FIFTY-FIRST

Annual Report

OF THE

BOARD OF GOVERNORS
of the Federal Reserve System

COVERING OPERATIONS FOR THE YEAR

1964

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Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, March 22, 1965

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

Pursuant to the requirements of Section 10 of the Federal Reserve Act, as amended, I have the honor to submit the Fifty-First Annual Report of the Board of Governors of the Federal Reserve System. This report covers operations for the year 1964.

Yours respectfully,

WM. MCC. MARTIN, JR., *Chairman.*

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PART I

Review of 1964

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SUMMARY

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.

In contrast to the marked progress in the domestic economy in 1964, the deficit in the U.S. balance of payments declined only slightly from that in the preceding year. In the first half of 1964, substantial gains were achieved in the balance on current account. In the final quarter, however, very large outflows of private capital occurred, mainly in the form of foreign bond issues in this country and U.S. bank credits to foreigners. At the same time, the pound sterling experienced critical difficulties, and uncertainties about sterling were communicated to the dollar through disorderly markets that developed for the pound and subsequently for gold.

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.

During the first three quarters of 1964, the gross national prod-

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uct (annual rate in current prices) increased by $10 billion a quarter. Although this rapid rate of growth was interrupted by strikes in the automobile industry during the fourth quarter, when GNP increased at a rate of only $6 billion, for the year as a whole GNP totaled $623 billion, 6.6 per cent more than in 1963. In constant dollars the rise was 4.8 per cent, a considerably larger increase than the 3.4 per cent in 1963 or the average for the postwar period as a whole. Industrial production averaged 6 per cent higher than in 1963. And at the year-end, when production was being stimulated by a building up of steel inventories as well as by attempts in the automobile industry to make up the lost output, the Federal Reserve Board's index of industrial production was 8 per cent above a year earlier.

Gains were made in 1964 in the utilization of resources, but both industrial capacity and manpower appeared adequate to permit further sizable increases in output. With both output and capacity expanding, the margin of excess capacity was being narrowed, but only slowly. While bottlenecks in supply developed as demands increased, they were neither widespread nor unresponsive to market forces or to administrative measures taken to deal with them, including sales from Government stockpiles.

Employment as well as production rose sharply during the year. Increases were widespread among industries and occupations, and in all regions of the country. The increase in employment in manufacturing, resulting in shortages of skilled labor in some instances, was large, particularly in durable goods industries, and it was accompanied by a further lengthening of the average workweek. Outside of manufacturing, employment increased steadily, except in agriculture.

At the end of the year the unemployment rate was down to 5 per cent. This was one-half of 1 per cent below a year earlier, but still above the administration's interim target of 4 per cent. The sharpest reduction in unemployment was among adult men, to a 3.5 per cent rate at the year-end. There was also a significant decline in the number of long-term unemployed. This decline reflected the substantial improvement in demands for workers in indus-

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trial centers. Among youths, in contrast, unemployment remained close to the high 1963 rate.

Meanwhile, growth in the labor force was larger than in the preceding years, and output per worker continued to increase at an unusually rapid rate. With further labor as well as plant resources to be drawn upon, and with wages and prices remaining relatively stable, the domestic policy problem continued to be more one of achieving full utilization of manpower than one of preventing undue pressure on available resources.

In labor markets, increases in labor compensation continued to be varied but were roughly in line with the increases being achieved gradually in productivity in the economy. In manufacturing, average labor costs per unit were slightly lower than in 1963. Profit margins as well as aggregate profits increased further.

With supplies and productive capacity generally adequate throughout 1964, commodity prices on the whole remained stable for the seventh consecutive year. There were selective upward adjustments, largely offset in the over-all price indexes by selective downward adjustments for other products. In markets for nonferrous metals, prices increased sharply as demand pressures, both domestic and foreign, were reinforced by interruptions to supplies caused by strikes in this country and by political developments abroad. In the case of copper, however, supplies at the year-end were increasing, and prices in free markets were easing.

The broad stability in commodity prices during 1964 was noteworthy in view of the stimulative effects of the large reduction in Federal income taxes on both individuals and corporations and the accommodative posture of monetary policy. Monetary policy permitted an expansion of 8 per cent in commercial bank credit and of 4 per cent in the money supply. For both measures, the increases were similar to those in 1963 when over-all economic activity had increased less. Interest rates on long-term funds were generally stable during 1964, while yields on short-term securities rose late in the year when international financial developments became threatening.

Personal income rose at a rapid rate throughout the year. The

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tax cut gave a sizable boost to disposable personal income, which for the year was 7.3 per cent higher than in 1963. Most of the increase represented a real gain in purchasing power, since the level of the consumer price index averaged 1.3 per cent higher than in the preceding year.

Increases in expenditures in 1964 were widespread among major categories of purchases. Accelerated rates of increase in consumer purchases of goods and in business outlays for fixed investment were especially important in the rapid economic growth achieved during the year. Consumer purchases of durable goods were substantially larger than in 1963. Purchases of new automobiles, including imports, reached a record 8.1 million units, as compared with 7.7 million in 1963. Purchases of nondurable goods were up nearly 6 per cent, the largest rise in 13 years.

Despite these increases in consumer spending and the usual large growth in outlays for services, consumer expenditures at times did not keep pace with the rise in disposable income, and the rate of saving averaged higher than in 1963. The saving rate was especially high—around 8 per cent of disposable income—in the second quarter just after the tax cut, and again in the fourth quarter when consumer purchases of goods lagged, largely because of the limited availability of automobiles.

Outlays by State and local governments continued the steady expansion that has characterized this sector throughout the postwar period. On the other hand, Federal Government purchases of goods and services were relatively stable. Residential construction activity, particularly building of multifamily units, declined after the early part of 1964, but for the entire year it slightly exceeded the level in 1963.

Stimulated by the step-up in consumer and other demands and by widespread confidence in the business outlook, businesses expanded their capital investment programs, and outlays for fixed capital rose much more rapidly than in 1963. By late 1964 the rate of such new outlays was a third larger than at the 1961 cycli-

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cal low. The rise in industrial production during the year led to increased pressures on capacity in some industries, and this also contributed to the expansion in capital outlays and to plans for further increases in outlays in 1965. Other stimulants to capital spending were the continued high profit margins, the ample supplies of funds available to corporations from both external and internal sources, and the continuing cost and competitive pressures to modernize.

Business inventory accumulation, which often is a strategic factor in business cycle fluctuations, was quite small in the first three quarters of 1964, and stock–sales ratios declined to unusually low levels. Late in the year, however, the rate of inventory accumulation rose sharply, in part because of anticipatory buying of steel against the possibility of a strike in that industry by May of 1965.

The deficit in the U.S. balance of payments for the year totaled $3.0 billion, exclusive of special transactions, as compared with $3.3 billion the year before and $3.6 billion in 1962. A marked further improvement in the U.S. surplus on trade and other current transactions accompanied the sharply higher levels of economic activity abroad reached early in 1964. But at the same time the strength of demands from abroad, together with higher interest rates and restrictions on credit availabilities in Europe, led to 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. While this attack was repulsed by the concerted efforts of monetary authorities and international institutions, foreign exchange markets were still unsettled at the year-end. Although uneasy conditions in these markets reflected mainly the continuing uncertainties about the British payments position, an element in this uneasiness was the persistently large deficit in the U.S. balance of payments.

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MONETARY POLICY

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. It is through their influence on credit conditions, liquidity, and the level and structure of interest rates that central banks such as the Federal Reserve make their maximum contribution toward the achievement of the ultimate economic goals of nations.

The posture of U.S. monetary policy throughout much of 1964 was little changed from that adopted in mid-1963 when Federal Reserve Bank discount rates and maximum rates payable by commercial banks on time deposits were raised. In the midsummer of 1964, however, 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 their time and savings deposits.

The November actions were taken in response to the increase of 2 percentage points in the Bank of England's discount rate after a crisis developed in sterling. They represented a precautionary move by U.S. authorities to maintain the international strength of the dollar by assuring that a reasonable alignment in interest rates would continue among world money markets.

OPEN MARKET OPERATIONS AND DISCOUNT POLICY

Throughout the year the Federal Open Market Committee conducted operations in such a way as to assure adequate supplies of funds in the credit and capital markets at relatively stable costs and to facilitate further growth in the money supply and over-all liquidity. Under these conditions there was also a substantial fur-

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DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS IN 1964

Period	Action	Purpose
January–mid-August	Increased the System's holdings of U.S. Government securities, after having reduced them seasonally early in the year. On balance, total holdings rose about $1.1 billion, $300 million of which represented net purchases of securities with maturities of over 1 year. Member bank borrowings averaged about $275 million.	To provide for moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy while fostering improvement in the capital account of U.S. international payments, after offsetting seasonal downward pressures on short-term interest rates early in the period.
Mid-August–late November	Increased the System's holdings of U.S. Government securities by about $1.5 billion, of which $600 million represented net purchases of securities with maturities of more than 1 year. Member bank borrowings averaged about $350 million.	To maintain slightly firmer conditions in the money market with a view to minimizing the outflow of funds attracted by higher short-term interest rates abroad while offsetting reserve drains and providing for growth needs of the domestic economy.
Late November	Raised discount rates from 3½ to 4 per cent. Raised maximum interest rates payable on savings deposits held for less than 1 year from 3½ to 4 per cent and those on other time deposits from 4 to 4½ per cent for maturities of 90 days or more and from 1 to 4 per cent for maturities of 30-89 days.	To counter possible capital outflows that might be prompted by any widening spread between money market rates in this country and the higher rates abroad, following a rise in official and market rates in London, while at the same time ensuring that the flow of savings to commercial banks remains ample for the financing of domestic investment.
Late November–December	Increased the System's holdings of U.S. Government securities by about $765 million, part of which represented securities acquired under repurchase agreements. Member bank borrowings averaged about $275 million.	To offset seasonal reserve drains and to accommodate further moderate expansion in aggregate bank reserves while ensuring that the rise in money market rates following the discount rate actions did not restrict the availability of domestic credit.

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ther expansion of bank credit, since the higher ceiling rates payable on time and savings deposits enabled commercial banks to compete successfully for a large portion of the nation's savings.

During the spring months the continuation of a stimulative monetary policy, coupled as it was with a sizable cut in both individual and corporate income tax rates, was appropriate for several reasons: the desirability of achieving fuller use of manpower and other resources; the absence of price inflation; and some improvement in the country's balance of international payments.

In the first 5 months of 1964 the rates of growth in bank credit and money were a little less than in the last 5 months of 1963. Time and savings deposits at commercial banks also increased somewhat less rapidly, as did savings balances at financial intermediaries generally. Meanwhile, short- and long-term interest rates showed little net change, after having advanced during most of 1963. Such fluctuations in rates as did occur in the first half of the year reflected mainly changing market expectations regarding such factors as the likely stimulative character of the programs outlined in the administration's budget and economic messages and possible changes in the Bank of England's discount rate, this country's balance of payments deficit, and Federal Reserve monetary policy following the large tax cut.

Then in June and July the money supply grew at a rapid rate —about 8.5 per cent per year. This increased rate apparently reflected larger needs of business for cash for transactions and also increased temporary saving in money form by consumers following the tax cut.

In mid-August it also became clearer that the balance of payments deficit in the second and third quarters was running much larger than the quite low total achieved in the first quarter. In this situation the Federal Open Market Committee decided at its meeting on August 18 to modify its policy objectives in the direction of slightly firmer money market conditions, including moderately lower free reserves and moderately higher short-term interest rates.

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From then until late November the money market was kept under a little more pressure. During this period the growth in the money supply dropped sharply from its high June-July rate. Growth in savings and bank credit continued substantial, however, and long-term interest rates changed little. The balance of payments deficit continued large in the third quarter and deteriorated thereafter, reflecting increased short- and long-term capital outflows. In November, to deal with the crisis developing in sterling, the Bank of England raised its discount rate to 7 per cent.

It was in this situation that increases in discount rates were announced by the Board of Governors of the Federal Reserve System and the Bank of Canada, and that the increases in maximum interest rates payable by U.S. commercial banks on time and savings deposits were announced by the Board of Governors and the Federal Deposit Insurance Corporation. Changes in these rates were as follows:

	Per cent	
	From	To
Discount rate:		
Bank of England	5	7
Federal Reserve Banks	3½	4
Bank of Canada	4	4¼
Maximum rates payable on time and savings deposits by U.S. commercial banks:		
Savings deposits held for:		
1 year or more	4	4
Less than 1 year	3½	(4)
Other time deposits payable in:[1]		
90 days or more	4	4½
30 to 89 days	1	4

[1] "Other time deposits" are defined by regulation as those having a maturity of at least 30 days.

All of the U.S. actions were directed primarily to the international payments situation and were intended to reduce the possibility of an outflow of volatile foreign balances. They were not

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intended to restrict the availability of domestic credit, and any accompanying tendencies for the cost of credit to rise were moderated by reserve-supplying actions of the Federal Open Market Committee.

The actions raising the maximum rates on time and savings deposits permitted commercial banks to continue to compete for savings and idle money. The increase in permissible rates on time deposits with maturities of 30 to 89 days was made particularly large in order to allow banks to compete more successfully for short-term deposits that might otherwise be lodged abroad.

Bank credit and the money supply expanded more slowly in December than in November, when expansion had been high, but longer-term rates of interest remained generally unchanged. The slower rate of expansion in bank credit was due in large part to the timing of Treasury financing operations.

OPERATIONS IN LONGER-TERM GOVERNMENT SECURITIES

Since the early part of 1961, the Federal Open Market Committee has supplied some reserves to commercial banks through purchases of longer-term Government securities—those with maturities of more than a year—in order to minimize downward pressures on short-term interest rates for balance of payments reasons. In 1964, $1.0 billion of longer-term issues were purchased for the System Open Market Account. This volume represented about 10 per cent of the System's gross purchases of all maturities of Government securities and an estimated 2 per cent of purchases of longer-term Government securities by all market participants.

As in earlier years, open market purchases of longer-term issues were concentrated in issues maturing in less than 10 years. Purchases were largest in August and September, when the System Account began to provide a large volume of reserves to the banking system to meet seasonal needs. In the early part of this period Treasury bill rates were under downward pressure for a time. As the weeks progressed, the bond market came under some

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upward rate pressure as it attempted to digest not only the large supply of bonds taken by market participants in the Treasury's July advance refunding but also the continuing heavy volume of municipal security issues and the somewhat larger volume of offerings by corporations.

A chronological review of operations of the Federal Open Market Account in domestic securities during the year 1964 appears on page 129.

