Press conference by Wm. McC. Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System, shortly after 4 p.m. on Monday, November 23, 1964, concerning Federal Reserve actions of that day.

A news conference was held by Chairman Martin in the Board Room of the Board of Governors of the Federal Reserve System at approximately 4:15 p.m. About 30 members of the press were present and prior to the conference copies of official press statements by the Federal Reserve, the Federal Deposit Insurance Corporation, and the Secretary of the Treasury had been distributed to those present.

QUESTION: Is this off the record?

CHAIRMAN MARTIN: I see no reason why it should not be on the record. If there is anything that I want off the record, I will point it out. What I would like to do first is put in some perspective by saying that if it had not been for the action of the British, the Federal Reserve would not have increased the discount rate at this time. Most of you know that we have been pursuing a slightly less easy monetary policy since the latter part of the summer--let's call it a policy of cautious ease--with no desire in any way to hamstring the economy but keeping aware of the fact that an inflationary potential might develop and we might possibly want to act against it, or ignore it, and also keeping aware of the difficulty that might develop in the balance of payments. Now neither the inflationary potential nor the difficulty with the balance of payments has developed--not as yet. Our action today is taken with the desire not to hamstring the economy, but, as indicated, we felt it desirable to take such action as we can to indicate that we are ready to defend and preserve the dollar. Not that we think there is any weakening of the dollar at present but because this action will give us a better alignment of world rates, as indicated in this release. It is not intended as an "offset" to the British action; if it had been, our rate increase certainly would have been more than the 1/2 point increase we are making. It is merely intended to show that we will defend the dollar, that we are aware that the rise in the rates abroad could put pressure on the dollar, that we felt that there would be a better alignment of rates as a result of this action.

QUESTION: Mr. Martin, does that open the possibility of a further increase in the discount rate?

CHAIRMAN MARTIN: It does not open it up or preclude it, it is simply as indicated. As you know, President Johnson has indicated several times that he is anxious to do everything he can to promote the development of the economy. He has wanted to pursue a vigorous price and income policy and has encouraged businessmen in that direction. At the same time he has indicated that it is within the Federal Reserve's power to act against inflationary developments--but I want to emphasize that inflation has not developed yet, nor has a balance of payments hemorrhage developed. This is a precautionary move which I would classify as an insurance measure.

QUESTION: Did you have any warning that the British would raise the rate?

CHAIRMAN MARTIN: The U. K. informed us that they were going to. We have had very close relations with them. The Bank of England informed us that they were going to do this--they did not ask our advice on their move and none was proffered. We did not indicate to them what action, if any, we would take. Our action was taken independently.

QUESTION: Does the move signal any change in Open Market policy?

CHAIRMAN MARTIN: It does not in the slightest, not at the moment.

QUESTION: The policy will continue to be one essentially of ease?

CHAIRMAN MARTIN: Essentially as is, it is not a move directed at reducing the availability of funds.

QUESTION: Can you do that?

CHAIRMAN MARTIN: We think we can.

QUESTION: What is the Treasury bill rate today?

CHAIRMAN MARTIN: I would have to ask someone else on that. (Here an assistant said the figure would be obtained and furnished later.)

QUESTION: You say there will be continued ease in the money market?

CHAIRMAN MARTIN: I did not indicate that there would be continued ease, I was talking about the availability of funds. I don't know what interpretation the market will put on their worth. This is one of those cases where the availability of funds will be an influence.

QUESTION: Will this be enough to narrow the differential in favor of London and prevent an outflow of funds?

CHAIRMAN MARTIN: We think it will go a long distance towards that. Of course, nobody knows. I would think this action demonstrates the determination of the Federal Reserve and the Treasury to proceed along the lines of the Balance of Payments Message of July 1963, which you are all familiar with, and along the lines of President Johnson's comment in connection with both domestic and international fronts.

QUESTION: How high will short rates have to be to achieve alignment?

CHAIRMAN MARTIN: I have no doubt that there is already a better alignment today. We have no way of judging in advance what the market will do or what this will work out to be.

