

See pg. 51 for legislative  
history (draft bills transmitted to Congress)

THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
DURING THE ADMINISTRATION OF PRESIDENT LYNDON B. JOHNSON

November 1963 -- January 1969

This document is basically a summary of the  
annual reports for the covered years

Pages  
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Introductory

The Federal Reserve System was established by the Federal Reserve Act, signed on December 23, 1913 by President Woodrow Wilson. Its original purposes, as expressed by its founders, were to give the country an elastic currency, to provide facilities for discounting commercial paper, and to improve the supervision of banking. These purposes were parts of broader objectives, namely, to help counter-act inflationary and deflationary movements, and to share in creating conditions favorable to a sustained, high level of employment, a stable dollar, growth of the country, and a rising level of consumption. Today it is generally understood that the primary purpose of the System is to foster growth at high levels of employment, with a stable dollar in the domestic economy and with overall balance in our international payments.

The Federal Reserve, through its influence on credit and money, affects indirectly every phase of American enterprise and commerce and every person in the United States. Practically all of the money that people use reaches them, directly or indirectly, through banks. People are concerned with what they can do with the dollars they earn, are indebted for, or need to borrow. Although the number of dollars may seem important at any given time, the ultimate test is the purchasing power of the dollar over time in terms of

goods and services. The nation as a whole does not profit from conditions of price inflation.

Efforts to attain domestic prosperity and price stability go hand in hand with efforts to attain balance in international payments. If this country obtains less funds from its exports of goods and services or from long-term capital inflows than it spends or invests abroad, then we add to our short-term debt to foreign countries and we lose gold from our national monetary reserves. Persistence of such a situation can lead to general loss of confidence in the dollar internationally, to an accelerated outflow of funds from this country, and to a more rapid drain on the nation's gold stock. In the long run, expansion in bank credit and money consistent with reasonable domestic price stability will contribute to balance in our international payments by helping to keep goods produced here competitive with foreign products. In the short run, it is necessary to take account of the influence that domestic credit conditions and costs have on international capital flows, because such movements of capital can have effects--sometimes disruptive, sometimes constructive--on other countries. By influencing the flow of bank credit, with resulting effects on the flow of money and the flow of credit generally, the Federal Reserve System influences the economic decisions that people make, which are reflected in the level of economic activity, in price developments, and in the balance of international payments.

Organizational changes

The general organizational structure of the Federal Reserve System did not change during the years 1963-1968. The Board of Governors of the Federal Reserve System continued to exercise general supervision over the Federal Reserve Banks, as provided in the Federal Reserve Act, and the Board's organization for this purpose as well as for the formulation of monetary policy and bank supervision continued to operate under the structure that had been found effective for some years past.

The Board of Governors is an independent agency of the Federal Government composed of seven members appointed by the President, by and with the advice and consent of the Senate, for terms of 14 years. The Board, in conjunction with the Federal Open Market Committee insofar as open market policy is concerned, determines general monetary, credit, and operating policies for the System as a whole and formulates the rules and regulations necessary to carry out the purposes of the Federal Reserve Act, including the supervision of the Federal Reserve Banks and in certain respects of member banks. The Board is required under the Act to report annually to the Speaker of the House of Representatives, and the law provides that each annual report shall contain a record of all policy actions taken by the Board and the votes thereon during the year covered. The Annual Report describes the operations of the Board of Governors and of the Federal Reserve Banks, and certain changes in operating methods are referred to in a later section of this report.

Personnel and staffing changes

William McChesney Martin, Jr., of New York, was redesignated by President Johnson as Chairman of the Board of Governors of the Federal Reserve System for a term of four years beginning April 1, 1967. Mr. Martin was first appointed a member of the Board and designated Chairman by President Truman effective April 2, 1951, and had been subsequently redesignated at four-year intervals. Under the provisions of the designation, his present term as Chairman will continue within the four-year period specified "unless and until his services as a member of the Board shall have sooner terminated." Mr. Martin's term as a member of the Board will expire January 31, 1970, and under the law he then will not be eligible for reappointment to the Board, having completed a full term of 14 years.

J. L. Robertson, of Nebraska, who first became a member of the Board on February 18, 1952, was reappointed by President Johnson for the full term of 14 years beginning February 1, 1964. Subsequently, he was designated by the President as Vice Chairman of the Board for a term of four years beginning March 1, 1966.

Sherman J. Maisel, of California, was appointed a member of the Board of Governors by President Johnson in April 1965 for the unexpired portion of the term ending January 31, 1972; he assumed his duties April 30, 1965.

Andrew F. Brimmer, of Pennsylvania, was appointed a member of the Board of Governors by President Johnson in March 1966 for the 14-year term ending January 31, 1980. Mr. Brimmer assumed his duties on March 9, 1966.

William W. Sherrill, of Texas, was appointed a member of the Board of Governors by President Johnson in April 1967 for the unexpired portion of the term ending January 31, 1968, and he assumed his duties on May 1, 1967. Mr. Sherrill was subsequently reappointed for the full 14-year term beginning February 1, 1968 and ending January 31, 1982.

Officers and employees of the Board of Governors totalled 608 persons at the end of 1963; this had increased to 746 at the end of 1967. A significant part of the increase resulted from personnel requirements for administering increased activities of the Board relating to the Bank Holding Company Act and the Bank Merger Acts. There was also a significant increase in the number of persons engaged in data processing activities. In 1968, a further increase in the number of employees was brought about by the anticipation of the enactment of Truth in Lending legislation, which was signed by the President on May 29, 1968, and which assigned certain responsibilities to the Board of Governors for issuance of regulations in connection with the implementation of that legislation.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Number of Members and Employees--End of Year

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
BOARD MEMBERS	7	7	7	7	7	7	
OFFICIAL STAFF	44	47	48	50	49	51	
OTHER EMPLOYEES	550	561	577	592	609	695	
TOTAL	601	615	632	649	665	753	

*Submitted 10/21/12 10:48*

Supplemental figures for updating table on page 5 in the Board's  
report on the History of the Johnson Administration.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Number of Members and Employees--End of Year

	<u>1968</u>
Board Members	7
Official Staff	57
Other Employees	733
Total	797

May 21, 1969

Program changes

Changes in programs of the Federal Reserve during the years 1963-1968 were essentially of two broad types: they reflected changes in credit and monetary policy that would be regarded as normal in a central banking institution responsible for the formulation and execution of monetary policy, or they reflected adjustments called for by legislation regarding bank supervision and regulation.

In the first category, depending upon economic developments and prospects at any given time, monetary policy may be one of restraint on credit expansion, or it may aim at credit ease and encouragement of growth. The Federal Reserve's continuing program is to adopt monetary policies that will encourage sustainable growth without inflation. This is another way of saying that the Federal Reserve's continuing program is designed to maintain the soundness of the dollar.

During the period under review, emphasis in monetary policy was at times on the side of restraint of credit expansion, while at other times it sought to assure that sound growth would not be prevented by lack of availability of credit, all in accordance with the broad objective that has been indicated. More detailed discussion of monetary policy appears later in this memorandum and in accompanying documents.

Outside the monetary policy area, the Board's programs relating to bank regulation and supervision rest on the provisions of applicable legislation. Changes made during these years in Federal banking law did not materially alter the Board's responsibilities.

For example, legislation regarding bank holding companies and bank mergers was amended and extended in some respects, but the standards under which the Board performs its functions continued substantially the same. Thus, administration of these laws involved essentially the same problems and emphasis as in prior years.

By Act of Congress approved August 20, 1964 (Public Law 88-467), the disclosure requirements of the Securities Exchange Act of 1934 were made applicable to equity securities including those issued by banks. The three Federal bank supervisory agencies were vested with authority to administer those provisions with respect to securities of banks within their respective jurisdictions, and the Board issued its Regulation F effective January 1, 1965. Analytical review of registration statements and other material filed by banks is directed toward assuring the comparability of the information made public to serve the needs of the banks' security holders and potential investors.

In connection with the disclosure regulations relating to new securities, and in its continuing efforts to reduce the incidence of crimes against banking institutions, the Board, in conjunction with the Federal Deposit Insurance Corporation and a special committee of bankers preeminent in the field of bank audit and control, developed during 1965 a list of guidelines or criteria for use by examiners in evaluating a bank's internal audit procedures and other internal safeguards. While many of the principles set forth in the guidelines have been applied by examiners for many years,



renewed emphasis should serve to alert banks to any weaknesses in their internal controls and should help to check the increase in internal crimes against banking institutions.

Because of concern with respect to misleading advertising practices of some financial institutions in their quest for funds, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Board of Governors of the Federal Reserve System sent a uniform letter in December 1966 to the executive officer of each of the institutions that they supervise. The letter emphasized the concern of the four agencies regarding the effect on the public's attitude toward the nation's financial system, and outlined certain principles that the institutions should follow in their efforts to attract funds.

An important addition to the Board's activities occurred on February 10, 1965, when the President sent to the Congress a message in which he presented a program aimed at achieving quickly a substantial improvement in the U.S. balance of payments position. The central focus of this program was on measures that would reduce the outflow of U.S. capital, which had been heavy in recent years and particularly so in recent months. One part of the President's program included a call upon the Federal Reserve System, in cooperation with the Treasury, to work with financial institutions in limiting their foreign lending and investing on a voluntary basis. On March 3 the Board adopted sets of guidelines to be followed by banks and by nonbank financial institutions in their foreign lending

activities designed to help effectuate the overall objective of holding credits to foreigners during 1965 to a level not more than 5 per cent above those outstanding at the end of 1964. The Federal Reserve continued to coordinate that part of the President's balance of payments program applicable to banks and nonbank financial institutions in 1966 and 1967. Under a new program announced by the President on January 1, 1968, the Board adopted revised guidelines that were substantially more restrictive than those that had been in effect previously. Additional comments regarding the U.S. balance of payments appear later in this memorandum and in accompanying documents.