FOREIGN EXCHANGE OPERATIONS

The Federal Open Market Committee continued in 1964 to direct its foreign exchange operations toward maintaining orderly conditions in the markets for the dollar and, with the cooperation of central banks abroad, for major foreign currencies. Through the operations of the System Open Market Account the Committee intervened in foreign exchange markets when it was necessary to meet speculative or temporary pressures. The transactions were not intended to act as correctives for basic balance of payments difficulties of the United States or other countries.

The foreign exchange activities of the System Open Market Account were facilitated by the continued use of reciprocal currency arrangements, or "swaps," between the Account and 11 foreign central banks and the Bank for International Settlements. Under these arrangements, covered short-term reciprocal advances of currencies can be made between the Federal Reserve and the foreign banks, thereby providing each institution with foreign exchange resources for use in its operations. During 1964 these arrangements were enlarged by $300 million, bringing the total network to $2,350 million. Of this enlargement, $250 million represented part of the international financial assistance package for the United Kingdom negotiated during the crisis in sterling in November.

During 1964 drawings of foreign currencies by the System Open Market Account totaled $475 million, $318 million less than in 1963. By the year-end, repayments had reduced its out-

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standing drawings to $345 million. Drawings by foreign central banks, which also involve acquisitions of foreign currencies by the System Account, totaled $1,550 million during 1964, $200 million of which remained outstanding on December 31.

Against the $545 million of foreign exchange commitments arising from foreign central banks as well as System swap drawings, plus other net forward exchange commitments of $99 million, the Federal Reserve held foreign exchange balances totaling $295 million at the end of 1964. Altogether, therefore, the System Open Market Account had net liabilities in foreign exchange arising from its foreign exchange operations of $349 million at the end of 1964 as compared with net liabilities of $357 million at the beginning of the year.

A review of operations of the Federal Open Market Account in foreign currencies in 1964 will be found on page 161.

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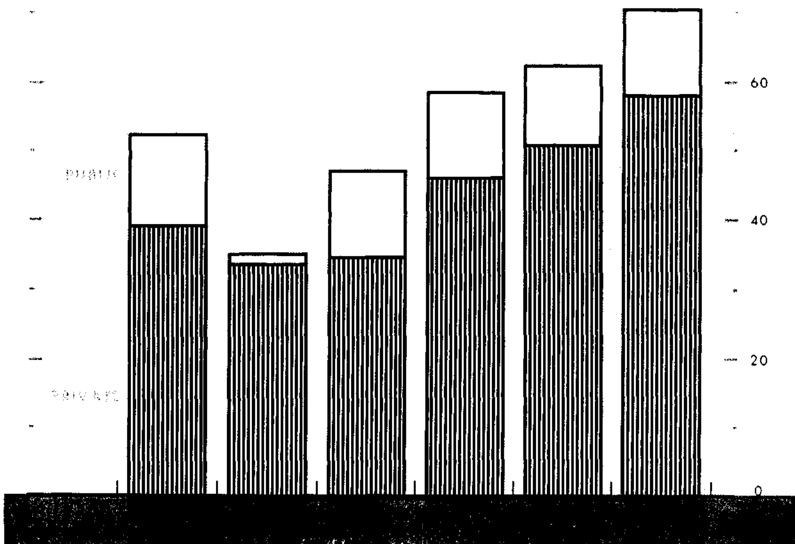
FINANCIAL DEVELOPMENTS

Funds supplied through credit and equity markets in 1964 reached a record volume of $70.5 billion, up from $62.3 billion in 1963. This was the fourth consecutive year of rise in the net amounts of new credit extended. Although the year-to-year rise in credit growth was markedly less in 1963 and 1964 than it

CREDIT GROWTH expanded again in 1964



NOTE.—Flow of funds data. Private includes foreign borrowers. Public borrowing consists of net increase in U.S. Govt. (including nonguaranteed obligations of U.S. Govt. agencies) and State and local govt. debt.

had been in the first 2 years of the current economic expansion, the continuing uptrend contrasts with earlier postwar cycles when peak rates of credit expansion were reached soon after the cyclical rise was under way.

At the beginning of the present expansion in 1961, increased

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borrowing by public authorities—Federal, State, and local—accounted for almost all the growth in total financing. Then, commencing in 1962, there was a large rise in private financing. The fact that the total has continued to expand reflects in part the maintenance of a large volume of net new borrowing by all levels of government. In contrast with its sharp declines in previous economic recoveries, public financing has continued at about the same level for all 4 years of the present expansion. In addition, private credit demands have been enlarged year by year, as vigorous economic growth has continued.

The ability of credit and equity markets to meet this sustained high demand for funds has reflected, in turn, the character of the continuing economic expansion. Supplies of loanable funds have been very large, with savings in financial form reaching record proportions again in 1964. Internal flows to corporations from depreciation allowances and retained earnings also reached new highs and remained unusually large even in relation to the rising volume of capital expenditures. At the same time, with prices remaining generally stable, especially at the wholesale level, and with continuing margins of unutilized resources, it was considered appropriate for the Federal Reserve to make additional reserves available to banks so that they could continue to accommodate demands for credit.

Under these circumstances, the record volume of new financing has been carried out with very little change in interest costs. During 1964 long-term yields fluctuated narrowly and without discernible trend, while short-term market rates moved moderately higher, particularly following the late-November increase in the Federal Reserve discount rate.

DEMANDS FOR FUNDS

The higher volume of credit obtained in 1964 as compared with 1963 did not reflect any pronounced shift in financing patterns. Credit demands by all major sectors of the economy either increased or were maintained at the previous year's high levels.

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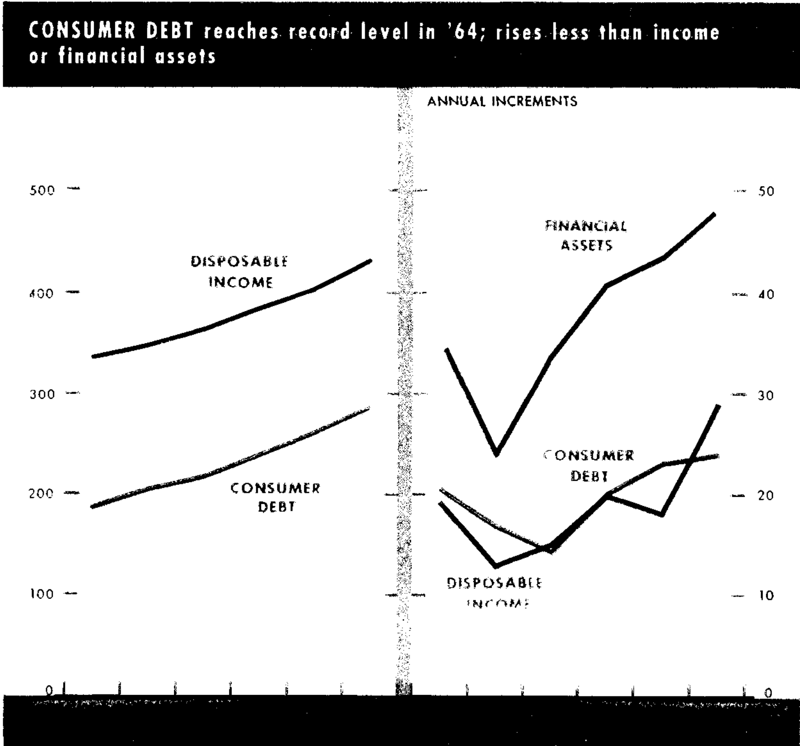
Borrowers in 1964 relied somewhat more on loans and short-term securities and somewhat less on capital market instruments than they had in previous years of this expansion. Bank loans, excluding mortgage loans, expanded somewhat faster; the U.S. Treasury relied more heavily on short-term issues for new money; and although foreign issuers obtained smaller amounts in U.S. capital markets, the reduction was more than offset by their greater borrowing from U.S. banks.

Consumers. During 1964 consumers made net repayments on loans obtained to purchase or carry securities, but they added $24.4 billion to their other outstanding debt—moderately more



NOTE.—Flow of funds data. Increase in financial assets is net of sales and has been adjusted for change in security credit outstanding. Increase in consumer debt is net of such credit.

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than in 1963. At the same time the very large rise in disposable income resulting from the March drop in income tax rates and the continuing economic expansion permitted them to raise both their capital spending and their acquisitions of financial assets considerably above 1963 levels.

As usual, mortgage financing was the most important source of long-term credit to the consumer sector; mortgages on 1- to 4-family properties increased by $16.2 billion, exceeding the previous year's rise of $14.9 billion, which had been the record up to that time. At the same time, consumers added nearly $7 billion to their short- and intermediate-term credit, slightly more than the previous record amount. Instalment credit rose by more than $5.5 billion, the same as in 1963, and both extensions and repayments of such credit were at record levels. Repayments on instalment debt amounted to 14.0 per cent of total disposable personal income, up from 13.7 per cent in 1963.

About the same proportion of new cars were sold on credit in 1964 as in 1963, but the $2.3 billion rise in instalment debt on autos was somewhat less than in the preceding year. The increase in each of these years was well below the record $3.7 billion growth in 1955.

Business. Nonfinancial businesses (including farm businesses) obtained nearly $30 billion of funds in credit and equity markets in 1964, considerably more than in 1963. This increase in external financing was attributable especially to a larger volume of business borrowing at banks and to the sale of two large equity issues by communications companies. Net new issues of long-term debt securities by business corporations also rose slightly from the previous year.

Expansion in mortgage debt on business properties about matched the large 1963 total. In recent years such loans have become a much more important source of long-term financing, reflecting the high and rising levels of commercial and multi-family residential building as well as the availability of favorable financing terms and arrangements. The 1964 expansion in busi-

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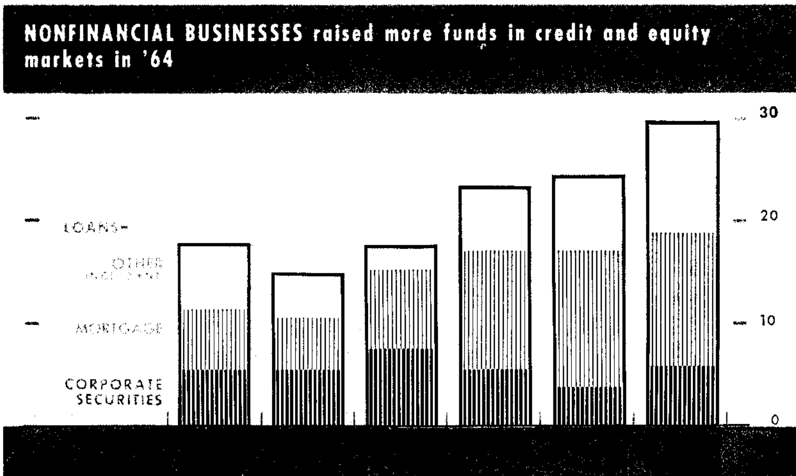
ness mortgage debt, estimated at $13.0 billion, compares with an increase of only $5.0 billion as recently as in 1960.

For the year as a whole, total corporate security issues for new capital amounted to a record $12.5 billion, one-sixth more than in 1963. The two equity offerings of communications companies mentioned above accounted for much of the gain. Except for offerings by this industry, capital issues by nonfinancial corporations were about the same as in 1963, and those of manu-



NOTE.—Flow of funds data. Nonfinancial business consists of corporate and unincorporated sectors, including farms.

facturing companies were the smallest since 1960. On the other hand, flotations by public utilities (gas, electric, and water companies) increased moderately from the small volume sold in 1963. In addition, there was a substantial increase in sales of capital notes and debentures by commercial banks, which had begun to use this form of financing more actively in the latter part of 1963.

Business borrowing at commercial banks expanded more rapidly during 1964 than it had earlier in the current cycle. At times loan demand was heavy, and for the year as a whole the

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increase in business loans amounted to an estimated $5.9 billion, about one-fourth more than in 1963. This dollar figure includes loans extended to foreign as well as to domestic business firms and bank holdings of bills accepted for foreigners as well as for domestic customers.

Governments. As in most other recent years, State and local government units were large-scale issuers of long-term securities in 1964, as they raised funds to finance a wide variety of public facilities. The year's net increase of $6.5 billion in State and local government debt nearly matched the high 1963 total, while total new security offerings reached the record volume of $10.8 billion. As in 1963, relatively low interest rates attracted some advance refunding of issues sold earlier at high coupons, but the total of such issues was far below the previous year's record.

During the calendar year 1964 the Federal Government incurred a cash deficit of $5.8 billion, which was somewhat more than in 1963. Reflecting the March income tax cut, cash receipts from the public rose by only $2.5 billion in 1964 compared with an increase of $6.4 billion the year before. Spending was up moderately, largely as a result of higher outlays early in the year; during the second half, cash payments were running at rates scarcely above those of a year earlier.

To finance the year's deficit, the Treasury undertook net cash borrowing of $6.3 billion, which permitted some increase in its cash balance. Continuing attempts to limit capital outflows by keeping upward pressure on short-term interest rates in this country again led to the concentration of new borrowing in the short-term sector. Treasury bills outstanding increased by $4.9 billion. In addition, Treasury notes maturing in 18 months accounted for most of the offerings in regular refundings and also for some new cash borrowing.

In order to maintain a balanced maturity structure of the debt, the Treasury again relied on advance refundings. There were two during the year—the largest in July—and these together shifted $12.3 billion of securities maturing in less than 3 years

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into longer-term issues. Most of the new issues fell into the 5- to 10-year maturity area, but investors took $1.9 billion maturing in more than 20 years. These figures exclude the results of the advance refunding announced in late December but not effected until January 1965.

For the first time in several years, this process of debt lengthening in Treasury refundings failed to offset completely the large additions to shorter-term debt and the shifts of outstanding securities into shorter-term categories caused by the passage of time. The total of marketable debt maturing within 5 years rose somewhat on balance, and the average maturity of the marketable public debt fell slightly—to 5 years at the end of 1964.

SUPPLY OF FUNDS

To meet the heavy demands for credit in 1964, record savings flows were available from the nonfinancial sectors of the economy. Of the total flows, a high—although reduced—proportion took the form of claims on financial intermediaries, as the chart on page 23 shows. The money supply rose by 4 per cent on balance, slightly more than in 1963. Commercial banks were able to meet expanding loan demands during the year while curtailing their new investments only moderately.