QUESTION: As distinct from short-term money rates, do you anticipate an increase in other borrowing rates?

CHAIRMAN MARTIN: My own judgment is that there are sufficient funds in the market so that this is not necessary--not likely, but that I can't guarantee, and I am not trying to make the market. This is an evaluation.

QUESTION: Will you clarify that. What is not necessary?

CHAIRMAN MARTIN: That there will be higher rates--

QUESTION: Prime rates?

CHAIRMAN MARTIN: Yes.

QUESTION: You say the action will not have any impact on the domestic business situation?

CHAIRMAN MARTIN: I would think that it would have a negligible effect on it. That is my judgment.

QUESTION: That means it would not necessarily frustrate "Operation Twist"?

CHAIRMAN MARTIN: That is right: not necessarily, but again we are dealing with psychology and market judgments and nobody can be sure.

QUESTION: Can we return to your reasoning that this will have only negligible effect upon the potential money supply?

CHAIRMAN MARTIN: That is our view.

QUESTION: How much notice did you have from the Bank of England?

CHAIRMAN MARTIN: My first word of the definite decision of the Bank of England--we had about a day's notice.

QUESTION: Over the week end?

CHAIRMAN MARTIN: That is correct.

QUESTION: Would it be an overstatement of what you said before to say that you are urging the banks here not to raise the prime rate?

CHAIRMAN MARTIN: That would be an overstatement. I have not talked to any banks or suggested what course they ought to follow.

QUESTION: But you don't think it necessary that they raise the rate?

CHAIRMAN MARTIN: At the moment it looks like there is a sufficiency of funds and that would not seem necessary, but I am not in a position to judge it.

QUESTION: As I heard it, it seems you were definitely informed over the week end of the British decision. Could you comment if you were informed of such a move either before or after the import surtax?

CHAIRMAN MARTIN: We were not informed at that time.

QUESTION: Would you say again what effect you expect this to have on the outflow of short-term funds?

CHAIRMAN MARTIN: If you notice, in changing Regulation Q, we have placed the emphasis on time deposits of from 30 to 90 days. That rate goes up to 4 per cent, and above 90 days it is 4-1/2 per cent. So obviously we think that in order to protect against outflow the impact should be in the short end of the market.

QUESTION: You are trying to reduce the outflow?

CHAIRMAN MARTIN: We are trying to reduce the rate advantage at the short end of the market.

QUESTION: This obviously will not stop the outflow of money.

CHAIRMAN MARTIN: There is no important outflow of funds to England at the moment that we know of. We are trying to keep a rate structure here which will make it less attractive.

QUESTION: If this move was precipitated by the British action, and not the balance of payments, is there a possibility that you would come down on the rate?

CHAIRMAN MARTIN: I would not want to conjecture on that. It would depend on what the condition of the market is.

QUESTION: What about other rates? Have you any indication that other Europeans may make moves?

CHAIRMAN MARTIN: We have no indication or expectation of it. They will have to watch the course of things and wait as we do. Let me answer now a question one of you asked earlier. The auction estimate was 3.77 and the bill rate closed today at 3.73.

QUESTION: What about flows to Canada?

CHAIRMAN MARTIN: That has been going on for a long time.

QUESTION: The Canadians have been offering higher rates this year. What will they do now?

CHAIRMAN MARTIN: I don't know what the Canadian authorities might do. Our action certainly closes the gap, assuming the Canadians did nothing. It makes their rates less attractive.

QUESTION: Could you discuss any change in the balance of payments since the British surtax action?

CHAIRMAN MARTIN: We have no figures at all that are worth anything.

QUESTION: Did the British give you any indication of whether they hoped their move would be temporary?

CHAIRMAN MARTIN: They made no statement of any sort on that. Let me say here that any comment I make on a foreign country is one I would rather put off the record if I can. (Mr. Martin then cited a recent experience in Chicago of hearing false reports, allegedly stemming from press accounts, that the British had given up their import surcharge already. In consequence, he would share the feeling of British officials that there was obvious need to be very careful.)