Another program initiated by new legislation during the period under review was that referred to as "Truth in Lending", enacted in May 1968 under Public Law 90-321, the Consumer Credit Protection Act. Although the Board supported the objectives of this legislation, it felt that its experience did not qualify it to administer the law. Nevertheless, the Board was designated by the Congress to prescribe regulations to implement the new measure. For some months the Board has had a task force engaged in work necessary to issuance of regulations in order to make the new law effective July 1, 1969.

Still another item in the Board's general program was the enactment of legislation in July 1968 (Public Law 90-437) authorizing the regulation of credit extended on over-the-counter securities. The Board had had the responsibility for regulating credit extensions on listed securities since passage of the Securities Exchange Act of

1934, and its margin Regulations T and U have been in effect for more than three decades. It had long favored, and in its 1964 Annual Report expressly recommended to the Congress, enactment of authority to regulate credit on unlisted securities, partly to enable bankers and dealers to grant credit on such securities subject to margin requirements, and partly to bring credit extensions of banks on unlisted securities under the margin requirements. Although this is only an extension of the coverage of present margin regulations, it involves substantial new problems both in drawing appropriate regulatory provisions and in administering them. ✓

For many years, the Board has favored a change in the definition of a bank holding company, which now covers only situations involving two or more banks. In the Board's judgment, this definition is not adequate to control potential evils toward which the Bank Holding Company Act is directed, in that it permits common corporate control of banking and nonbanking interests. The Board has recommended on different occasions that the Act be amended to subject an organization to regulation as a bank holding company if it controls 25 per cent or more of the stock of a single bank. Congress, however, has not seen fit to enact such legislation. During 1967 and 1968, a significant development was the fairly rapid spread of one-bank holding companies, particularly among relatively large banks. Although those companies are not now subject to the Bank Holding Company Act, this development has a bearing on the Board's responsibilities for administering that Act and is the subject of one phase of a study that has been in progress for the past two years. }

Several other special studies by the Federal Reserve System are in process for the purpose of reappraising the workings of its various instruments of monetary and regulatory policy. The broad aim of these studies has been to keep Federal Reserve policy and action adapted to the changing economic and financial scene. Four such studies currently underway are described below.

In August 1968 the Board released a report on bank credit cards and check credit plans, prepared by a System Task Group. The report was a product of an intensive research project launched by the Board in March 1967 as one phase of its continuing interest in credit developments in all fields. The 211-page report presents a comprehensive assembly of information on the nature of the various credit card and check credit plans currently in use by banks; an assessment of the implications of bank activities in this area for bank competition, bank supervision, and the banking structure; a compilation of data on the amount of this type of credit in relation to the total volume of consumer credit; and an evaluation of the impact that further expansion of bank credit cards is likely to have on the financing of consumer expenditures by various grantors of consumer credit.

The report of a System Committee that has been making a fundamental reappraisal of the Federal Reserve discount mechanism was completed and published in July 1968. The Committee's study, which was announced in the Board's Annual Report for 1965, proposes a redesign of the discount mechanism having as its chief objective

increased use of the discount window for the purpose of facilitating short-term adjustments in bank reserve positions. The report has now been distributed to member banks and others for review and comment, and in due course its proposals will be given formal consideration within the System.

Plans for a joint Treasury-Federal Reserve study of the U.S. Government securities market were initiated in 1965. The broad purpose of the study was to ascertain how the dealer market for U.S. Government securities has performed during the 1960's in light of economic developments during the period, of innovations in the financial environment and their implications for the dealer market, and of operating techniques used by the Treasury and the Federal Reserve. The completed staff studies are being reviewed for publication, and the final report of the Committee is in preparation.

Work on the study of the foreign operations of member banks, which was undertaken to provide additional knowledge and perspective on the expanded international operations of U.S. commercial banks, is nearing completion. The study involves a broad-scale examination of the evolution and nature of the international lending and other credit activities at banking offices in this country, operations at foreign branches, and the affiliations that have been established with foreign banks and other financial institutions. The marked changes in each of these three interrelated areas of activity, as they bear on the monetary and supervisory responsibilities of the Federal Reserve, form the principal focus of the study.

Much progress was made during 1967 on the large econometric project involving economists on the Board's staff and a group of university economists led jointly by Professor Modigliani of the Massachusetts Institute of Technology and Professor Ando of the University of Pennsylvania. A preliminary version of the model was completed and was tested against recent data. This preliminary version was discussed at the annual meetings of the American Economic Association and the American Statistical Association. A description of it was published in the Federal Reserve Bulletin for January 1968. ✓

The results of the preliminary version suggest that both monetary and fiscal policies have powerful effects on the economy, though the time lag between a policy change and its economic effects is longer for monetary policy than for fiscal policy. The response of money income to changes in both monetary and fiscal policies is stronger in this model than in a number of earlier ones.

#### Operating methods

Changes in operating methods of the Board of Governors were for the most part minor during the period under review. One of the more important changes of this type was effected July 1, 1967 under a newly enacted provision of the Federal Reserve Act (Public Law 89-765) that authorized the Board to delegate any of its functions other than those relating to rule making and pertaining principally to monetary and credit policies. In implementing this provision, the Board delegated authority to exercise certain functions, subject to prescribed limitations and guidelines, to members of its staff and to

each Federal Reserve Bank. In making the delegations, the Board provided that any action taken at a delegated level shall be subject to review by the Board only if such review is requested by a member of the Board either on his own initiative or on the basis of a petition for review by any person claiming to be adversely affected by the action. The general purpose of delegating functions was to increase the efficiency of the Board's organization, to leave more of the Board members time for dealing with policy and other matters of major importance, and to expedite processing and action in connection with numerous administrative matters regarding which guidelines as to the Board's thinking had been or could be fairly clearly established. Many of these matters fell within the category of supervisory functions and granting of licenses in response to applications from member banks. In all cases, the delegee is free to bring a matter to the Board's attention prior to taking action if in his judgment that would be desirable under the particular circumstances.

No significant changes in general operating procedures under the regional structure of the Federal Reserve System were made during the period under review. The Board exercised its responsibility for general supervision of the Federal Reserve Banks in much the same manner as in prior years. The regional structure of the Federal Reserve System provides a means whereby day-to-day operations are handled in large part by the managements of the several Federal Reserve Banks with periodic coordination and discussion of procedures between the Board of Governors and the Reserve Bank Presidents.

With respect to matters of monetary policy, responsibility for final decisions continues to lie with the Board of Governors or, in the case of open market operations, with the Federal Open Market Committee, which includes the seven members of the Board of Governors and five of the Federal Reserve Bank Presidents. The operations necessary to effectuate policy decisions of the Board of Governors regarding changes in discount rates, reserve requirements, and margin requirements on securities are largely administered through the Federal Reserve Banks; operations to effectuate open market policy decisions are executed by the Federal Reserve Bank of New York on behalf of the Open Market Committee.

#### Interagency relations

Relations between the Board's organization and other agencies of Government were probably more frequent and extensive during the years under review than at any prior time.

For many years the Chairman of the Board of Governors and the Secretary of the Treasury have made it a practice to meet together at weekly intervals or more frequently to discuss matters of mutual concern. These relationships have continued during the period since November 22, 1963, and more recently the Vice Chairman of the Board has often been a participant in the weekly luncheon meetings. Members of the Board and its staff have also made it a practice for many years to meet at luncheon once a week with Treasury officials and staff for the purpose of discussing matters relating to debt management and monetary policy, and these meetings continued during the 1963-1968



period. Additional frequent informal contacts between members of the two organizations take place whenever occasion makes that desirable, which is almost daily.

The Board and its staff have long had close contact with members and staff of the Council of Economic Advisers on matters relating to economic developments and their bearing upon monetary policy. Early in 1966, an arrangement was made for the available members of the Board and of the Council to meet at luncheon every other week, and these regular discussions have provided a systematic means for exchanging views.

The Chairman of the Board also is a member of a group referred to as the "Quadriad", the other members of which are the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, and the Director of the Bureau of the Budget. This group meets periodically with the President for the purpose of advising with respect to economic and other developments.

The Chairman of the Board is a member of the National Advisory Council on International Monetary and Financial Problems, established by Executive Order 11269 dated February 14, 1966, to which were delegated most of the functions that previously were exercised by the National Advisory Council provided for under the Bretton Woods Agreements Act. The Board is also represented on an interagency group established in 1965 to study policies concerned with international monetary matters, including the payments system and the role of the United States in the system.

In administering various provisions of Federal banking law, frequent communication between the Board or its staff and representatives of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board is necessary.

Because of the development of a number of conflicts among the Federal banking agencies, President Johnson, in March 1964, directed Secretary of the Treasury Dillon to establish a procedure for the exchange of advance information among such agencies with respect to proposed changes in rules, regulations, or policies. In July 1965, this procedure was supplemented by the establishment, under the direction of Secretary of the Treasury Fowler, of a Coordinating Committee on Bank Regulation, consisting of the Chairman of the Federal Reserve Board or a designated Reserve Board Governor, the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, and the Chairman of the Federal Home Loan Bank Board. Frequent and regular meetings of this Committee, particularly since late 1966, have provided a means for the direct and personal exchange of views that has served to enhance a spirit of cooperation among the agencies. Among other things, the functioning of the Committee has made it possible to achieve general agreement among the three bank supervisory agencies with respect to the form of condition reports obtained from banks under their supervision.

