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.

Votes for this action: Messrs. Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, and Wayne. Votes against this action: Messrs. Allen and Robertson.

The Committee in renewing this special authorization, first granted on February 7, 1961, and amended on March 28 to permit operations in U. S. Government securities of all maturities, concluded that further operations outside the short-term market in pursuing the objectives set forth in the directive would be desirable. Messrs. Allen and Robertson dissented for the same reasons they had stated previously.

June 6, 1961

1. Authority to effect transactions in System Account.

At this meeting, the Federal Open Market Committee, in directing that open market operations be with a view "to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery, while giving consideration to international factors," modified the wording of the preceding policy directive by deleting the phrase "that appear to be developing in the economy," qualifying words that had followed "the forces of recovery" in the directive that had been in effect since April 18, 1961.

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

From data presented by the Committee members and the staff, it was apparent that the turning point of the recession had been reached quite some time earlier and that recovery had begun, although there was still doubt about the rate and probable duration of the business expansion. The few measures of economic activity available for May suggested that the pace of recovery had been maintained. Fragmentary data suggested that the Board's index of industrial production for May would be up 2 points from the preceding month, that retail trade figures would show a level well above first-quarter activity, and that employment measures would improve about seasonally for that

month. In the area of prices, broad measures of wholesale quotations had shown little change as scattered reductions offset increases in sensitive materials, and the consumer price index was unchanged from March to April, with the further likelihood that there would be little or no change from April to May.

The Committee observed that thus far the stimulus to the economy this year had come almost entirely from the reversal of inventory liquidation, the rise in Government expenditures, and the well maintained growth of consumption expenditures on nondurable goods and services. Neither trade reports nor surveys of buying intentions yet showed much evidence of a strong resurgence of demand for consumer durable goods or for housing, which had played such important roles in other postwar recoveries—a factor that caused misgivings in some quarters as to whether this recovery would carry forward after the initial stimulus of the inventory reversal disappeared.

Total loans and investments of banks increased substantially more than usual in May, reflecting largely bank participation in new Treasury financing. This bank credit expansion did not result in an increase in the seasonally adjusted private money supply, defined as demand deposits and currency outside of banks; but there were large increases in time deposits and U. S. Treasury deposits. Interest rates, which early in May had declined to the lowest levels since 1958, had since risen close to, and in some cases above, the highs that had been reached at times during the past 10 months. Short-term rates in particular had been influenced lately by a less marked degree of ease than prevailed shortly before the May 9 meeting, by prospective Treasury financing in the short-term area, and by the approach of the mid-June tax date, which date generally is preceded by reduced nonbank demand for Treasury bills. In addition, the demand on capital markets had been large and seemed likely to continue fairly heavy.

While the U. S. balance of payments position had shown considerable improvement compared with the fourth quarter of 1960, the current close balance in U. S. accounts was considered by no means secure as short-term funds continued to flow out. Accordingly, the Committee felt that there continued to be a need to pay close attention to developments in international markets.

In view of impending U. S. Treasury financing, the usual midyear demand for funds, and a desire to encourage the expansion of bank credit and the money supply, the Committee concluded that in the period until the next meeting it would be desirable to maintain approximately the same degree of ease as had prevailed recently, resolving any doubts on the side of ease and clearly avoiding any lessening of the availability of reserves.

At the same time, the Committee decided to change the wording of the policy directive to make clear that there was no doubt that forces of recovery were developing; thus, it deleted the words that indicated such forces only "appeared" to be developing. This modification did not indicate a change in the policy of ease that had been pursued for some months; as noted earlier, it was the consensus that any doubts as to the availability of reserves should be resolved on the side of ease and that there should be no tightening in the market.

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

The Federal Reserve Bank of New York was authorized, 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, Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, and Wayne. Votes against this action: Messrs. Allen and Robertson.

Before renewing this authorization, the Committee gave consideration to the question of the possible desirability of withdrawing from operations in intermediate- and longer-term securities as rapidly as feasible without impairing the structure

of the Government securities market. It was the consensus, however, that such operations should continue to be authorized in terms of the objectives of current policy, with decisions as to actual operations left to the discretion of the Manager of the System Open Market Account.

Mr. Allen, in dissenting from the continuation of the special authorization, said that at its inception he felt the operation was ill-advised and misguided and that the operations had, as he saw it, confirmed that judgment. Mr. Robertson, also dissenting, said that in his view this would be a good time to terminate the operation.

June 20, 1961

1. Authority to effect transactions in System Account.

The Federal Open Market Committee directed the Federal Reserve Bank of New York to continue to conduct open market operations with a view to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery, while giving consideration to international factors.

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

Data that had become available in the 2-week interval since the preceding meeting of the Committee indicated that economic recovery was continuing in a satisfactory manner. During May industrial production was at 108 per cent of the 1957 average, up 6 points from the February low, and a further rise seemed likely in June. On the basis of these figures and other preliminary data it was estimated that in the second quarter of the year gross national product would be at an annual rate of at least $512 billion, about $12 billion above the first-quarter rate. However, there still remained questions as to the future strength and pattern of the upswing. Although inventory liquidation had apparently terminated, no significant accumulation was as yet evident. Further, approximately 5 million persons were still un-