather broad terms, irrespective of the size of the Committee. A distinction should be made between this policy goal statement and the detailed operating procedures or techniques to be followed in attaining such goal. This distinction--not the size of the Committee--is the determining factor in the type of wording used in the Committee's directive, when the policy decision has been arrived at.

As an example, the wording of the directive adopted at the last meeting in 1960 provided that open market operations be with a view "to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments." This language set out in concise and definite terms the policy objectives of the Committee at that particular phase of the business cycle. It was not designed to provide detailed instructions for day-to-day operations of the System Account in pursuit of the goal, but it was designed to make clear the Committee's purpose that should guide the Manager of the System Account in executing transactions. Such a guide would be necessary, regardless of the size of the Committee. Also, regardless of the size of the Committee, more detailed guidance may be given within the framework of the directive. In practice, such guidance to the Manager is contained in the consensus that is reached at each meeting of the Committee, as set forth in the Record of Policy Actions.

July 7, 1961

10. Among several references noting that the money supply had failed to respond as anticipated, the September 13 summary refers to the change as "disappointing." Is it your contention that the Federal Reserve is sometimes frustrated in its attempt to increase the money supply and, if so, how and why?

The particular variable over which the System exercises major influence is the total of commercial bank reserves. Through its influence over reserves the System is able to have a significant effect on total loans and investments and total deposits of banks, and through these variables some effect on the volume of spending, investment and saving by the public in general.

It is never possible to predict exactly the expansion of bank credit and money which will result from a given addition to total reserves. Depending on the strength of public and private credit demands, the liquidity of banks and their willingness to borrow, and many other factors, the supply of reserves made available by open market operations or reserve requirement adjustments may be used in many ways. Banks may accumulate excess reserves, repay indebtedness, or utilize the reserves as a basis for deposit expansion. Typically, some part is likely to be employed in each of these ways. At times the bulk, if not all, of the reserves provided may flow into one use rather than another.

The quoted observation in the policy record for September 13 related to the fact that, despite the substantially larger than seasonal increase in total reserves since May, the increase in the seasonally adjusted money supply through August had been very moderate. In this sense the Federal Reserve may be "frustrated" at times in endeavoring to foster an increase in the money supply, because the monetary expansion resulting from its actions to supply reserves is less than was anticipated on the basis of previous experience. Responses of less than anticipated dimensions can be, and are, taken into account in subsequent policy formulation, as is demonstrated by the policy record cited in this question.

July 7, 1961

11. Does the Board take into account or attempt to estimate the member banks demand for free reserves or liquidity as well as the supply of these reserves? Is the rate of interest on Federal funds an important indicator influencing the direction and extent of open market operations?

The Federal Reserve does take into account the member banks demand for reserves in its actions to affect the supply of reserves through monetary policy. It does this both in the short run to allow banks to meet the seasonal and other temporary demands for financing on the part of the Government and private borrowers, and in the longer run to contribute most effectively to sustainable economic growth.

The significance of the level of free reserves or net borrowed reserves in the banking system as a factor tending to encourage or restrain bank credit and monetary expansion depends, among other factors, on the demand for reserves. The demand for reserves, in turn, depends on the vigor of actual current demands for bank credit, the existing level of over-all bank liquidity, shifts between types of deposits, and the variation among the different classes and groups of banks with respect to these factors.

If the Federal Reserve responds fully to demands for reserves by supplying them through open market operations, member bank borrowings are unlikely to rise and excess reserves unlikely to fall. If, however, the Federal Reserve judges that some restraint on bank credit and monetary expansion is appropriate, it will supply through open market operations a smaller volume of reserves than is being demanded. As a result, there is likely to be an increase in the level of member bank borrowings or a reduction in excess reserves. In these circumstances, banks tend to moderate their credit expansion.

At other times, when economic activity is slack and when credit demands are light or banks prefer to increase their liquidity rather than to expand their loans, it is appropriate for the Federal Reserve to supply banks with more excess reserves in order to encourage bank credit and monetary expansion. Thus, in providing an appropriate supply of reserves, the Federal Reserve takes into account (1) the demand for them, (2) the desirability of encouraging or restraining bank credit and monetary expansion, (3) the desire of banks for liquidity, and (4) the willingness of banks to borrow in order to obtain reserves.

The rate of interest on Federal funds is an important indicator, but only one of several important indicators, that is used to evaluate current conditions in the money markets and thus to determine whether action by the Manager of the Federal Open Market Account is necessary or desirable in order to carry out the current directive of the Federal Open Market Committee. The Federal funds rate indicates mainly supply and demand relationships in one segment of the money market, namely, the market for one-day bank funds. It reflects particularly short-term variations in the reserve needs of individual banks and their efforts to balance their reserve positions or to put excess reserves to use within the period they are permitted to use for reserve computation purposes.

The spread between the Federal funds rate and the discount rate reflects rather accurately day-to-day changes in the distribution of reserves among larger banks, and hence their short-run lending and investing ability. This is especially true in periods of credit ease. The general state of credit markets even in the short run, however, is more accurately reflected in money market rates other than the Federal funds rate, particularly those for Treasury bills.

July 7, 1961

12. For each of the five or six changes in key words of the policy directives do you feel that a reporting of this change in language meets the requirements of a full disclosure to the Congress of the actions taken and the reasons underlying the action?

Changes in the language of the general policy directive of the Committee were made at the Committee's meetings of March 1, May 24, August 16, and October 25, 1960. The underlying reasons for these changes are set forth at pages 43, 55, 63, and 70, respectively, of the Board's 1960 Annual Report. In addition, the policy record entry for each of the Committee's meetings contains a summary of the consensus of the Committee reached at that meeting, spelling out Committee objectives in more detail than in the broad policy directive. The Record of Policy Actions is supplemented by an integrated analysis appearing on pages 1-33 of the Report with respect to general economic and financial developments during the year.

It is believed, therefore, that the Board's 1960 Annual Report clearly meets the requirements of the law for full disclosure to the Congress of the policy actions of the Committee and of the reasons underlying such actions.

July 7, 1961