Numerous informal exchanges of views between members of the Board's staff and staffs of other agencies take place in connection with the implementation of matters falling within the responsibilities

of the Board and the other agencies, and such relations are carried out with efficiency and understanding. Some of the agencies involving official contacts include the Department of Justice, the Securities and Exchange Commission, Department of Commerce, Bureau of the Budget, Civil Service Commission, and National Archives and Records Center.

#### External Relations

The number of banks that are members of the Federal Reserve System tended to decrease during the 1960's. An increase in the number of national banks, which are required by law to be members of the System, was more than offset by a continuous and fairly sharp decline in the number of State banks that are members--banks which may upon application be admitted to membership if they meet certain standards. The following table indicates these changes.

Membership in the Federal Reserve System  
(number of banks)

	<u>Total</u>	<u>Member Banks</u>		<u>Nonmember Banks</u>	
		<u>National banks</u>	<u>Member State banks</u>	<u>Insured</u>	<u>Noninsured</u>
12/31/1960	6,174	4,530	1,644	6,948	352
12/31/1961	6,113	4,513	1,600	6,997	323
12/31/1962	6,047	4,503	1,544	7,072	308
12/31/1963	6,108	4,615	1,493	7,177	284
12/31/1964	6,225	4,773	1,452	7,262	274
12/31/1965	6,221	4,815	1,406	7,320	263
12/31/1966	6,150	4,799	1,351	7,385	235
12/31/1967	6,071	4,758	1,313	7,439	211

*Document 4/24/69*

Supplemental figures for updating table on page 18 in the Board's  
report on the History of the Johnson Administration.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Membership in the Federal Reserve System  
(number of banks)

	<u>Estimated</u>			<u>Nonmember Banks</u>	
	<u>Total</u>	<u>Member Banks</u>		<u>Insured</u>	<u>Noninsured</u>
		<u>National</u> <u>banks</u>	<u>Member</u> <u>State banks</u>		
12/31/1968	5,982	4,719	1,263	7,506	195

May 21, 1969

Some of the reduction in the number of member banks has occurred because of mergers between member banks--a development that has been going on for many years and which of itself has little bearing on the contributions made by the banks concerned to the pool of reserves available to the authorities for influencing money and credit conditions. Nor does that kind of reduction in numbers have much significance from the standpoint of maintaining supervisory standards and observance of applicable statutes and regulations.

As to the growth of the number of national banks through conversion of member State banks to national charters, that has no effect on the statistics of membership in the System or in the contributions those banks make to the pool of reserves for monetary purposes. It may have other significance, however, for example, if the shift occurred because the bank concluded that it would be better able to operate and to compete under a charter providing primary supervision by the Comptroller of the Currency rather than by the State or Federal Reserve authorities. An increasing movement to national charters for this reason has been taking place, including recent shifts by a number of the largest banks in the country.

If a bank simply withdraws from membership in the Federal Reserve System and continues to operate under a State charter as a non-member bank, that has an important significance. To some extent, State banks have done just this because of pressure to increase earnings (their reserve deposits with the Federal Reserve are not earning assets) and in the belief they could operate safely without membership. In some cases

banks may have withdrawn because they desired to be relieved of regulatory requirements applicable to member State or national banks; in other words, they preferred to be subject only to State supervisory and statutory requirements, except that most of them have elected to continue Federal deposit insurance coverage.

Superficially, the foregoing may suggest that relations between the Federal Reserve and member banks are not as good as they should be. A more correct view would be that the Federal Reserve has good relations with both its member banks and with nonmember banks, but in some cases the managements of the banks feel a responsibility to their stockholders to compete on terms as favorable to them as to other banks, and it is a fact that there have been a number of competitive disadvantages in maintaining membership in the Federal Reserve System. Some of these inequalities were less in earlier periods when there was a considerably greater degree of uniformity among the three Federal banking agencies in interpreting and applying various statutes; and following a period in the first half of the current decade of rather marked disparities, there has been an effort toward a greater degree of coordination on the part of the agencies through the Coordinating Committee established at the request of President Johnson in July 1965, referred to on page 17 of this memorandum. But there is by no means equality in the present requirements made by the three Federal agencies on banks subject to their respective areas of supervision, and it is likely that reasonable uniformity can be obtained only with suitable legislation. These differences, plus the marked differences between

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Federal banking law and that of most of the States, may be expected to continue to cause significant shifts of banks in their status as members of the Federal Reserve System as they endeavor to find the optimum regulatory atmosphere under which they may conduct their business.

A further word should be said about Federal Reserve relations with banks that are not members of the System. The Reserve Banks send daily cash letters to most nonmember banks as well as to members in their function of providing a nationwide check collection service for the convenience of the general public. They also supply nonmember banks with currency and coin to meet the demands of business and the public for till and pocket money. For the most part, nonmember banks are not subject to Federal Reserve regulations except for such matters as margin requirements on loans on securities and bank holding company provisions. However, the Federal Reserve is in frequent communication with many nonmember banks, and it is felt that relations with that important group are generally good.

The Federal Reserve has had quite limited contact with the general public insofar as its statutory responsibilities are concerned, but it endeavors through regular publications and press releases to provide information that will enable an interested person to be informed of what the System is doing. With the passage of the Public Information Act of 1966, the Board reviewed these procedures and adjusted them so as to increase further the release of material regarding its policies and operations. Additional information made available since

the passage of that Act includes periodic releases within the calendar year of Records of Policy Actions formerly published only in the Board's Annual Report. There has also been more extensive availability of detailed applications submitted to the Board seeking various types of authorizations, as well as interpretations of possible interest to the general public. The Board's aim is to make available to the public upon request all records of the Board to the fullest extent consistent with the effective performance of the Board's statutory responsibilities and with the avoidance of injury to public or private interests.

In addition to such publications and releases, Board and staff members make numerous addresses before many different groups--banking and nonbanking--and carry on extensive correspondence with individuals regarding a wide variety of matters related to Federal Reserve responsibilities. A new program that is likely to increase substantially the Federal Reserve's direct contacts with the public is the "Truth in Lending" legislation enacted in 1968, under which the Board has substantial responsibilities for issuing and implementing regulations that will directly affect large numbers of the general public.

The Board and its staff are in frequent contact with members of the academic world on an individual basis, in group conferences, and otherwise. This includes several discussion meetings of the Board with small groups of university professors each year covering topics of mutual interest. Such exchanges of different points of view regarding economic developments and the effects of monetary policy on economic activity are but one illustration of the Federal Reserve's continuing



close relations with the thinking in universities and colleges. As mentioned elsewhere in this report, members of the Board's staff have participated with a group of university economists led jointly by Professor Modigliani of Massachusetts Institute of Technology and Professor Ando of the University of Pennsylvania in a large econometric project.

Communication among central banks of various countries has been a standard and growing practice over the years, and the Federal Reserve, both at the Board and in the regional Reserve Banks, has participated actively in the development of such relations since the System was organized in 1914. Many of the contacts relate to day-to-day transactions and implementation thereof. A substantial portion have a bearing upon international financial relations. Some of the contacts are directly between the central banks concerned and some are through attendance at periodic meetings of the International Monetary Fund, the International Bank for Reconstruction and Development, the Organization for Economic Cooperation and Development, and the Bank for International Settlements. Others have been in connection with studies by the Deputies of the Group of Ten major trading countries and the Executive Directors of the International Monetary Fund regarding international liquidity and development of a plan for the creation of a supplement to existing international reserve assets. The decision in 1967 to proceed to establish, within the International Monetary Fund, machinery for the creation of what will be known as Special Drawing Rights (SDRs) marks the culmination of four years of work on this problem--two years of thorough study,

followed by two years of inclusive negotiations--in which the Federal Reserve participated with the Treasury Department.

Apart from the direct communications among central banks and the conferences such as those referred to above, the Board and the Federal Reserve Banks receive numerous individual visitors from central banks and other financial institutions located in all parts of the world. These visitors usually are representatives of other central banks or treasuries, or at least are sponsored by them. Some, however, come directly to the Board or are referred to the Board in Washington by the Department of State or the Governmental Affairs Institute. In general, it may be said that the Federal Reserve's relations with international institutions and with representatives of financial organizations in other countries are useful both to the United States and to the other countries involved, although such contacts are understandably much less numerous than are contacts with domestic public bodies, banks, universities, organized groups, and individuals.

Changes in character or emphasis of mission

Note: The primary function or mission of the Federal Reserve is concerned with economic and financial developments and prospects, and with the formulation and execution of monetary policies designed to foster sustainable growth without inflation. Accordingly, changes in the character of or in emphasis on phases of the System's program are reflected in the policy actions taken in the period under consideration, discussed in the following pages under Economic Developments and Monetary Policy and Voluntary Foreign Credit Restraint Program. The Annual Reports of the Board of Governors to the Congress contain detailed reviews of such developments, the policy actions taken each year, and the reasoning that led to the policy actions reported therein. An abbreviated summary of the major changes in policy or emphasis as described in the 1963-67 Annual Reports is set forth under this heading as a means of indicating the most significant changes in character or emphasis of the Federal Reserve's principal mission during the period from November 22, 1963 to the present time. A separate subsection also reviews in brief the Voluntary Foreign Credit Restraint Program that was initiated in February 1965, since the objectives and operations of that program relating to the U.S. balance of payments are intimately connected with economic and financial developments and monetary policy. Other aspects of the Board's mission such as bank supervision and regulation are covered by references in preceding parts of this memorandum or in the concluding section under legislative history and implementation of major legislation proposed by or of primary concern to the Federal Reserve.