Nonfinancial sectors. The nonfinancial sectors of the economy, in addition to using substantial amounts of credit, also generate large amounts of current saving, part of which they use for their own purposes and part of which they make available to others through credit markets. Thus, consumers as a group typically add far more to their financial assets annually than they add to indebtedness through the use of credit. Businesses borrow from others and also generate substantial amounts of funds from current operations; most such funds are used internally, but some usually enter the credit markets, either directly or through deposits with financial intermediaries. With both the personal saving of individuals and the internal funds of corporations reaching

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new annual highs in 1964, saving in financial form by all nonfinancial sectors of the economy rose to $59.4 billion, over onetenth more than in the preceding year.

Corporate profits before taxes continued to increase during the first half of the year, though less rapidly than in 1963, but leveled off and then declined in the second half, mainly because of the reduction in automobile sales. Augmented by the reduction of 2 percentage points in the Federal corporate income tax rate, which became effective as of the beginning of the year, retained earnings increased by nearly one-third. Meanwhile, depreciation allowances continued their steady growth.

For the year as a whole, corporate internal funds—retained earnings and depreciation allowances—totaled $41 billion, onetenth above the previous record flow in 1963. Plant and equipment expenditures rose slightly more than this, but the flow of internal funds to corporations as a group remained unusually large relative to capital outlays.

Corporations use their internal funds principally to reduce reliance upon credit markets for external financing rather than to lend to others. However, to the extent that they add to their holdings of liquid reserves, corporations make funds available to other users of credit. Such additions last year were primarily in the form of negotiable certificates of deposit and other private short-term investments. There was also some increase in U.S. corporate holdings of liquid assets abroad. Corporations' holdings of U.S. Government securities were reduced on balance, but their demand deposits showed a small increase, in contrast with a sharp decline in 1963.

Consumers directly or indirectly are the ultimate holders of most financial assets, and their net additions to such holdings in 1964 amounted to an unprecedented $47.7 billion. High and rising levels of income and the ready availability of credit to finance capital expenditures have made possible a rapid growth in their asset holdings. Throughout the current expansion, the growth in financial saving has been directed largely into interest-bearing

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rates on depositary-type savings. In the present expansion, this tendency has been delayed and greatly modified. Very large flows of saving to all depositary institutions, and particularly to commercial banks, occurred in 1962 after changes in Regulation Q raised the rates that banks were permitted to offer on time and savings accounts. These changes were followed by vigorous rate competition among all types of savings institutions. The result was the greatly expanded flows in depositary form. In 1964, as in 1963, consumer saving in this form continued at these advanced rates. Growth in time and savings deposits at commercial banks has been at a level below the peak reached in 1962, but net inflows of depositary-type savings at other institutions have continued to increase. With continuing availability of credit, yields in securities markets—particularly on longer-term instruments—have not risen relative to the returns available on depositary savings. Hence, the incentive for consumers to shift funds into market instruments has been reduced.

Nonbank institutional investors. A record amount of savings was made available to institutions for investment in 1964. Reserves of life insurance companies and of pension funds continued to grow by record amounts, and for depositary-type institutions the aggregate expansion in time and savings accounts also reached a new peak.

As in other recent years, life insurance companies competed vigorously for mortgages with the savings institutions that specialize in mortgage lending. During the year insurance companies increased their mortgage holdings by a record $4.4 billion, up sharply from a $3.7 billion rise a year earlier. Funds made available to business borrowers—largely on long-term bonds acquired through private placements—exceeded $2.6 billion, about the same as in 1963. Lending by insurance companies to foreign borrowers, both corporations and governments, decreased substantially. Holdings of short-term U.S. Government securities changed little, as compared with a substantial decline in 1963, but the liquidity of life insurance companies as a group remained

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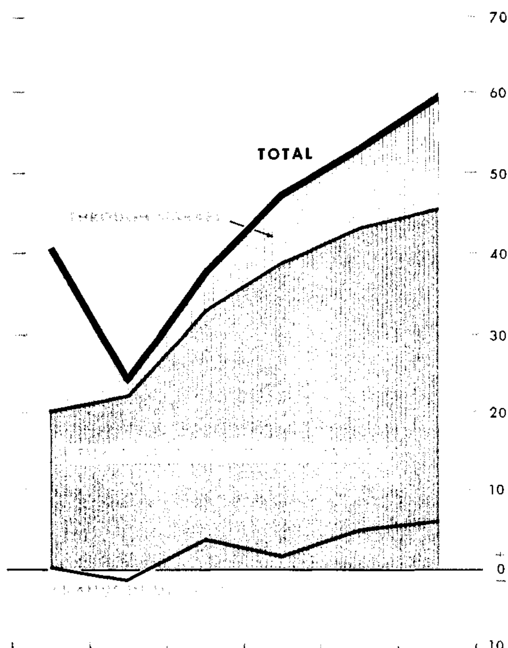
claims on depositary-type institutions. These increased by nearly $24 billion during 1964. At the same time, however, consumers added to their holdings of marketable securities. When allowance is made for the reduced amount of security credit used, the increase in such holdings amounted to nearly $8 billion, the largest increase since 1959.

During past cyclical expansions, consumers typically have shifted their saving toward the purchase of market instruments as rates of return on such instruments have risen more rapidly than



NOTE.—Flow of funds data. Saving through intermediaries includes time and savings accounts at commercial banks and other savings institutions and increase in private insurance and pension fund reserves.

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quite low. At the same time, advance commitments of funds to borrowers continued to climb.

In the first quarter of 1964, growth in savings shares at savings and loan associations fell far short of the record increase a year earlier, but thereafter inflows reached or exceeded the rates for comparable periods of 1963. At about $10.5 billion, the year's growth in share capital was slightly less than that recorded in 1963.

Despite the close comparability of their savings inflows in 1963 and 1964, mortgage lending by savings and loan associations declined to $10.2 billion in 1964. This was down nearly one-sixth from the peak volume in 1963, when associations augmented the funds made available by savers with a record rise in borrowing from the Federal home loan banks. This heavy borrowing was not repeated in 1964, although outstanding indebtedness edged up slightly further, and the liquidity position of savings and loan associations remained low by historical standards. The closer matching in 1964 of mortgage lending to savings inflows may have reflected in part some tightening both in standards applicable to borrowing from the Federal home loan banks and in lending policies of savings and loan associations.

Among depositary-type institutions mutual savings banks were the only ones that experienced a sharp increase in savings inflows in 1964. This favorable experience was accounted for in part by the permission granted New York savings banks at the beginning of the year to offer rates of return on savings more competitive with those available from other savings institutions. Net growth in deposits at all mutual savings banks increased by nearly one-third, to $4.3 billion, and for the first time in some years these banks were able to acquire a record volume of mortgages without drawing down liquidity reserves or reducing other types of asset holdings.

Commercial banks. Throughout the current expansion commercial banks have supplied an unusually large proportion of the total credit raised. This has been the counterpart of their ex-

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panded role as recipients of savings from the nonfinancial sectors, and it reflects the increased appeal of rates paid on time and savings deposits as well as the developing popularity of a new marketable, liquid instrument—the negotiable certificate of deposit. Although down considerably from peak rates of 1962 and early 1963, commercial banks' proportionate shares both of total new financing and of increases in depositary savings remained at high levels in 1964. The estimated dollar increase of $20.2 billion in total bank credit was the largest since the Korean War ended in 1953, though only moderately larger than the increases of 1962 and 1963.

Massive increases in time and savings deposits since 1961 are also responsible in part for the shifts that have taken place over the same period in the types of bank assets held. The rising cost of such deposits, along with the presumption that at least the savings deposit component of the total would be relatively stable, has led to increased emphasis by many banks on investment in longer-term, higher-yielding assets, including such capital market instruments as municipal bonds and mortgage loans.

Since 1961, holdings of securities other than U.S. Government obligations (principally State and local government bonds) have risen by three-fifths, and real estate loans have risen by more than two-fifths. Together, these two types of assets have accounted for close to one-half of the total expansion in bank loans and investments over the same period.

For 1964 as a whole, commercial banks added $3.6 billion to their holdings of State and local government obligations; in the second half the pace of their acquisitions rose sharply from the reduced level to which such investment had fallen in late 1963 and early 1964. Mortgage loans continued to rise substantially, though at a somewhat slower rate than in 1963—$4.4 billion in 1964, compared with a record $4.9 billion a year earlier.

Loans other than on real estate rose by $13.4 billion in 1964. Consumer loans increased by $2.8 billion, slightly less than in 1963. The rise in business loans amounted to $5.9 billion, con-

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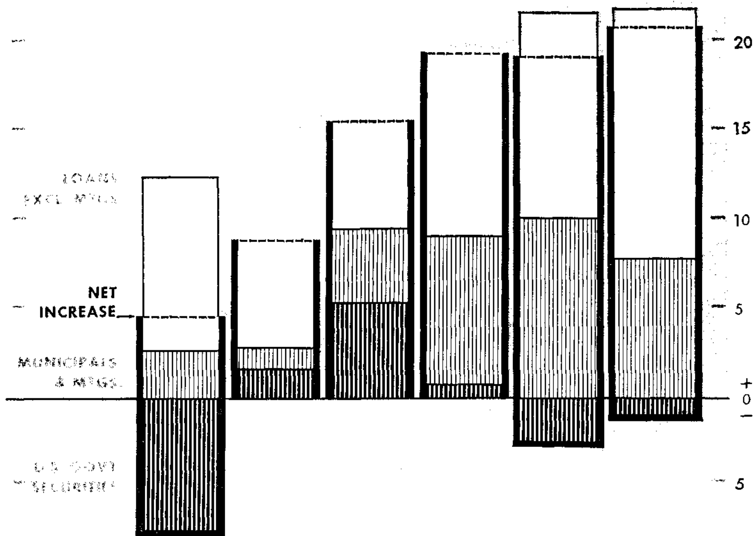
siderably more than in the preceding year. Domestic demand for business loans has been dampened in the current expansion, compared with previous cycles, by the larger internal flows of corporations and by more conservative management of inventories, but the share of the total loan expansion accounted for by busi-

RECORD '64 INCREASE in banks' earning assets reflects large loan expansion



NOTE.—Flow of funds data. Because of minor conceptual differences, totals shown differ slightly from figures given in text.

ness loans in 1964 was the highest in the last several years. In part, this resulted from increased lending by U.S. banks to foreign businesses. The total increase in bank credit extended to foreigners (including that to commercial banks abroad, which is

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not reported in the figure for bank credit expansion shown above) amounted to about $2 billion during 1964. This was a much larger rise than in any other recent year.

BANK LIQUIDITY AND RESERVES

Banks were able to satisfy the increasing demand for loans in 1964 and also to add substantially to their holdings of mortgages and municipal securities without much change, on balance, in their liquidity positions, as measured by the relationship of secondary reserves to deposits. Following a sharp decline in 1963, bank holdings of U.S. Government securities declined by an additional $1.0 billion, to a total of $62.4 billion at the end of 1964. For most of the year, holdings of Government securities maturing within 1 year declined, and conventional liquidity ratios fell as deposits expanded. Late in the year, however, banks added substantially to their holdings of short-term Government securities, and ratios based on these holdings at the year-end were actually slightly above those at the end of 1963. Total portfolios of Government securities maturing in less than 5 years declined further from year-end to year-end, but increased holdings of other securities supplied some additional liquidity because a sizable proportion of these are relatively short-term and reasonably marketable.

Loan-to-deposit ratios, customarily regarded as an inverse measure of liquidity, have continued to rise. During 1964 the ratio for all member banks reached a postwar high of 62 per cent in July and again toward the end of the year. While larger banks continue to carry more loans in relation to their deposits, the greater relative increase in loan-to-deposit ratios in recent years has been at the smaller banks. This suggests that an increasing number of banks are moving toward a fully loaned position and that future loan expansion therefore is likely to be tied more closely to the availability of additional reserves.

That banks were able to maintain their acquisitions of capital market assets at high levels while other loan demands were rising

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reflected not only the continuing rapid growth in deposits but also the availability of additional reserves to support such deposits. The increase in reserves during the year amounted to 4.2 per cent, compared with 3.5 per cent in 1963. As in other recent years, however, the greater growth in time deposits—which are subject to lower reserve requirements than demand deposits—permitted the relatively moderate increase in reserves to support a much larger proportionate expansion in commercial bank credit; in 1964, such credit rose by about 8 per cent.

On balance, the 1964 increase in reserves was supplied entirely by Federal Reserve open market operations. Excess reserves on the whole continued to exceed borrowings at the Reserve Banks, but by a falling margin, and free reserves therefore tended to decline over the year. After the discount rate was raised in late November, borrowing to obtain reserves became less attractive, since its cost exceeded that of liquidating short-dated Treasury bills; the consequent decline in borrowing, facilitated by Federal Reserve open market operations, raised the level of net free reserves.

MONEY AND LIQUID ASSETS

During 1964 the money supply—defined as currency plus demand deposits—rose by 4 per cent, slightly above the 1963 rate of expansion and the largest relative increase in any year since the Korean War. The growth rate over the course of the year, on a seasonally adjusted basis, was not uniform. It was well below the year's average early in the year and much above the average during June and July. Then the rate dropped back to slightly over 4 per cent for the rest of the year.

Compared with earlier periods, the recent rate of growth in the money supply appears to have become more closely tied to expenditures, income, and other factors producing changes in needs for money with which to transact business. Throughout the current economic expansion, individuals and businesses have greatly increased their reliance on time and savings deposits and other

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money substitutes for meeting liquidity needs. Funds have undoubtedly been shifted out of inactive demand deposits in the process, with the result that remaining balances have been more closely related to transactions needs. Thus, quickening rates of growth in the money supply during both 1963 and 1964 probably reflected the need for larger demand deposits to support an increasing volume of transactions, while a variety of events accounted for the short-run irregularities in the timing of increases.

A pick-up in demand deposits at reserve city banks during the summer and fall suggests that business firms, which had reduced their demand balances in 1962 and 1963, may have joined consumers in adding to their holdings of money. Since corporations are important holders of time certificates of deposit, the marked slowing since spring in the very rapid growth rate experienced by this type of deposit also seems consistent with such a development.

Turnover of demand deposits at 343 centers outside New York City continued to increase into early 1964, then became stable at a level somewhat above 35 times per year on a seasonally adjusted basis. For 1964 as a whole, turnover averaged about 6 per cent higher than in 1963.