QUESTION: May we expect the other Federal Reserve Banks to go along within a few days?

CHAIRMAN MARTIN: We have the first five Banks and I think in due course the others will follow. They had no need to rush. These Banks that we have today were those that were having an Executive Committee meeting or regular Board meeting. The Boston Bank just happened to be having a regular meeting.

QUESTION: You have raised the rate on time deposits of less than 90 days from 1 to 4 per cent. Has it ever been that high before?

CHAIRMAN MARTIN: I don't think so; I think the answer is definitely no.

QUESTION: How will so modest an increase in the discount rate serve to prevent outflows? What is your reasoning there?

CHAIRMAN MARTIN: In this country we have historically and in the recent past have had lower interest rates right along, and I think all of you must be aware of the difference between our problem and the United Kingdom problem. We have been running a very comfortable trade surplus. Our total surplus will be near $6 billion for the year, and the U. K. is running a trade deficit. The action we have taken here is not directed to offset the U. K. action. It is taken entirely because of our interest in the American dollar. It is not taken jointly with the U. K. Our interest in taking it is to protect the U. S. dollar.

QUESTION: If the dollar has been under no recent pressure and there is no indication of inflationary developments--

CHAIRMAN MARTIN: Maybe I overstated it if I said "under no pressure" in our balance of payments.

QUESTION: What was it that led you to act so promptly. What might have happened had you made no move at all?

CHAIRMAN MARTIN: I used the words "insurance measure" and that is the best description I can think of for our action. It seems to me that it was an insurance premium worth paying, though nobody can forecast what flows there can be.

QUESTION: So you had no reason to believe there might have been some dangerous development within a short time?

CHAIRMAN MARTIN: There might have been.

QUESTION: Although the action was not taken against the British, will it have an effect on them--effect on their rates?

CHAIRMAN MARTIN: Personally, I don't think so. I think it would be supplementary and not have any real effect on them, but again I am making a judgment there.

QUESTION: Can you say if the Board action was unanimous?

CHAIRMAN MARTIN: I would say that there was a very high degree of agreement. I can't say that it was unanimous. But there was a high degree of agreement.

QUESTION: Was the action this morning?

CHAIRMAN MARTIN: This action was taken just an hour ago.

QUESTION: Was the full Board present?

CHAIRMAN MARTIN: There was one absentee.

QUESTION: Was that the newly wed member?

CHAIRMAN MARTIN: Mr. George Mitchell was not here. He is on his honeymoon. I am identifying him so that nobody will misunderstand who that description fits.

QUESTION: Just for the historical record, is this the first time that you have conducted a press conference because of a discount rate increase?

CHAIRMAN MARTIN: I think that is correct. Yes.

QUESTION: What may happen to the C.D. (certificates of deposit) market in this country because of the change in the rate?

CHAIRMAN MARTIN: I think the rate that has been set, 4-1/2 per cent, gives the banks adequate margin to do what they want to preserve their C.D.'s. That is what was intended and that is our judgment. Now let me emphasize somethin g here about the British bank rate and our discount rate: their rate will be 7 per cent after this move. Ours was 3-1/2 per cent, and after this move is 4 per cent against their 7 per cent.

QUESTION: You said you did not anticipate any change in Open Market policy as part of this move?

CHAIRMAN MARTIN: As part of this move, no. I just don't want to tie my hands with this group or suggest that this is for all time.

QUESTION: Does that mean that you would not anticipate any change in the level of free reserves?

CHAIRMAN MARTIN: I don't want to start an argument about free reserves. But I think you will notice that lately it has been very difficult for us to control free reserves. I have always questioned how effective free reserves were as a measure of policy, but certainly we have had several changes recently that could have been called inadvertent. You will just have to judge for yourself--you are as much an expert as I am.

QUESTION: Have you talked this over with the President?

CHAIRMAN MARTIN: I did not directly discuss it with the President. I am sure that he is aware of the action.

Thank you Mr. Chairman.