Economic Developments and Monetary Policy

1963 was a year of expansion in domestic economic activity and of broad stability in commodity prices. Business and consumer incomes rose further and were at new high levels. The deficit in the balance of payments was reduced somewhat, reflecting a marked improvement in the last half of the year, and during this period the position of the dollar in foreign exchange markets strengthened.

The performance of the economy during the year was marred by the persistence of high unemployment. There was also less than optimum

utilization of a steadily expanding industrial capacity. Although employment increased considerably, the rise was only enough to absorb the growth in the civilian labor force. As a result, the rate of unemployment continued to range between 5.5 and 6 per cent of the civilian labor force.

Wage increases in 1963 had been moderate and about in line with average gains in output per man-hour of manufacturing. The productivity advances were unusually large for the third year of a cyclical expansion. Total labor costs per unit of output continued to show little change. Average hourly earnings of production workers in manufacturing rose about 3 per cent over the 1962 average. Despite some severe tests, industrial relations were relatively peaceful and time lost because of labor disputes was not greatly above the postwar low in 1961.

The money supply increased during 1963 by 3.8 per cent, a substantially faster rate of growth than in 1962, but less than the increase in GNP. Expansion of bank credit during the year reflected a generally stimulative monetary policy but one that became somewhat less so during the first nine months of the year. The discount rate was raised from 3 per cent to 3-1/2 per cent in July of 1963 in an effort to help reduce the large deficit in the U.S. balance of payments. As compared with a deficit of \$3.6 billion in 1962, the deficit for the full year 1963 was \$3.3 billion excluding special transactions. In the second half of the year, the deficit was substantially lower than in

the first half, partly reflecting increased exports and a larger trade surplus but also a reduced outflow of long-term capital.

The Federal Reserve's policy posture held steady during the final months of 1963. The economic background was essentially unchanged as domestic business continued to post solid gains, while the balance of payments remained in deficit. At the same time, some concern was cropping up on the domestic side in regard to potentially inflationary developments and occasional evidences of deteriorating credit quality. But on balance, these elements indicated no immediate need for a change in policy as the fourth quarter of the year began. The assassination of President Kennedy in November was a further consideration in holding policy unchanged over the balance of the year, even though some evidence of inflationary developments was then appearing. On the afternoon of November 22, the Federal Reserve asked dealers in Government securities to suspend trading following the assassination of President Kennedy. Trading in virtually all sectors of the financial markets was suspended and this prevented the possibility of spreading panic through the network of markets. The sharp drop in stock prices in heavy trading during the brief span before trading on the stock exchanges was suspended gave some indication of the potential danger averted by the closing of the financial markets. A statement released through the Federal Reserve Bank of New York indicated that the leaders of the financial community agreed that there was no need for special action in the financial markets. It was further indicated that the Federal Reserve had ample power to deal with any situation that might arise and that close cooperation

would be maintained with foreign central banks. Confidence in the nation and its institutions and in the continuity of the United States Government was manifest throughout the country as President Johnson succeeded to office.

1964 was a year of notable achievement for the domestic economy but one of little improvement in the deficit in the U.S. balance of international payments. Gains in the domestic economy were even more rapid than in 1963. Contributing to these gains was an innovation in fiscal policy, which resulted in a large tax cut that became effective after economic activity had already been expanding for 3 years. This expansive fiscal policy was supported by a monetary policy that remained stimulative; continuation of such a monetary policy was possible partly because expansion in the economy appeared to be proceeding on an orderly and sustainable basis.

At home, the economy extended its vigorous upward surge for the fourth successive year without undergoing cyclical interruption or showing much evidence of overheating or of important imbalances. By the end of 1964, the expansion from the cyclical trough in February 1961 had become one of the longest periods of advance on record. In the past, periods of cyclical expansion have rarely endured for more than 3 years. Furthermore, the economy was still expanding, and commodity prices and production costs were continuing to be relatively stable.

Although there was increased utilization of resources in 1964 both industrial capacity and manpower appeared adequate to permit further sizable increases in output. Employment as well as production rose

sharply during the year and shortages of skilled labor in some manufacturing industries, particularly in durable goods production, was accompanied by a further lengthening of the average work week. Unemployment was down to 5 per cent at the end of the year, but this was still above the Administration's interim target of 4 per cent. Among youths, unemployment remained close to the high 1963 rate.

With supplies and production capacity generally adequate throughout 1964, commodity prices remained stable for the 7th consecutive year. This broad stability in commodity prices was noteworthy in view of the stimulative effects of the large reduction in Federal income taxes on both individuals and corporations and the accumulative posture of monetary policy. Monetary policy permitted the expansion of 8 per cent in commercial bank credit and of 4 per cent in the money supply. Interest rates on long-term funds were generally stable during 1964 while yields on short-term securities rose little in the year when international financial developments became threatening.

The deficit in the U.S. balance of payments for the year totaled \$3 billion exclusive of special transactions compared with \$3.3 billion in 1963 and \$3.6 billion in 1962. At the same time, there were exceptionally large outflows of U.S. private capital all through the year and especially in the closing months. Toward the end of 1964, the international payments system was disturbed by a heavy speculative attack on sterling prompted in part by the emergence of a large deficit in Great Britain's international transactions. The persistently large deficit in the U.S. balance of payments contributed to this uneasiness.

During 1964, Federal Reserve authorities sought to influence the cost and availability of borrowed funds and the growth in the nation's liquidity so as to contribute both to continued orderly and sustainable expansion in the domestic economy and to further improvement in the U.S. balance of payments with the rest of the world. This posture was little changed from that adopted in mid-1963 when Reserve Bank discount rates and maximum rates payable by commercial banks on time deposits were raised. However, in mid-1964 the Federal Open Market Committee began to supply reserves to the banking system a little less freely, thereby permitting some firming in money market rates of interest. In late November, Reserve Bank discount rates were raised again as were the maximum interest rates that banks may pay on time and savings deposits. These actions represented a precautionary move to maintain the international strength of the dollar by assuring that a reasonable alignment in interest rates would continue among world money markets.

*Inflation  
not a primary  
concern yet*

In the closing months of 1964, various political and financial disturbances tended to rekindle speculative buying of gold. International tensions arising out of the Vietnam conflict continued to generate market apprehension, but the basic cause of the renewed speculation in the gold market was the threatened undermining of the entire international financial system as sterling, and with it the dollar, came under pressure in the closing months of the year.



1965, the fifth year of sustained expansion in the U.S. economy, was one of unusually vigorous expansion in demand, output, and employment. Growth was especially marked in the fourth quarter, and at the year-end the economy was operating closer to full potential in terms of manpower and industrial resources than at any other time in nearly a decade. The economy also was in greater danger of damaging inflation than it had been since the current long upswing began in early 1961.

In contrast to the situation at the beginning of 1965, when national economic attention was still being focused on the need to expand employment and to accelerate economic growth, toward the end of 1965 attention was being directed toward the need to contain demand as war in Vietnam was beginning to add to pressures already evident in the booming civilian economy. By the year-end the downward movement in unemployment had brought the unemployment rate close to the administration's interim target of 4 per cent and to the lowest level since the spring of 1957. Businesses and consumers were highly confident that further rapid expansion in activity, employment, and income was in prospect. Both actual developments and expectations concerning future developments were contributing to expansion of demands for credit.

With the labor market tightening, with overall demands for goods and services expanding vigorously, and with some industries operating above optimum rates, upward pressure on industrial prices

was greater than in earlier phases of the business expansion. Prices of farm products and foods rose sharply during the year, largely because of the sustained increase in consumer demands in the face of reduced meat supplies. Rising demands also produced an increase in U.S. imports. In fact, imports rose much more than exports, and the U.S. trade surplus declined appreciably. Nonetheless, with the program of voluntary restraint on capital outflows making an effective contribution, a considerable reduction was achieved in the U.S. balance of payments deficit.

Fiscal developments became stimulative again after midyear when a reduction in Federal excise taxes became effective and the build-up of military strength in Vietnam increased. In the autumn social security benefit payments were increased considerably, and there were pay increases for both Federal civilian workers and military personnel.

Despite a less expansive stance of monetary policy, the money supply and bank credit grew even faster in 1965 than in 1964, under pressure of exceptionally strong demands for credit, especially business demands for bank loans. Interest rates moved up selectively early in the year and more generally after mid-summer, well before Federal Reserve Bank discount rates were raised from 4 to 4-1/2 per cent in early December. Interest rates advanced further after the discount action and the accompanying increase in interest rate ceilings set by the Federal Reserve and by the Federal Deposit Insurance Corporation on time deposits in commercial banks. The sharpest

increases were in markets for short- and intermediate-term funds, but rates on long-term funds also rose somewhat.

The pervasive effect on business expectations of prospects for much more defense spending, the sharply reduced supply of unemployed skilled and semiskilled labor, and the increased price pressures in 1965 all indicated the danger that further large increases in output could be accompanied by significant inflationary pressures. In this respect, the economic situation at the end of 1965 differed importantly from conditions earlier in this long expansion period when manpower and industrial capacity were less fully utilized.

During 1965, as in earlier years, the Federal Reserve sought to influence credit and monetary conditions in such a way as to foster expansion in the domestic economy at a relatively stable average level of prices and to encourage improvement in the U.S. balance of payments. In the early months of the year the deficit in the balance of payments continued to be large, bank credit expansion was especially rapid, and the voluntary foreign credit restraint program (VFCR) was initiated. Under these circumstances, System open market policy exerted further pressure on the net reserve position of banks, and as a result member bank borrowings rose to levels above their excess reserves.