Even at the less rapid rates of growth prevailing during most of 1964, time and savings deposits at commercial banks rose by $14.2 billion. The total outstanding at the year-end climbed to $126.5 billion on a seasonally adjusted basis. At this level it slightly exceeded for the first time the total of demand deposits held by the public. In the fourth quarter the expansion in time and savings deposits accelerated to a seasonally adjusted annual rate of 15.8 per cent, compared with an increase of 12.6 per cent for the year as a whole.

Increases were not uniform among types of deposit. For instance, savings accounts of the passbook type rose by 7.3 per cent at weekly reporting member banks in 1964, compared with a gain of 9.1 per cent in 1963. These are the deposits most directly affected by stiffer competition from other savings institu-

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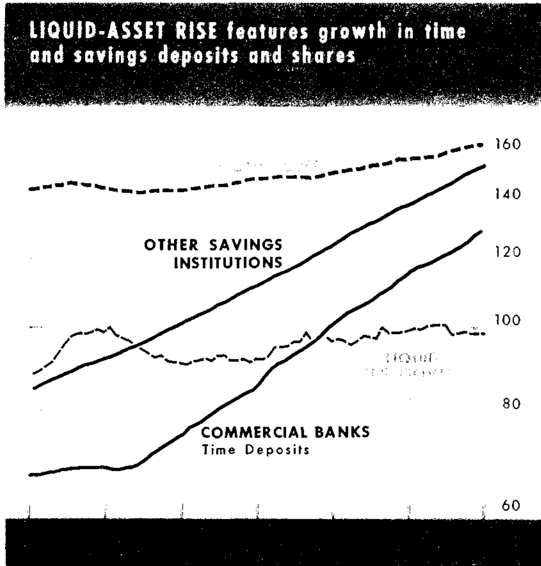
tions, particularly mutual savings banks, where rates paid on savings were increased at the beginning of the year. At other savings institutions growth rates on comparable types of individual saving were better maintained, and the year's increase of about 11 per cent in savings shares and deposits of all types combined nearly matched earlier rates of expansion.



NOTE.—Seasonally adjusted. Money supply and time deposits, monthly averages of daily figures. Other assets, end of period. Figures for money supply consist of: demand deposits at all commercial banks (except those due to domestic commercial banks and the U.S. Govt.); foreign demand balances at F.R. Banks; and currency in the hands of the public. For savings institutions: deposits of the nonbank public in mutual savings banks and the Postal Savings System and shares in savings and loan associations. For commercial banks: time and savings deposits, other than domestic interbank and U.S. Govt. For liquid U.S. Govts.: savings bonds and marketable securities (Treasury and Federal agency) maturing within 1 year held by investors other than (a) commercial and mutual savings banks, (b) U.S. Govt. agencies, and (c) beginning in February 1960, savings and loan associations.

Other time deposits at commercial banks continued to grow much faster than individual savings accounts. Time certificates of deposit, which compete directly with short-term market instruments, increased by about one-third during the year. This was less than half the 1963 rate, however. The growth in such deposits

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slowed in periods of peak corporate needs for cash, such as on tax and dividend dates, and at times when rising market yields increased the attractiveness of alternative investment outlets. After the November change in Regulation Q permitted yields on CD's that were competitive with those for 30- to 90-day market instruments, issuance of certificates in these shorter maturity ranges became feasible for the first time.

INTEREST RATES

During most of 1964, interest rates were generally stable. Market forces, however, caused some shifts in the relative attractiveness of competing outlets for funds.

Among liquid assets, the 3-month Treasury bill rate, which had advanced to around 3.50 per cent in July 1963, fluctuated around that level until November 1964, and the structure of yields on other short-term market instruments adjusted correspondingly. Except at mutual savings banks, rates offered on depositary accounts by most institutions leveled off after the successive upward adjustments of the preceding 2 years, but they remained competitive with alternative market yields available to individual and business holders.

Most long-term rates, which had moved up moderately during 1963, showed little further net change during 1964. Yields on U.S. Government bonds fluctuated in a narrow range and at the end of December were unchanged from a year earlier. For State and local government obligations, yields drifted downward after the spring. Secondary market yields on corporate bonds of highest quality rose somewhat, but yields on new issues fluctuated without trend. Yield variations for these issues depended for the most part on the marketability of particular issues.

Mortgage rates remained essentially unchanged in 1964, following a persistent decline from the beginning of 1960 to early 1963. The decline, which took place in the face of sharply increased mortgage credit expansion, had reflected both the heavy flow of savings to institutions specializing in mortgage lending

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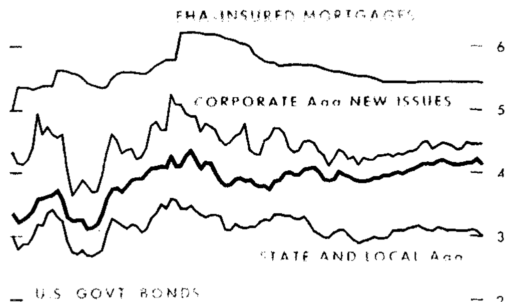
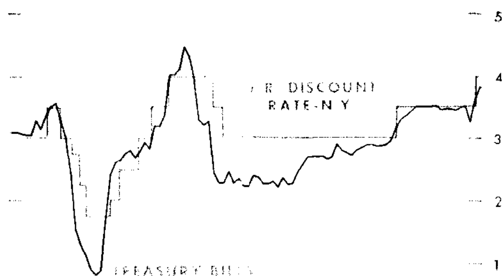
and the pressures felt by diversified lenders to find higher-yielding outlets for funds.

In 1964 commercial banks and savings and loan associations increased their mortgage portfolios less than in the preceding year, but there was a sufficient volume of mortgage money available to finance about the same aggregate volume of lending as in

LONG-TERM YIELDS changed little in 1964



but SHORT-TERM YIELDS rose sharply late in year



NOTE.—Monthly averages, except for FHA (based on quotation for 1 day each month). Yields on FHA mortgages are F.R. computations for average secondary prices reported by FHA; corporate bonds, weighted average of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to an Aaa basis; State and local govt. Aaa issues, from Moody's; U.S. Govt. bonds are issues maturing or callable in 10 years or more; Treasury bills, market yields on 3-month bills.

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1963, and at stable rates. Contributing to this stability was the neutral role played by the Federal National Mortgage Association; mortgage holdings of this agency changed little in 1964, following substantial sales to private lenders in the previous year.

The stability of interest rates was tested late in November when international financial developments led to the increase in the Federal Reserve discount rate and to higher maximum rates payable on time and savings deposits at commercial banks. Rates on short-term market instruments rose promptly, but by less than the discount rate increase, and for the month of December the yield on 3-month Treasury bills averaged 3.84 per cent.

The initial reactions among longer-term rates were less marked than those in the short-term market, and after a short period of uncertainty, yields on longer-term securities returned to the levels existing before the change in the discount rate. Indeed, yields on top-quality State and local government obligations later fell below 3 per cent, their lowest level for the year.

For 1964 as a whole, the term structure of interest rates was compressed further, reducing the already narrow spread between returns available on long- and short-term securities. At the same time, yield spreads among long-term instruments shifted somewhat during the year in response to supply factors and to the relatively stronger demand by investors for particular types of issues. As in other recent years, the combined result of market forces and regulatory action was to maintain the ready availability of funds for long-term borrowers while exerting further upward pressure to keep short-term rates competitive with those abroad.

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BALANCE OF PAYMENTS

The adverse payments balance of the United States in its transactions with the rest of the world remained large in 1964. Excluding special receipts such as advance payments on military sales and nonscheduled repayments of debt by foreign governments, it totaled $3 billion. A record surplus on current transactions in goods, services, remittances, and pensions was attained early in 1964 and was well maintained throughout the year. In the first half of the year, however, an exceptionally large increase in outflows of private U.S. short-term capital offset the gain in the current-account surplus, and the deficit totaled $900 million on a seasonally adjusted basis; this was about the same as the reduced rate of deficit in the last half of 1963. The deficit increased to more than $2 billion in the second half of 1964, mainly as a result of a further expansion in net outflows of private capital.

The further enlargement of the surplus on trade and other current transactions in 1964 testified to continuing progress in some of the adjustments necessary to reduce the payments deficit. Nevertheless these adjustments did not proceed fast enough to overcome the effects of rising outflows of private capital. The marked expansion in these outflows in 1964 was influenced by the increase of credit restraints abroad associated with cyclical changes in foreign business conditions, and possibly also by the uncertainties created by the sterling crisis, which emerged late in the year. The large outflows of private capital in 1964 also represented a continuation of the strong upward trend in such outflows in recent years. This trend has been aided by the heavy flow of savings and the more ready availability of credit in the United States and by the growing integration of international markets for money and credit. In summary, over-all progress toward achieving equilibrium in the balance of payments cannot yet be termed satisfactory.

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CURRENT-ACCOUNT TRANSACTIONS

Rapid increases in economic activity abroad in late 1963 and into early 1964 helped importantly to raise the U.S. current-account surplus to a record level of more than $7 billion in 1964. Merchandise exports reached a seasonally adjusted annual rate of $24.3 billion in the first half of 1964, one-seventh higher than a year earlier. As expansion in economic activity in industrial countries abroad slowed beginning in the spring, so too did the expansion of U.S. exports. But growing sales to Latin America and other nonindustrial countries helped to raise exports after the spring, and towards the end of the year exports to industrial countries began to pick up again. In the second half of the year, total exports averaged nearly $26 billion at a seasonally adjusted annual rate.

Merchandise imports began to rise again in the spring after having changed little in the latter half of 1963. For the year as a whole imports totaled $18.6 billion and were nearly 10 per cent higher than in 1963. The continuing expansion of imports—attributable largely to growth of domestic production and incomes—was one of the factors contributing to the higher payments deficit in the second half of the year.

Besides an increase in the trade surplus of $1.5 billion, income received from U.S. investments in foreign countries also was much higher in 1964. In recent years, growth in investment income has been rapid, reflecting the large outflows of U.S. capital into direct investments and other earning assets abroad. In 1964, net receipts on investments totaled $3.9 billion and were $600 million higher than in 1963.

PRIVATE CAPITAL MOVEMENTS

The net outflow of U.S. private capital in 1964 exceeded $6 billion and was nearly $2 billion more than in 1963. Net extensions of credit abroad by U.S. commercial banks were twice as large as in the preceding year, and they accounted for one-third of the total private capital outflows. By the early months of 1964 growing pressures of demand on productive resources in major in-

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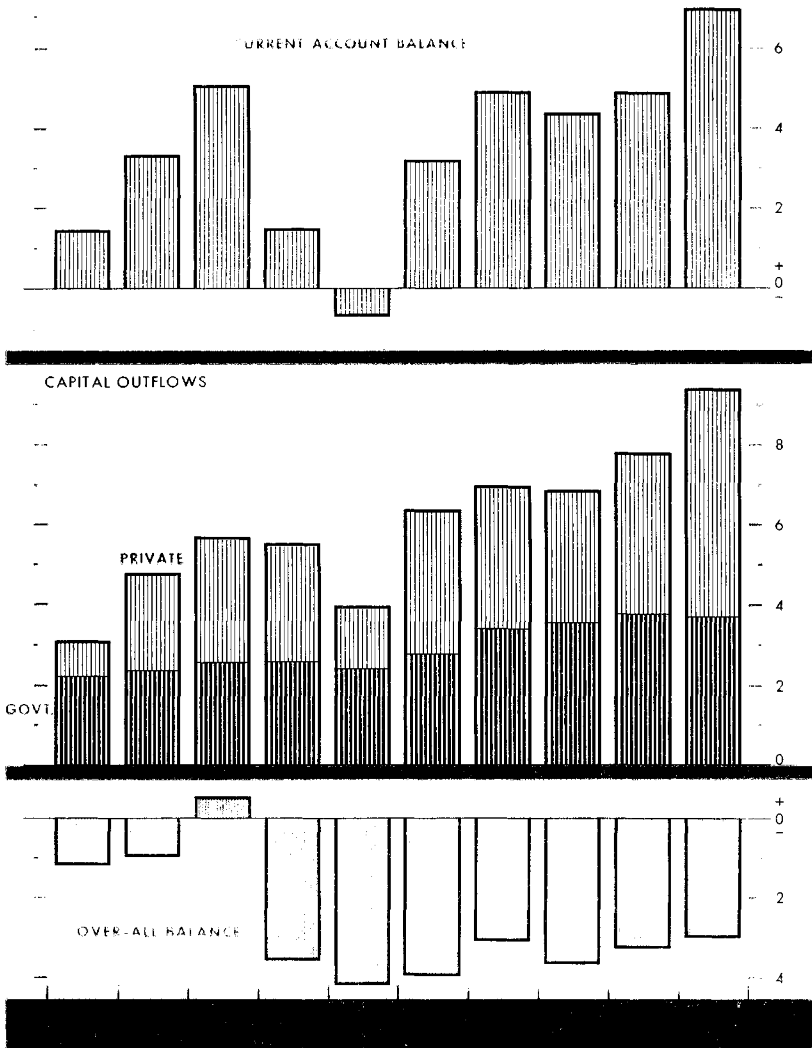

NOTE.—Over-all balance is the balance on regular types of transactions (Commerce Dept.) and equals difference between balances in upper panels, plus errors and omissions (unrecorded transactions and statistical discrepancies) not shown. Current-account balance equals balance on goods, services, and pensions and remittances. Net U.S. Govt. capital outflow includes grants and changes in associated U.S. liabilities, and excludes receipts from prepayments on U.S. Govt. loans. Private capital outflows are net of all foreign capital inflows other than changes in foreign liquid assets in United States. Data for 1964 are partly estimated by Federal Reserve.

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dustrial countries abroad had been reflected in higher and rising interest rates. In many instances, financial policies restricting the availability of credit—in order to curb internal price increases and drains on external reserves—were an important element in the upward movement of interest rates. At the same time, the continued relative availability of credit in this country facilitated the accommodation of increased foreign demands for bank loans and acceptance financing.

The rise in interest rates abroad attracted a large flow of U.S. short-term investment funds into time deposits with foreign commercial banks and into finance paper and other money market instruments abroad, especially in the first half of the year; the bulk of this short-term flow continued to be into assets denominated in U.S. dollars.

Outflows of liquid funds fell off in the second half of 1964, but lending to foreigners by U.S. banks continued at a rapid pace throughout the year, with a marked growth in outflow of term loans. The adaptation of term loans to the requirements of foreign borrowers has been an important influence in enlarging outflows of these loans.