Toward the end of the year, against the background of a continuing though substantially lessened balance of payments deficit, the expansionary effect on the domestic economy of the military build-up in Vietnam was intensifying; business spending for fixed investment

was moving upward at a pace exceeding earlier expectations; there was a continued rapid growth in demands generally; and market rates of interest were rising further relative to the rates that banks could pay to obtain funds and to the rates they were charging for loans. With unused resources moving nearer to critically low levels and with interest rate relationships threatening a constriction in the flow of funds in credit markets, the Federal Reserve raised the discount rate by one-half of a percentage point to 4-1/2 per cent, effective December 6, and at the same time the Board of Governors raised interest rate ceilings on time deposits under Regulation Q to 5-1/2 per cent. The Federal Deposit Insurance Corporation also approved a similar increase in the interest rate ceilings on time deposits at nonmember insured banks, effective on December 6.

The Board's announcement on December 5 of the System's actions stated that "the action contemplates the continued provision of additional reserves to the banking system, in amounts sufficient to meet seasonal pressures as well as the credit needs of an expanding economy without promoting inflationary excesses, primarily through the Federal Reserve's day-in and day-out purchases of Government securities in the open market."

1966 presented to monetary policy the challenge of coping first with a too-exuberant upsurge in economic activity, and later with a less-ebullient economic outlook. The expansionary forces in the economy, which had gathered momentum after mid-1965, accelerated even more rapidly later that year and into 1966--with demands for

goods, services, and credit expanding faster than resource availability and financial savings. The convergent pressures on resources resulted in a strong and pervasive rise in costs and prices--a rise that threatened the life of the economic expansion--and in a further larger rise in U.S. imports, which greatly reduced our surplus on international trade transactions. Before 1966 ended, however, final demands for goods and services were expanding at a more moderate pace. Monetary policy therefore shifted toward less restraint on bank credit expansion, and interest rates began to decline from the high levels attained during the year.

As background for the review of 1966, it may be noted that in late 1965 total spending had increased at a very rapid pace. An acceleration in defense spending after mid-1965, superimposed on a fast rise in civilian spending--notably by businesses for new investment in plant and equipment--resulted in sharp upward pressures in many markets for goods and labor. Demands for most types of credit soared.

To blunt the inflationary impact of credit-financed spending, the Federal Reserve endeavored to slow the rate of monetary expansion, first, by raising the discount rate in December 1965, and then beginning in February, by reducing the rate at which it supplied reserves to commercial banks through operations of the System Open Market Account. With demands for credit and capital remaining strong, with smaller amounts of nonborrowed reserves being made available to banks, and with bank credit constituting a smaller component of the total credit supply, interest rates rose sharply.

The rise in interest rates and the related structural shifts in credit and capital markets tended to divert flows of the public's savings from financial intermediaries into direct acquisitions of market securities. In this period mutual savings banks and savings and loan associations were not subject to any fixed Federal ceiling rates on deposits and shareholdings. But because most of their holdings were concentrated in long-term assets acquired when interest rates were at lower levels, they could not increase their returns on investments enough to make it possible for them to pay rates on savings that would meet the competition. Insurance companies also experienced financial pressure; a sharp increase in the demand for policy loans absorbed a larger than normal proportion of their already heavily committed cash flows, and there was a slowing down of prepayments on mortgage loans and other credits.

While all depositary institutions were under strong competitive pressure from more direct types of investment in the first half of 1966, commercial banks were able to maintain inflows of savings better than could other types of financial institutions because the maximum permissible rates payable by banks on time deposits and the more rapid turnover of their assets allowed more prompt compensatory upward adjustment in portfolio yields. Banks also benefited from their ability to offer a variety of deposit instruments geared to the needs of a variety of savers. The continued sizable net inflow

of new funds enabled commercial banks to continue to expand their loans to businesses rapidly through midsummer.

On the other hand, the reduced flow of savings to financial institutions other than commercial banks--which invest a major share of their resources in real estate mortgages--resulted not only in an increase in the cost of mortgage funds but also in a sharp dropoff in their availability. Thus, the impact of restraint on credit-financed spending during much of 1966 was most evident in residential construction activity and in transfers of existing dwellings.

Other areas of the economy were also affected by restraint on credit and monetary expansion in 1966. Some of the moderation in consumer spending for durable goods--for automobiles in particular--was probably attributable to the higher charges and more stringent lending policies that developed for consumer instalment credit.

State and local government expenditures, too, were affected by monetary restraint. Some units of government postponed bond issues because of higher interest rates and the difficulties they encountered in borrowing, as commercial banks--which as a general rule buy large amounts of municipal issues--became less inclined to buy such securities because of the very heavy demand for loans by nonfinancial businesses and by finance companies.

Through midsummer of 1966, the business sector of the economy--considered as a whole--felt the effect of monetary restraint less than other sectors. Although their cost was high and was rising, borrowed

funds remained in relatively ample supply to businesses, which in turn furnished some financing to their suppliers and customers. Despite their higher costs, both new corporate security issues and business borrowing from banks rose sharply. As a result, aggregate spending by businesses on plant, equipment, and working capital appeared to be little dampened by financial restraint through the spring and early summer. But by late summer monetary restraint also affected business financing, and total funds raised by corporate borrowers began to decline sharply.

The rapid rise in business spending adversely affected the U.S. balance on international trade for the year 1966. Demands for imported materials rose, and as backlogs of orders of domestic producers of machinery and fabricated products increased, purchases of foreign goods mounted. Although our exports continued to rise, imports showed a much sharper increase, and the result was a significant drop in the trade balance.

However, monetary restraint in 1966 served to retard capital outflows and to stimulate inflows. The changes in capital flows were substantial and they served to offset the decline in the U.S. balance on current account. Overseas branches of U.S. banks attracted funds from foreign money markets and provided a substantial volume of funds to their head offices for lending in this country, especially after midyear. There was also a large inflow of foreign long-term capital to the United States--in part through shifts from shorter- to longer-term assets on the part of international institutions and foreign central banks.



In response to the voluntary foreign credit restraint program (VFCR), U.S. commercial banks in 1965 had brought almost to a halt the rise in their outstanding credits to foreign borrowers. The added pressure of financial market conditions in this country resulted in some reduction in these credits in 1966.

During the summer the Federal Reserve took steps to alleviate the uneven effects of financial restraint among the various sectors of the economy by restraining the rapid growth of business loans at banks and also to dampen the escalation of interest rates. The Board of Governors maintained the ceiling rate on time deposits of commercial banks, fixed in December 1965 at 5-1/2 per cent. However, by early summer the intensification of monetary restraint had caused market rates for financial instruments that are competitive with negotiable time certificates of deposit (CD's) to rise to levels above the CD ceiling rate. During the summer of 1966 the Federal Reserve took several actions to make it more expensive for banks to compete for large time deposits--twice raising reserve requirements on time deposit holdings in amounts of more than \$5 million at each member bank. Further, on September 1 a letter was sent to each Federal Reserve member bank urging moderation in business loan expansion in the interest of achieving a more balanced economic and credit expansion. The letter assured banks losing deposits that they would be able to borrow from the Federal Reserve Banks for longer periods than normal if their adjustments to the deposit losses were achieved through curtailment of lending activity rather than through the sale of securities.

As a continued high volume of credit demands and increased monetary restraint resulted in rising market rates of interest, commercial banks found themselves less able to accommodate business and other credit demands by competing for the liquid funds of corporations. Because of the great pressure for loanable funds, however, there was still the possibility that these banks would intensify their competition for consumer savings being held in nonbank financial institutions and thereby put further pressure on such institutions and indirectly on the homebuilding industry.

Under existing legislation the Federal Reserve could not base any limitation of rate competition by banks on criteria of type of saver or size of saving. But in late September the Congress enacted broader enabling legislation, and promptly thereafter the Federal Reserve and other regulatory authorities acted to limit further, or to reduce, interest rates payable on certain types of deposits and shareholdings in commercial banks, mutual savings banks, and federally insured savings and loan associations. The purpose of this legislation, to be in effect for a year, was to dampen the rate competition for savings among the various types of financial institutions and to reduce the upward ratcheting of interest rates to which such competition contributed. Overall pressures on financial markets reached their peaks in August and early September.

By early fall of 1966 it became evident that monetary policy, aided by certain fiscal restraints, including the suspension of the investment tax credit and accelerated depreciation privileges, was

achieving the objectives of curbing excessive aggregate demand and of dampening inflationary pressures. Defense spending did continue to rise sharply in the fall. But the rate of expansion in final takings by the private sectors of the economy declined; industrial production, retail sales, and new orders for durable goods leveled off; and the rise in industrial prices moderated over this time period.

In this situation Federal Reserve open market operations, while still directed at maintaining firm money market conditions, were modified in light of the lack of growth in bank credit. Then in ✓ November of 1966 the Federal Open Market Committee shifted its policy so as to stimulate a moderate renewed expansion of bank credit and easier conditions in financial markets. And in late December the Federal Reserve terminated the special discount arrangements of the ✓ September 1 letter.

By the end of 1966, pressures in financial markets had eased significantly. Most market rates of interest had declined sharply from their late summer peaks; banks were again able to compete successfully for funds with large negotiable CD's and also to obtain consumer-type time deposits; and mutual savings banks and savings and loan associations were beginning to have larger inflows of funds. Bank credit was again expanding at a substantial rate, and the mortgage market began to reflect an easier availability of funds.