Purchases by U.S. investors of new foreign security issues remained at moderate levels until the enactment of the interest equalization tax in September. A very large volume of Canadian issues, which were exempted from the tax, were then offered and placed in the fourth quarter. Some of these issues had been delayed until their exemption from the tax had become certain. As in the latter part of 1963, U.S. investors' purchases of outstanding foreign securities during 1964 were less than their sales of such securities.

In addition to larger outflows of long- and short-term bank credit and of short-term liquid funds, direct investments by U.S. corporations in foreign branches and affiliates increased further. There was also a large advance payment by U.S. power companies to Canada for future water benefits in the Columbia River basin.

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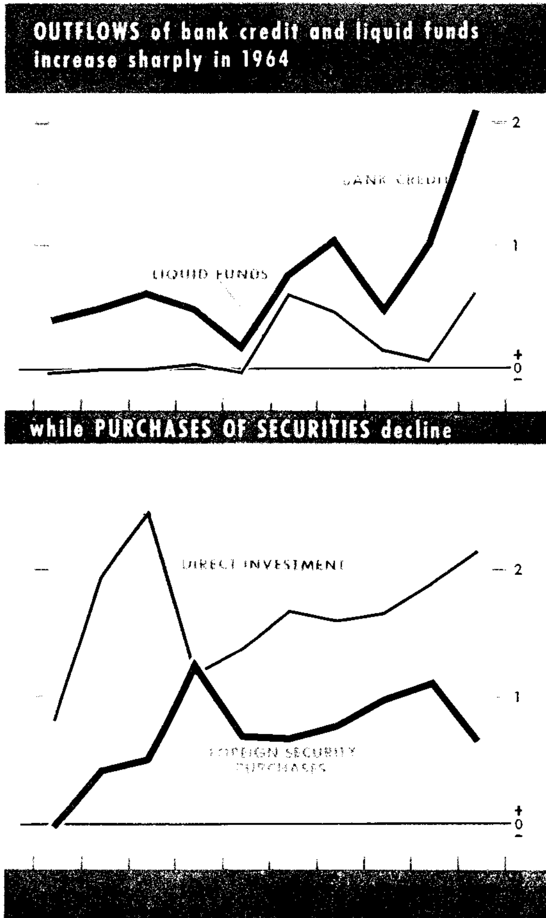
Accompanying the record outflow of U.S. private capital was a $1.5 billion increase in foreign private (and international institutions') holdings of liquid assets in the United States. This exceptionally large inflow of funds represented primarily inter-



NOTE.—Purchases of foreign securities include net purchases of new issues and of outstanding foreign securities by U.S. residents less redemptions. Bank credit includes long- and short-term loans and acceptance credits. Liquid funds include all short-term, foreign-currency-denominated claims on foreigners reported by banks and nonfinancial concerns in the United States; short-term, dollar-denominated claims (other than bank credits and collections outstanding) reported by banks; and short-term, dollar-denominated claims on Canada and the United Kingdom reported by nonfinancial concerns. Data for 1964 are partly estimated by Federal Reserve.

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bank balances. Part of the growth in these balances seems to have been associated with movements of foreign funds into Euro-dollar deposits held with commercial banks in other countries, including foreign branches of U.S. banks.

FINANCING THE DEFICIT

Official financing of the payments deficit by means of changes in U.S. reserve assets and in liabilities to foreign official institutions and through special intergovernmental transactions totaled $1.5 billion in 1964. This involved a reduction of only $125 million in the U.S. gold stock. The U.S. position in the International Monetary Fund decreased by $265 million, mainly because the United States made its first drawings on its quota in the IMF; the foreign currencies drawn were subsequently sold to countries making repayments to the Fund. U.S. official holdings of convertible currencies, on the other hand, increased by $220 million.

Besides this net decline in U.S. reserve assets, foreign official holdings of liquid dollar assets, including marketable U.S. Government securities, increased by $700 million while net purchases by foreign central banks and governments of nonmarketable U.S. Treasury bonds and notes denominated in foreign currencies totaled $340 million. Special transactions in the form of advance repayments on U.S. Government loans and of advance payments for U.S. military sales by foreign governments amounted to $280 million, far less than in preceding years.

The remaining portion of the deficit on regular transactions was financed by the net increase, mentioned earlier, of $1.5 billion in U.S. liquid liabilities to foreign private holders and international nonmonetary institutions. This was the largest increase in these liabilities since 1959.

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PART II

Records, Operations, and Organization

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FEDERAL RESERVE SYSTEM

RECORD OF POLICY ACTIONS OF THE BOARD OF GOVERNORS

January 29, 1964

Amendment to Regulation D, Reserves of Member Banks.

Effective January 29, 1964, Regulation D was amended by deleting the last sentence of Section 204.2(b): "The word 'banks' in the term 'due from other banks' refers to incorporated banks and does not include private banks or bankers."

> Votes for this action: Messrs. Martin, Balderston, Mills, Robertson, Shepardson, and Mitchell. Votes against this action: None.

This technical amendment was adopted to conform the terms of Regulation D to an interpretation, also adopted on January 29, 1964, in which the Board held, among other things, that the term "other banks" in Section 19, paragraph 11, of the Federal Reserve Act includes State-supervised private banks, and that balances due from such institutions therefore may be deducted by a member bank from its gross demand deposits in estimating required reserve balances.

August 24, 1964

Amendments to Regulation G, Collection of Noncash Items, and Regulation J, Check Clearing and Collection.

Effective September 1, 1964, Regulations G and J were amended in certain technical respects.

> Votes for this action: Messrs. Balderston, Mills, Robertson, and Daane. Votes against this action: None.

The purposes of the amendments were: (1) to provide that a Federal Reserve Bank in a State in which the Uniform Commercial Code is in effect shall receive the same warranties from send-

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ing banks in States in which the Code is not in effect as such Reserve Bank is required by the Code to give to banks to which it forwards items for payment; and (2) to make it clear that a Federal Reserve Bank sending items to another Reserve Bank does so subject to the same terms and conditions as those on which the items are sent by member banks and nonmember clearing banks to Federal Reserve Banks.

November 23, 1964

Increase of rates on discounts and advances by Federal Reserve Banks.

Effective November 24, 1964, the Board approved actions taken by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, and St. Louis establishing a rate of 4 per cent (an increase from 3½ per cent) on discounts and advances to member banks under Sections 13 and 13a of the Federal Reserve Act.

> Votes for this action: Messrs. Martin, Balderston, Mills, Shepardson, and Daane. Vote against this action: Mr. Robertson.

Pursuant to the policy established by this action, the Board subsequently approved the same rate for the remaining Federal Reserve Banks effective on the following dates:

Atlanta	November 25, 1964
Cleveland	November 27, 1964
Richmond	November 27, 1964
Dallas	November 27, 1964
San Francisco	November 27, 1964
Minneapolis	November 30, 1964
Kansas City	November 30, 1964

Effective on the same dates, the Board approved for the respective Federal Reserve Banks a rate of 4½ per cent on advances to member banks under Section 10(b) of the Federal Reserve Act. In addition, the Board approved increases at all of the Banks in rates on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of Section 13 of the Act.

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(In accordance with provisions of the Federal Reserve Act, the Federal Reserve Banks establish rates on discounts for and advances to member banks at least every 14 days, and submit such rates to the Board for review and determination. Prior to this date, no changes had been made in these rates since those referred to on pages 38-41 of the Board's ANNUAL REPORT for 1963.)

This action—aimed at preserving the strength of the dollar internationally—was taken within a matter of hours following announcement by the Bank of England of an increase in its discount rate from 5 per cent to 7 per cent, a move that the Bank of England had felt compelled to make in view of recent speculative pressures on the pound sterling in the foreign exchange markets. The increase in the Federal Reserve discount rate was in response to the increase in the Bank of England's discount rate and was designed to counter possible capital outflows from the United States that might be prompted by any further widening of the spread between interest rates in this country and those available in money centers abroad. While the discount rate increase therefore was prompted by international considerations, the Board in approving the discount actions taken by the directors of the respective Federal Reserve Banks noted the general strength and continued expansion of the domestic economy. It concluded that the domestic effects of the increase would not be deleterious and that the System should not delay in taking this step toward maintaining the international strength of the dollar.

Governor Robertson dissented because his analysis of both the domestic and the international financial situation suggested to him that such action was unwise and, in any event, premature. It was his view that while the increase in the British discount rate was necessary, an immediately following increase in the Federal Reserve discount rate (1) could not be justified on economic grounds, (2) might lessen the effectiveness of the British action, and (3) might trigger a ratcheting of rate increases in other countries.

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November 23, 1964

Amendment of Regulation Q, Payment of Interest on Deposits.

Effective November 24, 1964, the Board approved revision of the Supplement to Regulation Q to reflect the following actions:

An increase from 4 per cent to 4½ per cent in the maximum rate of interest permitted to be paid by member banks on time deposits with maturities of 90 days or more.

> Votes for this action: Messrs. Martin, Balderston, Mills, Robertson, Shepardson, and Daane. Votes against this action: None.

An increase from 1 per cent to 4 per cent in the maximum rate of interest permitted to be paid by member banks on time deposits with maturities of less than 90 days.

> Votes for this action: Messrs. Martin, Balderston, Mills, Shepardson, and Daane. Vote against this action: Mr. Robertson.

Elimination of the maximum rate of 3½ per cent on savings deposits that had remained on deposit for less than 12 months.

> Votes for this action: Messrs. Martin, Balderston, Mills, Robertson, Shepardson, and Daane. Votes against this action: None.

A maximum rate of interest of 4 per cent permitted to be paid by member banks on savings deposits.

> Votes for this action: Messrs. Martin, Balderston, Mills, and Daane. Votes against this action: Messrs. Robertson and Shepardson.

The action increasing the maximum rates of interest permitted to be paid by member banks of the Federal Reserve System on time and savings deposits was designed to insure that the flow of savings through commercial banks would remain ample for the financing of domestic investment, and in the case of time deposits also to insure that U.S. banks would have adequate leeway to compete for funds, including short-term money, that might otherwise be attracted abroad out of interest rate considerations.

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The increase from 4 per cent to 4½ per cent in the maximum permissible rate on time deposits of 90 days maturity or more was adopted as being of particular significance in enabling U.S. banks to retain or attract funds that otherwise might flow to money markets abroad. The increase to 4 per cent in the maximum rate payable on time deposits with maturities of less than 90 days was based on a conclusion that banks were under considerable competitive pressure to increase time deposit rates down to short maturities and that they should be permitted to accommodate their customers with shorter-term certificates of deposit at rates that would prove competitive. The 4 per cent maximum was believed to be realistic.

The decision to establish a maximum rate of 4 per cent on savings deposits, including those on deposit for less than 12 months, reflected a view that such a maximum rate would enable member banks to give some recognition to holders of savings deposits without disturbing unduly the prevailing relationships between rates paid on savings deposits by commercial banks and by savings institutions such as mutual savings banks and savings and loan associations. It was felt that a higher maximum rate might have the practical effect of compelling some banks to pay the maximum rate for competitive reasons against their own judgment. It was also suggested that a maximum rate higher than 4 per cent might tend to complicate Treasury financing problems. Elimination of the maximum rate of 3½ per cent on savings that had remained on deposit for less than a year also was favored on the ground that the split rate unnecessarily complicated bookkeeping procedures at member banks.

While Governor Robertson had opposed the increase in the discount rate, he joined the other members of the Board in a unanimous view that in light of the discount action, some change in the maximum interest rates permitted under Regulation Q was warranted by the need to prevent a run-off of time deposits. However, he dissented from the action increasing from 1 per

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cent to 4 per cent the maximum permissible rate on time deposits with maturities of less than 90 days, because he believed that a ceiling as high as 4 per cent for such maturity deposits would invite still more "hot" money into the banks and encourage the replacement of maturing certificates of deposit with new certificates of shorter original maturities, thus aggravating bank deposit volatility and pressures upon bank liquidity positions.

Governors Robertson and Shepardson favored an increase in the maximum rate on savings deposits to 4½ per cent, the same as the maximum permissible rate approved for time deposits with maturities of 90 days or more. They could see no justification for discriminating against small savers by prescribing a 4 per cent rate ceiling on savings deposits while authorizing a 4½ per cent rate on other time deposits held almost exclusively by large business concerns.

Simultaneously with the Board's action raising the permissible rates for member banks under Regulation Q, the Federal Deposit Insurance Corporation effected similar changes in its regulation applicable to nonmember insured banks.

December 16, 1964

Action with respect to capital accounts of the Federal Reserve Banks.

Effective December 31, 1964, the Board determined that the surplus of the Federal Reserve Banks should be maintained at a level equal to 100 per cent of the paid-in capital of the respective Banks rather than 100 per cent of subscribed capital.

> Votes for this action: Messrs. Martin, Balderston, Robertson, Shepardson, and Mitchell. Vote against this action: Mr. Mills.

Prior to 1933 the terms of the Federal Reserve Act required the Federal Reserve Banks to pay to the Government a franchise tax equal to 90 per cent of their earnings, after accumulation of surplus equal to subscribed capital (which is twice the amount of paid-in capital). The Congress eliminated this tax to enable the Reserve Banks to rebuild their surplus accounts after they

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paid half of their surplus ($139 million) for capital stock of the Federal Deposit Insurance Corporation, as provided in the Banking Act of 1933.

By the end of 1946 the surplus accounts of the Reserve Banks totaled $440 million and their subscribed capital $374 million. Consequently, the Board considered it appropriate to accomplish the same results as the franchise tax had accomplished, by establishing, under the authority of the fourth paragraph of Section 16 of the Federal Reserve Act, such rates of interest on outstanding Federal Reserve notes not covered by gold certificate collateral as would make it possible to transfer to the Treasury approximately 90 per cent of the earnings of each Federal Reserve Bank after payment of necessary expenses and statutory dividends, and after such provisions as might be necessary to restore the surplus of each Bank to 100 per cent of subscribed capital if it fell below that figure.

At the end of 1959 the combined subscribed capital of the Federal Reserve Banks stood at $777 million and combined surplus at $868 million. The Board's review of the situation resulted in a decision that the maintenance of surplus at a level equal to 100 per cent of subscribed capital would be sufficient to meet any foreseeable needs of the Reserve Banks. Accordingly, the 1959 payments to the Treasury as interest on Federal Reserve notes consisted of (1) all net earnings after dividends and after provision for building up surplus to 100 per cent of subscribed capital at those Banks where it was below that amount, and (2) the amounts by which surplus at the other Reserve Banks exceeded subscribed capital.

From the end of 1959 to December 16, 1964, the paid-in capital of the Federal Reserve Banks rose from $387 million to $522 million as a result of increases in the capital and surplus of member banks; it was apparent that at the end of 1964 the surplus of the Federal Reserve Banks would be slightly over $1 billion. After examination of the attendant circumstances, including the risks to which operations of the Federal Reserve Banks

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were currently subject, the Board concluded that the maintenance of surplus accounts of Federal Reserve Banks at an amount equal to their paid-in capital would be adequate. The Board therefore took steps the effect of which was to cause payments to the Treasury by the Federal Reserve Banks as interest on outstanding Federal Reserve notes for the year 1964 to total $1,582 million. This total consisted of all earnings after the payment of dividends and necessary expenses, plus amounts necessary to reduce surplus to the level of paid-in capital, instead of subscribed capital.

In dissenting from this action Governor Mills pointed out that the Federal Reserve Banks had been established as corporate entities, with capital accounts envisaged as a protective shield against risks. He considered the level of Reserve Bank capital funds not out of line with risks inherent in their operations, including the discount function and foreign currency transactions. While any impairment of capital resulting from losses could be restored from future earnings, this would be at the expense of payments that would otherwise be made to the Treasury.

December 16, 1964

Adoption of Regulation F, Securities of Member State Banks.

Effective January 1, 1965, the Board issued Regulation F pursuant to the provisions of the Securities Acts, Amendments of 1964.

> Votes for this action: Messrs. Martin, Balderston, Mills, Robertson, Shepardson, and Mitchell. Votes against this action: None.

Prior to enactment of the Securities Acts, Amendments of 1964, approved August 20, 1964 (Public Law 88-467), the "disclosure" requirements of the Securities Exchange Act of 1934 applied only to securities traded on exchanges. Under subsection 12(g) of the amended Act, these requirements were made applicable also to the issuer of a class of equity securities held of record by at least 750 persons (if the issuer had total assets exceeding $1 million), even though the equity security in question was traded on the "over-the-counter market" and not on a securities exchange. (After a lapse of 2 years, the Act will apply

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in any such case where a class of equity security is held of record by at least 500 persons.)

The amended Act applied to bank stocks as well as to the equity securities of other corporations, and administration of the new law, in its application to bank stocks, was placed with the three Federal bank supervisory authorities. The Board of Governors was given responsibility for implementing the law in its application to State banks that are members of the Federal Reserve System, and Regulation F was adopted pursuant to this responsibility. The regulation related to the registration of stock, filing of reports, solicitation of stockholder proxies, and disclosure of transactions in bank stocks by so-called "insiders."

Drafts of the Board's regulatory proposals were published in the *Federal Register* in August and September 1964, with an invitation for comments. Responses were received from representative groups of bankers, securities analysts, and accountants, as well as from a number of individuals and concerns. In announcing subsequently the adoption of Regulation F, the Board stated that "Further consideration of the preliminary proposals, in the light of suggestions received, resulted in a number of changes that are reflected in the regulation as now adopted. The Board recognizes, in addition, that experience in dealing with so new and complex an area may point to the need for further alterations, and it will be prepared to act expeditiously to remedy any deficiencies that may develop."

The Board further stated that "Of the Federal Reserve System's nearly 1,500 State-chartered member banks, it has been estimated that there are about 200 banks whose stock is held by a sufficient number of persons to require registration. In adopting the new regulation the Board has sought to assure investors of adequate information regarding bank stocks in accordance with the public disclosure principles of the Securities Exchange Act, and at the same time to avoid imposing unnecessary burden and expense on the reporting banks." Along with the new Regulation F, the Board issued instructions governing the form and content of required financial reports.

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RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

The record of policy actions of the Federal Open Market Committee is presented in the ANNUAL REPORT of the Board of Governors pursuant to the requirements of Section 10 of the Federal Reserve Act. That Section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee on all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its ANNUAL REPORT to the Congress a full account of such actions.

In the pages that follow, there are entries with respect to the policy actions taken at the 19 meetings of the Federal Open Market Committee during the calendar year 1964, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions, as reflected by the minutes of the Committee.

It will be noted from the record of policy actions that in some cases the decisions were by unanimous vote and that in other cases dissents were recorded. The fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy.

The policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account. Both the Manager of the System Open Market Account and the Special Manager of the Account for foreign currency operations attend the meetings of the Committee. In the area of domestic open market activities the Bank

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operates under two separate policy directives from the Open Market Committee—a continuing authority directive and a current economic policy directive. At the beginning of the calendar year the continuing authority directive in effect was as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the current economic policy directive adopted at the most recent meeting of the Committee:

(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account (including forward commitments, but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than $1 billion during any period between meetings of the Committee;

(b) To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $75 million or 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York;

(c) To buy U.S. Government securities with maturities of 24 months or less at the time of purchase, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities or acceptances in 15 calendar days or less, at rates not less than (a) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (b) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Govern-

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ment securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate ¼ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases; and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $500 million.

This directive was amended on several occasions during the year. As noted in the entries for the respective dates, the limit on changes in holdings of securities in the System Open Market Account during any period between meetings of the Committee, specified in paragraph (a) of Section 1, was raised to $1.5 billion on January 7, restored to $1 billion on February 11, and raised once more to $1.5 billion on March 3, where it remained throughout the rest of the year; certain clarifying revisions were made in the language of the preamble and paragraph (a) of Section 1 on March 3; and the limit on System Account holdings of bankers' acceptances, specified in paragraph (b) of Section 1, was increased from $75 million to $125 million on November 10.

The current economic policy directive was changed frequently during the year, as shown in the respective policy record entries. The current economic policy directive that was in effect at the beginning of 1964 instructed the Federal Reserve Bank of New York as follows:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the

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money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

In the foreign currency area, the Federal Reserve Bank of New York operates under (1) an authorization regarding open market transactions in foreign currencies, (2) a statement of guidelines for System foreign currency operations, and (3) a continuing authority directive on System foreign currency operations.

The authorization regarding open market transactions in foreign currencies in effect at the beginning of and throughout the year read as follows:

Authorization Regarding Open Market Transactions in Foreign Currencies

Pursuant to Section 12A of the Federal Reserve Act and in accordance with Section 214.5 of Regulation N (as amended) of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee takes the following action governing open market operations incident to the opening and maintenance by the Federal Reserve Bank of New York (hereafter sometimes referred to as the New York Bank) of accounts with foreign central banks.

I. Role of Federal Reserve Bank of New York

The New York Bank shall execute all transactions pursuant to this authorization (hereafter sometimes referred to as transactions in foreign currencies) for the System Open Market Account, as defined in the Regulation of the Federal Open Market Committee.

II. Basic Purposes of Operations

The basic purposes of System operations in and holdings of foreign currencies are:

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(1) To help safeguard the value of the dollar in international exchange markets;

(2) To aid in making the existing system of international payments more efficient and in avoiding disorderly conditions in exchange markets;

(3) To further monetary cooperation with central banks of other countries maintaining convertible currencies, with the International Monetary Fund, and with other international payments institutions;

(4) Together with these banks and institutions, to help moderate temporary imbalances in international payments that may adversely affect monetary reserve positions; and

(5) In the long run, to make possible growth in the liquid assets available to international money markets in accordance with the needs of an expanding world economy.

III. Specific Aims of Operations

Within the basic purposes set forth in Section II, the transactions shall be conducted with a view to the following specific aims:

(1) To offset or compensate, when appropriate, the effects on U.S. gold reserves or dollar liabilities of disequilibrating fluctuations in the international flow of payments to or from the United States, and especially those that are deemed to reflect temporary forces or transitional market unsettlement;

(2) To temper and smooth out abrupt changes in spot exchange rates and moderate forward premiums and discounts judged to be disequilibrating;

(3) To supplement international exchange arrangements such as those made through the International Monetary Fund; and

(4) In the long run, to provide a means whereby reciprocal holdings of foreign currencies may contribute to meeting needs for international liquidity as required in terms of an expanding world economy.

IV. Arrangements with Foreign Central Banks

In making operating arrangements with foreign central banks on System holdings of foreign currencies, the New York Bank shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee.

The Bank shall instruct foreign central banks regarding the investment of such holdings in excess of minimum working balances in accordance with Section 14(e) of the Federal Reserve Act.

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The Bank shall consult with foreign central banks on coordination of exchange operations.

Any agreements or understandings concerning the administration of the accounts maintained by the New York Bank with the central banks designated by the Board of Governors under Section 214.5 of Regulation N (as amended) are to be referred for review and approval to the Committee, subject to the provision of Section VIII, paragraph 1, below.

V. Authorized Currencies

The New York Bank is authorized to conduct transactions for System Account in such currencies and within the limits that the Federal Open Market Committee may from time to time specify.

VI. Methods of Acquiring and Selling Foreign Currencies

The New York Bank is authorized to purchase and sell foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the Stabilization Fund of the Secretary of the Treasury established by Section 10 of the Gold Reserve Act of 1934 and with foreign monetary authorities.

Unless the Bank is otherwise authorized, all transactions shall be at prevailing market rates.

VII. Participation of Federal Reserve Banks

All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G (1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

VIII. Administrative Procedures

The Federal Open Market Committee authorizes a Subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board of Governors (or in the absence of the Chairman or of the Vice Chairman of the Board of Governors the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate) to give instructions to the Special Manager, within the guidelines issued by the Committee, in cases in which it is necessary to reach a decision on operations before the Committee can be consulted.

All actions authorized under the preceding paragraph shall be promptly reported to the Committee.

The Committee authorizes the Chairman, and in his absence the Vice

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Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors:

(1) With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;

(2) To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities;

(3) From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Problems.

IX. Special Manager of System Open Market Account

A Special Manager of the Open Market Account for foreign currency operations shall be selected in accordance with the established procedures of the Federal Open Market Committee for the selection of the Manager of the System Open Market Account.

The Special Manager shall direct that all transactions in foreign currencies and the amounts of all holdings in each authorized foreign currency be reported daily to designated staff officials of the Committee, and shall regularly consult with the designated staff officials of the Committee on current tendencies in the flow of international payments and on current developments in foreign exchange markets.

The Special Manager and the designated staff officials of the Committee shall arrange for the prompt transmittal to the Committee of all statistical and other information relating to the transactions in and the amounts of holdings of foreign currencies for review by the Committee as to conformity with its instructions.

The Special Manager shall include in his reports to the Committee a statement of bank balances and investments payable in foreign currencies, a statement of net profit or loss on transactions to date, and a summary of outstanding unmatured contracts in foreign currencies.

X. Transmittal of Information to Treasury Department

The staff officials of the Federal Open Market Committee shall transmit all pertinent information on System foreign currency transactions to designated officials of the Treasury Department.

XI. Amendment of Authorization

The Federal Open Market Committee may at any time amend or rescind this authorization.

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The guidelines for System foreign currency operations in effect at the beginning of the year were as follows:

Guidelines for System Foreign Currency Operations

1. Holdings of Foreign Currencies

Until otherwise authorized, the System will limit its holdings of foreign currencies to that amount necessary to enable its operations to exert a market influence. Holdings of larger amounts will be authorized only when the U.S. balance of international payments attains a sufficient surplus to permit the ready accumulation of holdings of major convertible currencies.

Holdings of a currency shall generally be kept sufficient to meet forward contracts in that currency (exclusive of contracts made under parallel arrangements with foreign monetary authorities which provide their own cover) expected to mature in the following 3-week period.

Foreign currency holdings above a certain minimum shall be invested as far as practicable in conformity with Section 14(e) of the Federal Reserve Act.

2. Exchange Transactions

System exchange transactions shall be geared to pressures of payments flows so as to cushion or moderate disequilibrating movements of funds and their destabilizing effects on U.S. and foreign official reserves and on exchange markets.

In general, these transactions shall be geared to pressures connected with movements that are expected to be reversed in the foreseeable future; when expressly authorized by the Federal Open Market Committee, they may also be geared on a short-term basis to pressures connected with other movements.

Subject to express authorization of the Committee, the Federal Reserve Bank of New York may enter into reciprocal arrangements with foreign central banks on exchange transactions ("swap" arrangements), which arrangements may be wholly or in part on a standby basis.

Drawings made by either party under a reciprocal arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

The New York Bank shall, as a usual practice, purchase and sell authorized currencies at prevailing market rates without trying to establish rates that appear to be out of line with underlying market forces.

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If market offers to sell or buy intensify as System holdings increase or decline, this shall be regarded as a clear signal for a review of the System's evaluation of international payments flows. This review might suggest a temporary change in System holdings of a particular convertible currency and possibly direct exchange transactions with the foreign central bank involved to be able to accommodate a larger demand or supply.

Starting operations at a time when the United States is not experiencing a net inflow of any eligible foreign currency may require that initial System holdings (apart from sums that might be acquired from the Stabilization Fund) be purchased directly from foreign central banks.

It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions in order that System transactions do not conflict with those being undertaken by foreign monetary authorities.

3. Transactions in Spot Exchange

The guiding principle for transactions in spot exchange shall be that, in general, market movements in exchange rates, within the limits established in the International Monetary Fund Agreement or by central bank practices, index affirmatively the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public.

Temporary or transitional fluctuations in payments flows may be cushioned or moderated whenever they occasion market anxieties, or undesirable speculative activity in foreign exchange transactions, or excessive leads and lags in international payments.

Special factors making for exchange market instabilities include (i) responses to short-run increases in international political tension, (ii) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, or (iii) market rumors of a character likely to stimulate speculative transactions.

Whenever exchange market instability threatens to produce disorderly conditions, System transactions are appropriate if the Special Manager, in consultation with the Federal Open Market Committee, or in an emergency with the members of the Committee designated for that purpose, reaches a judgment that they may help to re-establish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified, curtailed, or eventually discontinued pending a re-assessment by the Committee of supply and demand forces.

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4. Transactions in Forward Exchange

Occasion to engage in forward transactions will arise mainly when forward premiums or discounts are inconsistent with interest rate differentials and are giving rise to a disequilibrating movement of short-term funds, or when it is deemed appropriate to supplement existing market facilities for forward cover as a means of encouraging the retention or accumulation of dollar holdings abroad.

Proposals of the Special Manager to initiate forward operations shall be submitted to the Committee for advance approval.

For such operations, the New York Bank may, where authorized, take over from the Stabilization Fund outstanding contracts for forward sales or purchases of authorized currencies.

The New York Bank may also, where authorized, purchase currencies through forward transactions for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements.

The New York Bank may further, where authorized, purchase and sell currencies through forward as well as spot transactions for the purpose of settling commitments denominated in one currency by means of utilizing the Bank's holdings of another currency.