The Year 1967

The Federal Reserve followed a monetary policy of relative ease during most of 1967, but moved toward restraint in the final months of the year. The rapid growth in bank reserves early in the year contributed to an easing of credit market conditions and to ready accommodation of the rising liquidity demands of financial institutions and the public. At the same time, the increased availability of funds helped to moderate the slowdown of the economy during the first half of the year and contributed to the strengthening of economic activity that became evident as the summer approached. Construction outlays began to expand early in the year, and this growth continued. The inventory adjustment of businesses was relatively short lived, and in the summer the rate of business inventory accumulation began to rise again. Toward the end of the year, with the Federal Budget continuing to be a major stimulative force in the economy, monetary policy became more restraining in an effort to dampen the inflationary price pressures that were accompanying renewed and rapid economic growth and to encourage improvement in the U.S. balance of payments position.

Monetary policy moved vigorously to ease domestic credit conditions further in the first few months of 1967 through complementary changes in open market policy, reserve requirements, and the discount rate. The measures taken contributed to a relatively rapid growth in bank reserves that extended through most of the year. As

a result, banks were able to improve liquidity positions that had been eroded during the previous year's monetary restraint.

Pressures on nonbank financial intermediaries also eased considerably, until late in the year. For most of the year, the combination of reduced interest rates in short- and intermediate-term markets, the structure and level of ceiling rates permitted on time and savings accounts at banks and nonbank savings institutions, and the increased propensity of individuals to save out of current income produced a sharp rise in inflows of savings to these institutions.

In large part because of the improved position of banks and other financial institutions, credit to businesses and consumers became more readily available than in 1966. Funds available to home-builders increased sharply, encouraging a recovery in construction outlays. At the same time demands for credit began to build up. A drive by corporations to restore liquidity and to lengthen debt was reflected in increasing long-term market interest rates after midwinter. And short-term rates turned up in early summer despite rapid expansion in bank credit and the money supply, as large Federal demands for credit were added to the continued, very heavy demands of corporations during the second half of the year.

During 1967, measures of fiscal restraint, including a tax increase, were proposed by the administration. As the year progressed, the need for such restraint was enhanced as increases in Federal expenditures, recovery in construction, and resumption of accumulation in business inventories led to an acceleration of economic expansion

in the third quarter, accompanied by more intense and widespread price and cost pressures. However, there was no legislative action to raise taxes during the year. Meanwhile, the enlargement of the U.S. balance of payments deficit and the devaluation of the pound sterling around mid-November underscored the need to restrain the advance in costs and prices in order to achieve international as well as domestic economic objectives.

Against this background of acceleration in domestic economic expansion and of continued strains on our balance of payments--and in light of the change in the international value of the pound--the Federal Reserve in mid-November raised the discount rate back to 4-1/2 per cent from 4 per cent, to which it had been lowered in April. And open market operations were adjusted in the direction of restraint. In late December the Board of Governors of the Federal Reserve System also announced an increase of 1/2 percentage point, effective in mid-January 1968, in reserves that member banks are required to maintain against demand deposits in excess of \$5 million. The action raised reserve requirements on such deposits to 17 per cent at reserve city banks and 12-1/2 per cent at other member banks.

Interest rates in long-term markets showed little reaction to these moves. Partly because many borrowers had previously obtained funds in long-term markets so as to guard against potential credit restraint in the absence of a tax increase, most bond yields had already risen to levels well above their 1966 peaks. Interest rates on mortgages,

however, did not reach the previous year's peak until the last month of 1967.

Shorter-term market rates of interest did rise somewhat further in the last few weeks of the year, and yields on time and savings accounts of commercial banks and other financial intermediaries became less attractive to individuals and businesses, given the existing ceiling rates on such accounts. As a result, the net expansion of credit from financial institutions slowed.

While all long-term interest rates at the year-end were at or above the peaks they reached in the 1966 period of monetary stringency, short-term interest rates remained below their highs of that year. In part, the greater pressures in long-term than in short-term markets in 1967 reflected a shift in credit demands away from banks and into security markets, as borrowers restructured their debt positions because of growing expectations as the year progressed that interest rates were more likely to rise than decline in the future. While these expectations tended to raise long-term rates relative to short-term rates, the expanded growth in bank reserves, bank credit, and money over the year as a whole moderated the rise in the overall interest rate structure, despite the greatly increased demands for credit by the Federal Government and the continued large demands of businesses and State and local governments.

In the course of 1967, total bank reserves rose by about 10 per cent, bank credit by 11 per cent, time and savings deposits

at banks by 16 per cent, and the money supply by 6.5 per cent--all much more rapid rates of growth than in 1966. The rates of growth in these monetary variables slowed in the latter part of 1967, after banks and nonbank institutions--and to a degree the public generally--had rebuilt their liquidity.

The international monetary system was subjected to greater strains during 1967 than at any time since the 1930's. Large and potentially disruptive flows of funds were generated by the crisis in the Middle East during the summer; by the recurrent weakness of the pound sterling and its devaluation in November; by speculation about possible changes in other exchange rates and in the price of gold; and by the worsening of the U.S. payments deficit. A wide variety of cooperative actions were taken by the monetary authorities of leading countries to counter the resultant pressures in gold and foreign exchange markets and in international money markets. The Federal Reserve System and the U.S. Treasury participated actively in these efforts.

The eruption of the crisis in the Middle East late in May and the outbreak of hostilities there in early June provoked very heavy selling of sterling and large flows of funds into continental European currencies, particularly the Swiss franc. Speculative buying of gold intensified briefly, and the Euro-dollar market tightened sharply.

Pressures on sterling mounted irregularly in October and early November as the figures for foreign trade and reserves continued



to be disappointing--partly because of port strikes--and there were recurrent heavy flows of funds into continental currencies. On November 18 the British Government announced the devaluation of the pound by 14.3 per cent to \$2.40.

No other large industrial country devalued its currency, and new standby assistance for the support of the pound was promptly arranged in the form of central bank credit lines and a \$1.4 billion standby arrangement with the IMF. The British Government announced a number of new austerity measures designed to fortify the new rate and achieve the needed internal and external economic adjustments.

By the year-end the markets had become calmer. In November the Bank of England repaid \$300 million of the \$1,350 million drawn earlier under its reciprocal currency arrangement with the Federal Reserve. But there was little opportunity for the Federal Reserve to begin repaying its large drawings under reciprocal currency arrangements. At the year-end outstanding Federal Reserve drawings totaled \$1,776 million. And it was widely recognized that the next step must be the announcement of an effective program to halt and reverse the deterioration in the U.S. balance of payments.

(NOTE: The supplement to this report, to be submitted in January 1969, will include an economic and financial review of 1968 and Federal Reserve policy actions.)

Voluntary Foreign Credit Restraint Program

In February 1965, as a part of the President's program to effect a prompt and substantial reduction in the deficit in the U.S. balance of payments, the Federal Reserve System and the Treasury Department were requested to organize an effort among banks and other financial institutions to reduce their capital outflow from the high levels reached in 1964. In devising an appropriate means for accomplishing this objective, it was necessary to take account of the need to provide the credit essential to finance our exports as well as to ensure that vital national interests, such as assisting the economic growth of the developing countries, would not be hampered.

Guidelines issued by the Board in March 1965 suggested that financial institutions limit the expansion in their holdings of foreign assets generally to 105 per cent of the amount of such assets held on December 31, 1964. In restricting the increase in their foreign assets, the financial institutions were asked to give the highest priority to credits financing exports of U.S. goods and services, and, in the nonexport category, the highest priority to credits to meet the needs of developing countries.

Persistence of the balance of payments problem has required that this program be continued. Until January 1, 1968, the format of the program remained relatively unchanged; the suggested "ceiling" for banks was raised to 109 per cent of the end-December 1964 base in 1966 and remained at that level during 1967. The suggested priorities were

unchanged. Changes were made in both 1966 and 1967 to provide some degree of flexibility to those banks that had had only small amounts of foreign assets on the base date. Comparable, though not exactly similar, changes were made in the guidelines for nonbank financial institutions.

In view of disturbed conditions in gold and foreign exchange markets after the British devaluation of sterling in November 1967, and in view also of increasing evidence of further deterioration in the U.S. balance of payments, the President on January 1, 1968, announced a more restrictive program designed to improve the balance of payments, including mandatory controls on direct foreign investment. As part of the President's program, the Board on January 1, 1968, announced revisions of the guidelines for banks and for nonbank financial institutions which, for the first time, requested these institutions to achieve a net capital inflow. The announced objectives were an inflow of \$400 million for the banks and \$100 million for the nonbank financial institutions during the year 1968.

The new guidelines like the earlier ones, were designed to have a minimum effect on export credits or credits to meet the capital needs of developing countries. Their major impact was focused on non-export credits to developed countries of continental Western Europe.

The Voluntary Foreign Credit Restraint Program has achieved its objectives in every year since its inauguration in 1965. By the end of that year banks' total foreign assets covered by the guidelines

had increased by only 2 per cent, much less than the 5 per cent permitted by the guidelines. In 1966, a year of heavy pressure on bank reserves, holdings of foreign assets were actually reduced--to the level outstanding on December 31, 1964. An increase in foreign assets outstanding during 1967 left the banks at the end of that year at 104 per cent of the end-1964 base figure, as compared with a suggested ceiling of 109 per cent.

Nonbank financial institutions achieved a steady reduction in liquid funds held abroad, and in the aggregate maintained foreign investments within the ceilings suggested by the guidelines. A change in reporting procedures in 1967 makes comparison difficult; however, total foreign assets of nonbank financial institutions increased by only \$600 million between the end of December 1964 and the end of December 1967. The bulk of these assets (almost 90 per cent) were assets not covered by the guidelines, chiefly long-term investments in Canada, Japan, and the developing countries.