5. Exchange Rates

Insofar as practicable, the New York Bank shall purchase a currency through spot transactions at or below its par value, and should lower the rate at which it is prepared to purchase a currency as its holdings of that currency approach the established maximum.

The Bank shall also, where practicable, sell a currency through spot transactions at rates at or above its par value, and should raise the rate at which it is prepared to sell a currency as its holdings of that currency approach zero.

Spot transactions at rates other than those set forth in the preceding paragraphs shall be specially authorized by the members of the Committee designated in Section VIII of the Authorization for Open Market Transactions in Foreign Currencies.

A revision was made in these guidelines at the meeting of October 20, 1964, as noted in the entry for that date.

The continuing authority directive with respect to foreign currency operations in effect at the beginning of 1964 was as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following

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currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed $2.05 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed $150 million equivalent at any one time:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor
Japanese yen

The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies in accordance with the Guidelines and up to a combined total of $150 million equivalent, by means of:

(a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
(b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies; and
(c) purchases through spot transactions and sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations.

The Federal Reserve Bank of New York is also authorized and directed to make purchases through spot transactions, including purchases from the U.S. Stabilization Fund, and concurrent sales through forward transactions to the U.S. Stabilization Fund, of any of the foregoing currencies in which the U.S. Treasury has outstanding indebtedness, in accordance

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with the Guidelines and up to a total of $100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

This directive was amended on two occasions during the year, as noted in entries for October 20 and November 24. The effects of the amendments were to specify an additional purpose for which forward transactions in foreign currencies were authorized and to modify the amounts of the dollar limits specified for foreign currency operations.

January 7, 1964

1. Authority to effect transactions in System Account.

As 1963 ended, economic activity was continuing to advance at a moderate pace, consumer prices were rising slowly further, and wholesale prices were little changed at about the level that had prevailed for 6 years. The unemployment rate had been relatively stable for 2 years; in 1963 it averaged 5.7 per cent of the civilian labor force and in 1962, 5.6 per cent. Stock market prices were at record levels, and interest rates on Government securities and high-grade corporate and municipal bonds were higher than a year earlier. For example, yields on longer-term high-grade bonds were up ⅛ to ¼ of a percentage point, and yields on 3-month Treasury bills were about ⅝ of a point higher. Not all interest rates had advanced, however; in particular, mortgage yields were little changed from their April levels and were below those of December 1962. Recent estimates suggested that the deficit in the U.S. balance of international payments was reduced appreciably in the second half of 1963 to an annual rate of about $1½ billion, and that the deficit for the year as a whole might have been below $3 billion. While still large, this would be the smallest deficit for any year since 1957.

Gross national product in the fourth quarter of 1963 was unofficially estimated at a $597-598 billion annual rate, 5½ per

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cent above a year earlier. Much of the recent strength in activity was attributable to high levels of consumer spending. After a slight dip in November, retail sales increased substantially to a record volume in December, as gains were recorded in all durable and most nondurable categories.

Business spending continued relatively cautious despite reportedly widespread optimism about the outlook. There had been some increase in the rate at which manufacturers increased inventories in October and November, but a survey indicated that they planned to reduce the rate of inventory accumulation in the first quarter of 1964. Business plans for fixed capital outlays called for little change from the record fourth-quarter level in the first quarter of the new year and a modest rise in the second quarter.

In the financial area, bank credit expansion in December was substantially smaller than in November, according to preliminary estimates. The seasonally adjusted money supply changed little from the first half of November to the first half of December, and growth in time and savings deposits appeared to have slackened markedly in December. Free reserves averaged about $150 million in the final 4 weeks of the year, compared with a little over $100 million in the preceding 4 weeks. Money market conditions on the whole were steadier than usual for this season of the year.

Yields on 3-month Treasury bills had fluctuated in a narrow range in December and early January, holding slightly above the 3½ per cent discount rate on most days in that period. Treasury note and bond yields edged up to new 1963 highs before leveling off late in December, and corporate bond yields reached their highest levels in over a year at the end of that month. It was reported that the Treasury might forego part of its anticipated January cash financing because of an unexpectedly strong cash position, and that it was actively considering an advance refunding in the immediate future.

Tentative weekly figures on U.S. international payments in

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December indicated a surplus of about $450 million in that month, and implied a fourth-quarter deficit at an annual rate even below the reduced third-quarter figure. While part of the December surplus may have represented temporary transfers of funds for window-dressing purposes, trade figures through November suggested that some of the recent improvement in the payments balance was due to higher exports. On the other hand, outstanding short-term bank loans to foreigners increased sharply in October and November.

Economic activity abroad continued to expand. Inflationary developments appeared to be threatening in a number of European countries and continued to be evident in less developed areas.

The Committee agreed that no change should be made in its monetary and credit policy at this meeting, although several members indicated that they would have favored some shift toward less ease at this time on both domestic and international grounds if Treasury financing had not been in immediate prospect. These members felt that the recent rates of growth in bank reserves, bank credit, money supply, and nonbank liquidity were greater than justified by the needs of the domestic economy and had contributed to the large volume of foreign lending by U.S. banks. They also noted that rising foreign interest rates associated with efforts of the authorities in several countries to curb domestic inflationary pressures might induce increased short-term capital outflows. Even taking the Treasury financing into account, these members felt that it would be appropriate to reduce free reserves from the somewhat higher levels of recent weeks and to counter any downward seasonal pressures on short-term interest rates.

Other members, emphasizing the absence of boom conditions and psychology, the continued high level of domestic unemployment, the broad stability of commodity prices, and the recent improvement in the payments balance, felt that a shift to less ease would be undesirable even apart from the prospective

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Treasury financing; they preferred to continue the current monetary policy as long as these circumstances obtained. For the immediate future, they saw no objection to somewhat lower short-term rates arising from seasonal or other market forces. Some members expressed the view that excessive stability in Treasury bill rates was undesirable on its own account.

The Committee's current economic policy directive to the Federal Reserve Bank of New York, as issued at this meeting, differed from that in effect at the beginning of the year only by the addition of a reference to Treasury financing in the second paragraph. It read as follows:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, and taking into account prospective Treasury financing, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Daane, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Vote against this action: Mr. Mills.

Mr. Mills dissented from this action because he believed that a somewhat more liberal provision of reserves would yield beneficial economic returns, without complicating the Treasury's financing program.

2. Amendment of continuing authority directive.

On recommendation of the Account Manager, Section 1(a) of the continuing authority directive to the Federal Reserve

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Bank of New York was amended to raise from $1 billion to $1.5 billion the limit on changes in holdings of securities in the System Open Market Account between meetings of the Committee. With this amendment, Section 1(a) read as follows:

(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account (including forward commitments but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than $1.5 billion during any period between meetings of the Committee.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Daane, Mills, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Votes against this action: None.

January 28, 1964

Authority to effect transactions in System Account.

Information available at this meeting confirmed earlier indications that the domestic economy had ended the year 1963 on a strong note, and scattered data for January suggested that activity was continuing to expand. GNP in the fourth quarter was now estimated at a $600 billion annual rate, a little higher than previous estimates. Prospects for a Federal income tax reduction early in 1964 recently had improved. However, businessmen's announced spending plans suggested quiet optimism rather than exuberance, and a substantial volume of unutilized resources was still available for further expansion.

Industrial production increased about one-half of a percentage

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point in December but still was only fractionally above the level reached in July. Nonfarm employment also rose, but the unemployment rate in December was 5.5 per cent, the same as a year earlier. Retail sales advanced in December, and weekly reports for early January indicated that sales were holding close to the advanced December rate.

The weekly index of wholesale prices edged up in early January as some industrial prices strengthened and earlier sharp declines in livestock and meat prices were followed by some recovery. Over-all, however, wholesale prices remained in the narrow range that had prevailed for several years. Stock market prices rose further in January on large trading volume.

Seasonally adjusted bank credit apparently continued to expand in early January but at a much slower rate than in the preceding 2 months. The money supply and time and savings deposits both rose substantially further. Free reserves fluctuated widely from week to week, but it appeared that the January average would be about $150 million, not much different from December.

The yield on 3-month Treasury bills had edged down slightly since the preceding meeting to 3.50 per cent, the same as the discount rate. The Treasury's recently completed advance refunding had little effect on yields on Government bonds, which were relatively stable near the levels reached at the year-end. Yields on new corporate bonds had eased recently from the highs recorded earlier in the month, and municipal yields also declined somewhat. It was reported that the Treasury would announce shortly the terms of its February refunding.

The consensus of the Committee at this meeting favored no change in monetary and credit policy. Among the reasons advanced by different members were the imminent Treasury financing, the lack of any significant change in the economic and financial situation, and the advantages seen in maintaining the present policy posture until the effects of the impending Federal tax cut could be observed. Some members noted that they con-

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tinued to be concerned about recent rapid rates of growth in bank reserves, bank credit, and nonbank liquidity, and about actual and potential price developments.

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

> It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.
>
> To implement this policy, and taking into account an imminent Treasury refunding, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Votes against this action: None. Abstaining: Mr. Mills.

Mr. Mills abstained because he felt that he could not subscribe to a policy directive that called for "no change" when in reality fluctuations in the supply of bank reserves in his judgment had signaled policy changes that were unrecognized in the directives.

February 11, 1964

1. Authority to effect transactions in System Account.

New data available since the previous meeting of the Committee reflected further improvement since the beginning of the year in the balance of payments, continuing high levels of domestic business activity, and stability in broad commodity price indexes. Business plans for 1964 now called for plant and equip-

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ment outlays 9 per cent higher than in 1963, according to a special private survey taken in January. In October the same survey had indicated that 1964 outlays would be 4 per cent above the 1963 level.

There were no significant changes in January in industrial production, nonfarm employment, or the unemployment rate. Retail sales also were little changed from the advanced December level. Industrial commodity prices remained firm, and prices of farm products and foods increased from their low December level. Stock market prices rose further to new highs.

Bank credit declined a little more than seasonally in January following a period of vigorous growth in late 1963. Most categories of loans showed only moderate increases, and the expansion in total loans was more than offset by reductions in bank holdings of securities, particularly Treasury securities. The seasonally adjusted money supply declined in the second half of the month, after rising substantially in the first half. Time deposits expanded more in January than in other recent months, largely because of a sharp pick-up in negotiable time certificates of deposit outstanding.

In security markets, the yield on 3-month Treasury bills remained at or slightly above the discount rate. Treasury bond prices had firmed somewhat recently as investor demand improved under a combination of influences, including lower-than-anticipated estimates of Federal expenditures for the fiscal year 1965, statements by Federal officials suggesting that they expected bond yields to remain relatively stable in the period ahead, and the continued improvement in the balance of payments. Corporate security prices also were stronger than earlier. The volume of new corporate security issues, including private placements, was relatively large in January, but public offerings were light, as is usual early in the year.

Tentative figures indicated that in January the deficit in the U.S. balance of payments was at a rate slightly below the reduced level of the second half of 1963. Cyclical expansion under way

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in most industrialized foreign countries apparently was maintaining its momentum at the year-end.

The Committee agreed that its recent monetary and credit policy remained appropriate in view of the continued high rate of unemployment and the lack of immediate inflationary pressures domestically, and the reduction in the balance of payments deficit internationally. It was noted, however, that the improvement in the payments balance might later prove to have been temporary, and that price developments warranted close watching in light of the present state of business optimism and the likely expansionary effect of the prospective Federal tax reduction. It also was noted that the tax cut might have been anticipated to some extent by spenders and investors, and that the magnitude and timing of effects still to come were highly uncertain. Several members expressed the view that it would be inappropriate to modify policy in the direction of less ease at present in the absence of clear and convincing evidence of the need for such a change.

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

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Daane, Irons, Mitchell, Robertson, Scanlon, Shepardson, and Treiber. Votes against this action: None. Abstaining: Mr. Mills.

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Mr. Mills abstained on the same grounds as at the preceding meeting.

2. Amendment of continuing authority directive.

The Account Manager suggested that under present conditions the continuing authority directive to the Federal Reserve Bank of New York, which had been amended on January 7, 1964, to raise from $1 billion to $1.5 billion the limit on changes in the System Open Market Account holdings of securities in the period between meetings of the Committee, might appropriately be changed to restore the former figure of $1 billion. Accordingly, the Committee amended Section 1(a) of that directive by inserting "$1 billion" and deleting "$1.5 billion."

> Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Daane, Irons, Mills, Mitchell, Robertson, Scanlon, Shepardson, and Treiber. Votes against this action: None.

March 3, 1964

1. Authority to effect transactions in System Account.

Attention was focused at this meeting on two developments of major importance: (1) enactment on February 26 of legislation reducing Federal tax rates on personal and corporate incomes, effective as of the first of the year, and reducing withholding rates on personal incomes from 18 to 14 per cent, effective March 5; and (2) an increase on February 27 from 4 to 5 per cent in the discount rate of the Bank of England.

These events occurred against a background of strength in the domestic economy, a high degree of consumer and business confidence in economic prospects, and further improvement in the U.S. balance of payments. At the same time, commodity price averages were relatively stable, unemployment continued

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high, and industrial capacity was being used at less than optimum rates.

In Government securities markets the initial reaction was quite mild both to the tax cut, which had been long anticipated, and to the increase in the Bank of England discount rate. Yields on intermediate- and longer-term issues rose slightly, and the 3-month Treasury bill rate moved up to 3.60 per cent from the levels closer to the 3½ per cent discount rate that had prevailed for several months.

At commercial banks, credit expansion appeared to have resumed in February after a small decline in January, according to the seasonally adjusted figures. The February expansion was relatively large, and the annual rate of growth for the first 2 months of the year probably was close to the 8 per cent average rate of increase in 1963. Preliminary figures indicated that the money supply had drifted down somewhat further from the early January high, but that it was 4 per cent above a year earlier. Savings deposits at commercial banks had tended to grow less vigorously since the first of the year than earlier, but the expansion in time deposits, including negotiable certificates, continued rapid. Preliminary figures indicated that free reserves in February averaged about $100 million, somewhat below the average levels of December and January.

Although the volume of new private security issues was fairly light in February, yields on new corporate issues had been under some upward pressure in recent weeks. In part this reflected renewed market discussions of the possibility of higher interest rate levels in coming months.

Tentative figures on the U.S. balance of payments in February suggested that the deficit in that month was below the reduced January level despite a sizable increase in domestic acquisitions of foreign bonds. Through December the U.S. trade balance was continuing to improve, and in January imports were relatively stable for the eighth month in a row.