By the end of June 1968, the financial institutions were well on their way toward achieving the objectives for 1968 announced on January 1. Reporting banks had reduced their foreign assets outstanding by \$650 million, and there remained a leeway under the suggested ceiling for some outflow in the last half of the year. The nonbank financial institutions had reduced their holdings of covered assets by \$101 million and, as a group, to 96.3 per cent of their adjusted base date holdings. The suggested ceiling for 1968 for these institutions was 95 per cent of the adjusted base date holdings.

Legislative history and implementation of major Johnson Administration  
legislation recommended by the Board

During the period under consideration, the Board transmitted to the Congress draft bills to:

1. Repeal outmoded statutory restrictions on the type of collateral acceptable by the Reserve Banks to secure advances to member banks.
2. Authorize the Board to prescribe reserve requirements for member banks on a graduated basis; extend such requirements to insured nonmember banks; and grant nonmember insured banks access to Federal Reserve discount facilities on the same basis as member banks.
3. Authorize flexible, coordinated establishment of ceilings on rates paid by thrift institutions to attract savings.
4. Overhaul the Bank Holding Company Act of 1956, principally by eliminating gaps in its coverage which the Board believes to be unjustified.
5. Require each insured bank to pay checks drawn on it at par, without imposing an exchange charge.
6. Eliminate conflicting interpretations as to banks' authority to underwrite revenue bonds.
7. Authorize the Board to extend margin requirements to securities traded over the counter.
8. Liberalize the restrictions on home mortgage loans to bank examiners.
9. Authorize the Board to delegate certain of its functions.
10. Authorize the Federal Reserve Banks to purchase obligations of foreign Governments as a means of investing balances acquired in connection with foreign currency operations.

The Board's Annual Reports, copies of which are included in the documentation to accompany the final draft of this report, describe these recommendations in detail.

In addition to the draft bills it proposed, the Board responded to numerous requests from the Bureau of the Budget for reports on proposed bills submitted by other agencies of Government, as well as to large numbers of requests from committees of the Congress for reports on bills before those committees. Members of the Board also appeared before Congressional committees on many occasions to present testimony on bills or to respond to inquiries addressed to the Board by those committees.

A review of the legislative history and implementation of the major pieces of legislation proposed during the period of the Johnson Administration and of particular interest to the Board is contained in the following pages.

a. PL 88-467, Securities Acts Amendments of 1964

By Act of Congress approved August 20, 1964 (Public Law 88-467), the registration, periodic reporting, proxy solicitation, and "insider trading" provisions of the Securities Exchange Act of 1934 (15 U.S.C. 78), which theretofore were applicable principally to securities traded on exchanges, were made applicable also to equity securities (including bank stocks) traded on the "over-the-counter market" and held by numerous investors. At the same time the three Federal bank supervisory agencies were vested with authority to administer these provisions of the 1934 Act with respect to securities of banks within their respective jurisdictions, whether traded over the counter or on a securities exchange.

This legislation was submitted to Congress by the Securities Exchange Commission on June 3, 1963. In response to a request from the Senate Banking and Currency Committee, the Board reported on June 21, 1963, that it favored the legislation in principle, but recommended an amendment to vest jurisdiction for its administration solely in SEC rather than splitting it among the three bank supervisory agencies as to securities issued by banks. Chairman Martin, in testimony before the Committee on June 24, 1963, took the same position, and the position was reiterated in the Board's report of August 23, 1963, to the House Committee on Interstate and Foreign Commerce. The Board's recommendation was not accepted, and the legislation as enacted divided responsibility for its administration among the three banking agencies as to banks.

Pursuant to the provisions of the Act, the Board issued its Regulation F, effective January 1, 1965. During the year 97 State member banks registered their securities in accordance with Regulation F. Analytical review of registration statements and other material filed by banks is directed toward achieving uniform compliance by the banks, so as to assure comparability of the information made public to serve the needs of the banks' security holders and potential investors.

b. PL 89-3, eliminating requirement of gold certificate reserves against Federal Reserve Bank deposit liabilities

This legislation was recommended by President Johnson, with the concurrence and support of the Board. Chairman Martin was among the witnesses who testified in support of the legislation before the

House Committee on Banking and Currency on February 1, 1965, and before the Senate Committee on Banking and Currency on February 2, 1965. Congressional approval followed quickly, and President Johnson signed the measure into law on March 3, 1965.

The measure repealed the requirement that each Federal Reserve Bank hold gold certificates equal to at least 25 per cent of its deposit liabilities; it did not affect the separate 25 per cent requirement as to Federal Reserve notes. It was needed, in the President's words, to "place beyond any doubt our ability to use our gold to make good our pledge to maintain the gold value of the dollar at \$35 an ounce with every resource at our command."

c. PL 89-597, to provide authority for more flexible regulation of maximum rates of interest on time and savings accounts

As described in more detail in the Board's Annual Report for 1966 (see particularly pages 3 and 4), a combination of economic forces, culminating in mid-1966, placed heavy pressures on the mortgage market and the savings and loan associations and similar thrift institutions that furnish a major part of mortgage funds. Part of the problem stemmed from the fact that the maximum rate payable by commercial banks on time deposits, as prescribed by the Board and the FDIC, was higher than the rates generally paid by competing thrift institutions for savings funds, and this contributed to outflows of savings from such institutions during part of this period. Yet if banks had not been permitted to pay the maximum rate (5-1/2 per cent) on large, negotiable




certificates of deposit, they would have faced massive outflows of funds, with disruptive effects on financial markets and on those who must raise funds in such markets. The situation called for authority to set different ceilings for large deposits than for small deposits in banks, even though all concerned were reluctant to take such a step.

Moreover, effective regulation of rates required clear authority on the part of the Federal Home Loan Bank Board to enforce comparable ceilings for savings and loan associations, and it called for coordinated efforts by the supervisory authorities in establishing rate ceilings.

Draft legislation to accomplish these ends was submitted by the Board to the Congress on July 15, 1966.

On July 26, HUD Secretary Weaver announced on behalf of the Administration support for such coordinated, flexible rate authority, and recommended also that the legislation include authority for the Board to raise reserve requirements on time and savings deposits to a maximum of 10 per cent, as well as authority for the Federal Reserve Banks to purchase Federal agency issues in the open market. Treasury Secretary Fowler expressed the same position in a letter to Senator Robertson, Chairman of the Senate Banking and Currency Committee, on August 2, and the following day Senator Robertson introduced S. 3687, which incorporated the recommendations of the Board and the Administration. It also included, as section 6, other provisions relating to real estate loans by national banks which had not been recommended by the Board or the Administration.



In the meantime, the House Banking and Currency Committee had been holding hearings on H.R. 14026, a bill to prohibit insured banks from issuing negotiable certificates of deposit. In the course of those hearings, all members of the Board, the President of the Federal Reserve Bank of Chicago, and the First Vice President of the Federal Reserve Bank of New York testified in opposition to H.R. 14026. Nevertheless, an amended version of H.R. 14026 was reported by the Committee on July 25, 1966.

On August 24, Representative Stephens, a member of the House Banking Committee, introduced H.R. 17255, with provisions identical to S. 3687. In letters to Chairman Smith of the House Rules Committee and to Mr. Stephens, the Board urged enactment of the Robertson-Stephens bill instead of the Committee version of H.R. 14026. The Rules Committee, in H. Res. 993, made it in order for the House to consider the text of H.R. 17255 as a substitute for H.R. 14026. And on September 8, the House agreed to an amendment offered by Mr. Stephens, substituting a modified version of his bill for the text as reported to the House. The principal modification was to include an expiration date of one year from enactment.

Following brief hearings (August 4 and September 21), at which Governor Robertson testified in support of S. 3687, the Senate Banking Committee reported the House-passed version of H.R. 14026 (that is to say, the modified Stephens-Robertson bill) on September 14

and the Senate passed it on the following day. President Johnson approved it on September 21, 1966.

On the same day that the President signed the new law, the Board reduced the ceiling rate on time deposits of less than \$100,000 from 5-1/2 per cent to 5 per cent, stating that the action was taken "to limit further escalation of interest rates paid in competition for consumer savings." Coordinated actions were taken by the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation.

The legislation was extended for an additional year by Public Law 90-87, approved September 21, 1967, and a further one-year extension was provided by Public Law 90-505, enacted September 21, 1968.

In early 1968 it again became necessary to differentiate between large, negotiable certificates of deposit and other time deposits for rate ceiling purposes. Reflecting rising rates in the money market, the Board increased the ceilings on single-maturity time deposits of \$100,000 or more from 5-1/2 per cent across-the-board to a sliding scale, depending on maturity. The 5-1/2 per cent ceiling was retained for the shortest maturity (30-59 days). But member banks were permitted to pay higher rates for longer maturities, as follows:

60-89 days	5-3/4 per cent
90-179 days	6 per cent
180 days and over	6-1/4 per cent

d. PL 89-695, Financial Institutions Supervisory Act of 1966

On March 29, 1966, in a joint letter, Secretary Fowler, Chairman Martin, Chairman Horne, and Chairman Randall transmitted

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to the Congress draft legislation designed, in the words of the letter, "to strengthen and make more immediately effective the supervisory and regulatory authority of the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System."

The Board played essentially a supporting role in this legislation, which was more urgently needed and more actively sought by others, notably Chairman Horne of the Federal Home Loan Bank Board. But Vice Chairman Robertson of the Board testified in support of the legislation before the Senate Banking and Currency Committee on April 5, 1966. He argued that "the remedies presently available to the Board are not only too drastic for use in most cases, but are too cumbersome to bring about prompt correction . . ." The procedures provided for in the bill--chiefly cease and desist orders--would, he testified, offer "appropriate and effective intermediate sanctions that can be suited to the act or practice requiring correction." Although no Board witness appeared before the House Banking Committee in support of the legislation, the Board sent a favorable report to the Committee on September 19, 1966, and on September 28, 1966, filed written answers to 72 questions posed by Chairman Patman in connection with the bill.

As submitted to Congress and passed by the Senate, the legislation would have been permanent. In the House Committee, however, it was amended to include an expiration date of June 30, 1968.

The Board believed that this would seriously limit the effectiveness of the cease-and-desist procedures authorized in the legislation, and through informal channels advised the conferees of this belief. The conference report, filed October 11, 1966, included a compromise expiration date, June 30, 1972, and this was agreed to by the House on October 12 and the Senate on October 13. The Board on October 14 wrote the Bureau of the Budget recommending that the President approve the bill; he signed it on October 16.

On July 25, 1967, the Board issued regulations effective August 1, 1967, implementing the legislation. As yet, the Board has not found it necessary to institute enforcement proceedings under this authority, although this does not mean, of course, that it has not been useful to have it in reserve. An unexpected dividend occurred in connection with the Consumer Credit Protection Act. Section 108 of that Act provides for administrative enforcement of the "Truth in Lending" title through the procedures established by the Financial Institutions Supervisory Act, insofar as financial institutions subject to it are concerned.

- e. PL 90-269, to eliminate the requirement of gold certificates reserves against Federal Reserve notes

This legislation was submitted to the Congress by the Secretary of the Treasury on January 22, 1968, to implement a recommendation made by President Johnson in his State of the Union Message.

Chairman Martin and Vice Chairman Robertson appeared to testify for the Board in support of the legislation before the House

Banking and Currency Committee on the following day. Governor Robertson also appeared before the Committee on January 25, and Chairman Martin testified before the Senate Banking Committee in support of the bill on January 30.

Chairman Martin also joined with Secretary Fowler in letters to Chairman Mills and Chairman Patman in opposition to various amendments to the bill, and in urging enactment of the legislation in private conversations with key members of the House and Senate.

The legislation passed the House on February 21, passed the Senate on March 14, and was signed by the President on March 18, 1968. Senate passage preceded by only two days a conference of the Governors of the Central Banks of Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States held at the Board's offices on March 16 and 17, to examine operations of the gold pool, to which they were active contributors. The communique issued at the close of this conference noted "that legislation approved by the Congress makes the whole gold stock of the nation available for defending the value of the dollar." Approval of the legislation played an important role in stemming outflows of gold from the United States, which had reached sizable proportions in the preceding weeks.

f. PL 90-321, the Consumer Credit Protection Act

In the 90th Congress, the effort initiated by Senator Douglas in 1960, to require creditors to disclose credit costs in reasonably uniform terms, as annual percentage rates, came to fruition. When

Senator Proxmire succeeded to the post of chairman of the Financial Institutions subcommittee of the Senate Banking and Currency Committee, one of his first undertakings was to find means of resolving the many complex problems that had for years barred enactment of earlier Douglas "Truth in Lending" bills. Senator Proxmire on January 11, 1967, introduced S. 5, which was based on the earlier Douglas bills, but incorporated some modifications which he hoped would enlist wider support for the bill.

The Board of Governors in previous Congresses had endorsed the objective of requiring creditors to disclose their finance charges, but had opposed being named as the agency responsible for administering such a measure on the ground that the Board had neither the staff nor the knowledge needed for the detailed policing of trade practices involved. On March 8, 1967, however, Senator Proxmire wrote Chairman Martin urging that the Board undertake the job of writing initial regulations to implement the bill. He argued that once appropriate regulations had been issued and explained to creditors, the Act would be largely self-enforcing. Rightly or wrongly, Senator Proxmire seemed to consider an expression by the Board of its willingness to undertake this assignment to be an essential ingredient for Congressional approval.

The Proxmire Subcommittee began hearings on the measure on April 13, 1967. Senator Proxmire agreed with a suggestion by Chairman Martin and Vice Chairman Robertson that testimony on behalf of the

Board be delayed until the Board had had an opportunity to evaluate the testimony of other witnesses, so that it could present its recommendations in the light of the evidence previously presented.

Accordingly, on May 10, 1967, Vice Chairman Robertson presented the Board's views on the measure. His prepared statement opened by expressing the Board's belief that "important social as well as economic benefits may be expected to flow from a more effective disclosure of credit costs to consumers." On the point of where responsibility for administration should be lodged, he testified that this would be "essentially different from the functions that Congress heretofore has considered appropriate for the Federal Reserve System." He outlined the reasons why the Board considered that the task of prescribing regulations to implement the new measure was not one it should undertake. But he pointed out that the Board believed the need was great, and if the Congress assigned the function to the Board "we will do our best to carry out the assignment."

His testimony included a number of recommendations as to the substance of the bill, perhaps the most important of which was to support, with some suggested changes, the provisions requiring disclosure of finance charges on revolving credit in terms of an annual percentage rate. This key provision, although not included in the bill as passed by the Senate, was restored by the House and incorporated in the measure as finally enacted.

Senator Proxmire's efforts to compromise the differences that had blocked the bill in previous years were so successful that S. 5 passed the Senate on July 12, 1967, by a vote of 92 to 0.



Consideration of the legislation entered a new phase after Senate passage. In the House Committee on Banking and Currency, the Subcommittee on Consumer Affairs under the chairmanship of Representative Leonor Sullivan, on August 7, 1967, began hearings on a much broader measure, H.R. 11601, introduced by Mrs. Sullivan. Her bill incorporated stricter "truth in lending" provisions than those passed by the Senate, and provided also for regulation of credit advertising, ceilings on finance charges, controls on commodity futures trading, and prohibitions against particular methods of collecting debt. In a report on this bill dated July 31, 1967, the Board took the position that it preferred S. 5 as passed by the Senate, except that, as Governor Robertson had testified before the Senate Committee, the Board favored disclosure of an annual percentage rate for revolving credit plans, as provided in H.R. 11601, and opposed the limited exemption for such plans incorporated in the Senate-passed bill. Vice Chairman Robertson testified to the same effect before the Sullivan Subcommittee on August 7, 1967.

H.R. 11601 was reported to the House on December 13, 1967, with a number of amendments that carried out recommendations of the Board. But the reported bill included a limited exemption for revolving credit, just as the Senate-passed bill had. The House, however, on a motion offered by Mrs. Sullivan, struck this special exemption from the bill by a vote of 131 to 19 (January 31, 1968, Congressional Record daily issue page H 620). House passage of the bill followed on February 1, by a vote of 382 to 4.

In the long conference that followed between Senate and House conferees, the Board played a limited role; technical assistance was supplied by the Board's staff to the staff of the Senate and House committees. These staff discussions were helpful, however, in the evolution of the final version of title I of the Act, and particularly in working out a satisfactory resolution of the differences between the two Houses in the treatment of revolving credit. The conferees were successful in this effort, and the bill they agreed to was signed into law on May 29, 1968.

In the opening weeks of 1968 the Board had taken preliminary steps toward implementation of the proposal, on the assumption that it would be enacted. A task force that included members of the Board's staff, several consultants, and Reserve Bank personnel was established to begin work on draft regulations, assist in handling requests from Congress for staff comments on the legislation, prepare recommendations for establishing the advisory committee contemplated by the Act, and so forth. On August 19, 1968, the Board announced the appointment of 18 members to its advisory committee, which is to advise and consult with the Board in the exercise of its function under the new legislation. In September, meetings were held with the committee for the purpose of discussing a preliminary draft of implementing regulations, and a revised draft was published in the Federal Register on October 18 with an invitation for comments to be received within the next 30 days. Every effort will be made to analyze the comments received and publish final regulations in

time to enable the industry to become familiar with the regulations and train personnel to comply with them, before the July 1, 1969 effective date.

g. PL 90-437, authorizing regulation of credit extended on over-the-counter securities

This legislation was submitted to the Congress by the Board of Governors on March 1, 1967, and was introduced by Senator Sparkman (S. 1299) and Representative Staggers (H.R. 7696). It amended section 7 of the Securities Exchange Act of 1934, which had previously authorized the Board to establish margin requirements with respect to securities registered on a national securities exchange, so as to authorize the Board to extend such regulation to securities not so registered ("over-the-counter" securities). The authority will be used to extend margin requirements to those over-the-counter securities that are actively traded, with market and investor characteristics similar to those of exchange-traded stocks. For such actively-traded stocks, the effect will be to enable brokers and dealers to extend credit subject to the margin requirements (whereas previously they were prohibited from extending credit at all) and to limit the amount of credit that banks may extend (because previously banks were permitted to extend credit on such securities without regard to any Federally-imposed margin requirements). Enactment of this legislation provided safeguards against the excessive use of credit in the over-the-counter securities market which was badly needed to round out the

protection afforded the public by margin regulation in the volatile securities area. At the same time, it provided more equitable treatment for brokers and dealers. Vice Chairman Robertson presented testimony in support of the legislation on behalf of the Board before the Senate Banking and Currency Committee on May 16, 1968, and before the Subcommittee on Commerce and Finance of the House Interstate and Foreign Commerce Committee on June 21, 1968. S. 1299 passed the Senate on June 19, 1968; passed the House on July 15, 1968; and was signed into law on July 29, 1968.

#### Legislative relations

As previously indicated, from time to time the members of the Board appear before Congressional committees, principally the two Banking and Currency Committees and the Joint Economic Committee. And Members of Congress frequently ask members of the Board, particularly the Chairman, for information and advice relating to matters within the Board's area of responsibility.

Other requests from Congressional offices for information are routed through, or reported to, an assistant to the Board designated for that purpose, so that the Chairman of the Board may be kept advised. Written responses normally take the form of a letter signed by the Chairman.