The Committee agreed that it was too early to assess the

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effects of either the tax cut or the increase in the Bank of England discount rate on the domestic economy and the U.S. balance of payments, and that no change in monetary policy was in order at present. It now appeared that the uncertainties about the domestic outlook related mainly to the pace at which the economy would advance over coming months rather than to the question of whether it would advance. The ultimate effects of the tax cut on the international payments balance seemed likely to be mixed. On the one hand, rising levels of domestic output might lead to increased imports and thus reduce the recently highly favorable trade balance. On the other hand, improved business activity might dampen net capital outflows even in the absence of a significant rise in domestic interest rates, by increasing the attractiveness of investment in this country to both domestic and foreign investors. The main threat to continued favorable developments in the balance of payments appeared to be posed by the possibility of larger outflows of volatile funds in response to interest rate increases abroad. As yet, however, there was no indication of any movement of short-term funds from the United States to Great Britain as a result of the discount rate action of the Bank of England and the associated increases in market rates in London.

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

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources, and that it is likely to receive additional stimulus from the recently enacted reduction in Federal income tax rates. This policy also takes into account the fact that the balance of payments position is still adverse, despite a tendency to reduced deficits, and that the effects of increases in money rates in important European countries are as yet uncertain. In addition, it recognizes the increases in bank credit, money supply, and the reserve base of recent months.

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To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Mills.

Mr. Mills dissented because he interpreted the statistics reflecting developments in bank reserves since the beginning of February as indicating that the Committee had moved to a more restrictive credit policy under successive directives that called for "maintaining about the same conditions in the money market as have prevailed in recent weeks." He felt that repeating this language in the directive issued at the present meeting would indicate a definite shift toward a restrictive credit policy, which in his opinion was objectionable.

2. Amendment of continuing authority directive.

The Committee amended the preamble and paragraph (a) of Section 1 of its continuing authority directive to the Federal Reserve Bank of New York with respect to transactions in U.S. Government securities, repurchase agreements, and bankers' acceptances (1) to increase from $1 billion to $1.5 billion the limit on changes in holdings of U.S. Government securities in the System Open Market Account between meetings of the Committee, and (2) to clarify the language of this part of the directive. The language of the directive previously in effect is set forth in the preface to this record of Federal Open Market Committee policy actions for 1964. As amended, the preamble and paragraph (a) of Section 1 of the directive read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent current economic policy directive adopted at a meeting of the Committee:

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(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account at the close of business on the day of a meeting of the Committee at which action is taken with respect to a current economic policy directive shall not be increased or decreased by more than $1.5 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mitchell, Shepardson, Shuford, Swan, and Wayne. Votes against this action: Messrs. Mills and Robertson.

The increase in the dollar limit on changes in security holdings was made on the recommendation of the Account Manager. The limit of $1 billion originally had been adopted on June 22, 1955, when the executive committee of the Federal Open Market Committee, to which the full Committee formerly had issued its directives, was abolished. Since 1955 the amplitude of fluctuation in market factors affecting member bank reserves and, consequently, in System Account holdings of Government securities, had increased considerably. On several occasions, most recently on January 7, 1964, the Account Manager had reported that greater leeway probably would be required over the period immediately ahead, and the Committee temporarily had increased this limit from $1 billion to $1.5 billion. Because it seemed likely that the greater leeway would be required more often in the future, it appeared desirable to provide for the larger limit on a continuing basis.

With respect to the language changes, it was noted that certain phrases in the directive previously in effect were susceptible to differing interpretations; that the beginning and the end of the period to which the restriction applied were not specified as

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precisely as desirable; and that the Committee's intent regarding operations following a meeting at which no action was taken with respect to a current economic policy directive (such as at the meeting held on June 21, 1962) was not clear. The language revisions were made for purposes of clarification on these points and were not intended to affect the substance of the directive.

In dissenting from the action on the continuing authority directive, neither Mr. Mills nor Mr. Robertson expressed objections to the increase in the dollar limit or to the revisions in language. Mr. Mills dissented because he favored resumption of the directive procedure that had been in effect prior to December 19, 1961, when the Committee had issued a single directive at each meeting rather than the separate "continuing authority" and "current economic policy" directives that had been employed since that date. He thought that in the earlier, single directive the Committee's intent with respect to current policy had been expressed more clearly in clause (b) of paragraph 1 than it was in the current economic policy directives of the present type. Mr. Robertson dissented because he felt that the present continuing authority directive provided inadequate restrictions on, and guidelines for, operations in the System Open Market Account.

3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1964, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The action taken with respect to the continuing authority directive for domestic open market transactions has been described in the preceding portion of the entry for this date.

The Committee reaffirmed its authorization regarding open market transactions in foreign currencies, its guidelines for System foreign currency operations, and its continuing authority

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directive on foreign currency operations, in the form in which all three were outstanding at the beginning of the year 1964, as set forth in the preface to this record of policy actions.

Votes for these actions: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against these actions: None.

March 24, 1964

Authority to effect transactions in System Account.

Reports at this meeting indicated that the economy continued to show moderate upward momentum. The industrial production index rose by about one-half of a percentage point in February to a level 6 per cent above a year earlier. Both total employment and the labor force increased, and the unemployment rate declined slightly to 5.4 per cent from 5.6 per cent in January. Retail sales reached a new high in February, 4 per cent above a year earlier. Sales in the first 2 weeks of March maintained the same moderate gain over the year-earlier level and did not show any significant immediate response to the reduction in the withholding tax rate, effective March 5.

The Commerce–SEC survey of business plant and equipment expenditure plans for 1964, taken in February, confirmed earlier indications by a private survey of a larger increase in outlays this year than expected earlier. The Government survey indicated that these outlays would be 10 per cent above their 1963 level, a gain of about twice that of the previous year. However, businesses were continuing to follow conservative inventory policies; inventories declined in January from levels that were already unusually low relative to sales.

Indexes of wholesale prices continued stable despite increases for a number of commodities, particularly nonferrous metals. The average for industrial commodities in February and early

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March was about 0.5 per cent higher than a year earlier and little changed from 2 years or 3 years earlier. The consumer price index in January was up 1.6 per cent from January 1963. Stock market prices continued to rise in early March.

Commercial bank credit expanded considerably more than seasonally in the first 3 weeks of March, according to data for city banks. The largest gains were in short-term Government security holdings and in loans to security dealers and finance companies; business loans apparently rose less than usual. The seasonally adjusted money supply increased in the first half of March, bringing the annual rate of growth so far this year to 3.4 per cent compared with 3.8 per cent in 1963 as a whole. Time and savings deposits rose moderately in the same period.

Short-term financial markets took the March tax-date pressures in stride. The yield on 3-month Treasury bills edged lower in the first week of the month and remained relatively stable over the following 2 weeks in the range of 3.53-3.56 per cent, as the market gained confidence that the increase in the Bank of England discount rate would not be followed immediately by a trend toward tighter monetary conditions in this country. In longer-term markets, prices of Treasury, State and local government, and corporate bonds tended lower in recent weeks. Yields on intermediate- and long-term Governments moved to their highest levels since early 1960, partly as a result of market expectations that rates probably would be moving upward in coming months. It was reported that the Treasury was considering an offering of securities for cash, with payment scheduled toward the end of the first week in April.

The latest balance of payments figures suggested that the United States was making unexpectedly rapid progress in reducing its international deficit. Tentative figures for the first 3 weeks of March showed a substantial surplus and raised the possibility that payments for the first quarter as a whole might approach balance for the first time since 1957.

The Committee agreed that neither domestic nor international

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considerations called for a change in monetary and credit policy at this time, and that in any case it was desirable to maintain an "even keel" in the money markets in view of the probable Treasury financing. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, money supply, and the reserve base, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources, and that it is likely to receive additional stimulus from the recently enacted reduction in Federal income tax rates. This policy also takes into account the facts that the balance of payments position, while improved, may still be adverse, and that the effects of increases in money rates in important countries abroad are as yet uncertain. In addition, it recognizes the imminence of new cash borrowing by the Treasury.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Mills.

Mr. Mills dissented from this action because the directive instructed the Account Management to maintain about the same conditions in the money market as had prevailed in recent weeks, and in his judgment these conditions had moved toward restriction rather than expansion, as evidenced by the increases in longer-term interest rates. He thought higher interest rates were unwarranted and would lead observers to conclude that the System was already moving to counteract price and credit excesses which it foresaw. Such interpretations, he felt, should be promptly corrected by increasing the supply of reserves to a level that would give reasonable encouragement to credit expansion.

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April 14, 1964

Authority to effect transactions in System Account.

The data available to the Committee at this meeting did not suggest a quick response by consumers to the early March reduction in income tax withholding rates. Retail sales in that month were below the record February level as sales of durable goods, including new autos, declined and sales of nondurable goods were unchanged.

Other information for March suggested little change from the recent pattern of moderate business expansion. The unemployment rate remained at 5.4 per cent, wholesale commodity price averages continued stable, and the industrial production index again rose by one-half of a percentage point. Revised business inventory figures for January showed a rise rather than the decline previously reported, but preliminary figures for February indicated no further increase, and stock–sales ratios were below their relatively low fourth-quarter average.

Bank credit expanded substantially in March; in the first quarter as a whole it rose at an annual rate of about 11 per cent, compared with 8 per cent in the full year 1963. However, first-quarter growth rates in the privately-held money supply and in commercial bank time and savings deposits were somewhat below those recorded during 1963. These differential movements reflected mainly a recent sizable increase in Government deposits. Among the components of bank credit, first-quarter rates of increase in business loans and in holdings of municipal and Federal agency issues were considerably below those of 1963. On the other hand, the rate of increase in loans other than business loans stepped up in the first quarter, and banks acquired a substantial volume of Government securities after reducing their holdings during 1963.

Free reserves of member banks averaged about $100 million in March, little changed from February, but they were higher in the latter part of the month and in early April.

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In security markets, yields on corporate and municipal issues had stabilized in recent weeks at levels close to the highs reached around the turn of the year. However, yields on Treasury notes and bonds—particularly those of intermediate maturity—declined, and rates on 3-month Treasury bills fell below the 3½ per cent discount rate for the first time since early December. The volume of new corporate security offerings was expected to be at a record level in April as a result of an unusually large corporate stock issue. State and local government offerings also were expected to increase sharply.

A substantial surplus was recorded in the U.S. balance of payments in March, according to tentative figures. It appeared possible that a small surplus would be shown for the first quarter as a whole, although this was not yet certain. The improvement occurred despite a continued large volume of short-term bank loans and acceptance credits to foreigners. It apparently was due to a large surplus on trade account, near balance in flows of portfolio capital, and a decline in net Government expenditures abroad. Various projections suggested that the payments balance would deteriorate somewhat over the rest of the year but that it would still show improvement relative to 1963.

The Committee concluded that its recent policy remained appropriate in light of the continued moderate pace of the domestic economic advance and the improvement in the U.S. international payments position. Another factor influencing this conclusion was the expectation that the Treasury would be announcing the terms of its May refunding in about 2 weeks. Some members felt that money market conditions had been unduly easy in the period since the last meeting, as evidenced, among other ways, by the recently higher level of free reserves and the decline in the Treasury bill rate. These members, who were in the minority, advocated open market operations with a view to attaining slightly firmer conditions.

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

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It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, money supply, and the reserve base, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources, and that it is likely to receive additional stimulus from the recently enacted reduction in Federal income tax rates. This policy also takes into account the facts that the balance of payments position, while improved, may still be adverse, and that the effects of increases in money rates in important countries abroad are as yet uncertain.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Daane, Mills, Mitchell, Shuford, Swan, Wayne, and Treiber. Votes against this action: Messrs. Balderston, Hickman, and Shepardson.

Mr. Hickman dissented from this action because he thought the implementation of policy since the preceding meeting had produced easier money market conditions than the Committee had intended. In his judgment present conditions were inconsistent with the best interests of the U.S. economy in view of current business optimism, earlier growth rates in member bank reserves, and the threat of increased capital flows abroad. Mr. Shepardson noted that consumer prices were continuing to drift upward and that the margin of excess industrial capacity had been reduced significantly. He thought the economy was close to a point where there could be significant upward pressures on prices and that continuation of the current posture of ease might necessitate drastic action later. Accordingly, he favored a moderate reduction from the recently prevailing degree of ease in order to put the Committee in a better position to cope with any inflationary pressures that might develop. Mr. Balderston indicated that he shared the concerns expressed by Messrs. Hickman and Shepardson.

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May 5, 1964

Authority to effect transactions in System Account.

The latest information continued to indicate that business activity was expanding at a moderate, sustainable pace. GNP in the first quarter, according to preliminary estimates, was at an annual rate of $608.5 billion. It exceeded GNP in the fourth quarter of 1963 by an amount about equal to the average quarter-to-quarter increase during 1963. However, the gain from the fourth quarter of 1963 to the first quarter of 1964 was less than the preceding quarterly increase because of a reduction in the rate of business inventory investment. First-quarter profits of manufacturing corporations, aided by stable unit labor costs, firm prices, and expanding volume, were considerably larger than in the first quarter of 1963.

Business confidence continued high. A private survey taken in March and early April of business plans for new plant and equipment outlays in 1964 showed an increase of better than 12 per cent from 1963, compared with a 9 per cent rise reported in a comparable survey in January. However, the new figure was not believed to have implications significantly different from those of the 10 per cent increase shown by the February Commerce–SEC survey because of differences in methodology and coverage of the two canvasses.

Industrial production, according to early indications, probably rose further in April. On the other hand, retail sales data through the third week in April showed a small further decline from the moderately reduced March level. The broad wholesale price averages continued to change little. Common stock prices edged up to a new peak in mid-April, but then declined about 1 per cent.

Data for city banks suggested that the rate of bank credit expansion moderated in April. U.S. Government deposits were reduced sharply, and the growth rate in time deposits continued to taper off. The privately held money supply grew substantially

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in April after showing no net change from January through March.

Most financial markets reflected the lack of ebullience evident in nonfinancial areas. Many investors had expected that interest rates would rise significantly after the tax cut as a result of strong credit demands, but developments thus far had failed to bear out these anticipations. Long-term bond yields changed little in recent weeks, yields on intermediate-term Treasury securities declined further, and the 3-month Treasury bill rate fluctuated in a range of 3.44-3.49 per cent.

On April 29 the Treasury announced an exchange offering for the $10.6 billion of obligations maturing May 15, in which holders of rights would be given the option of an 18-month note or a 10-year, 4¼ per cent bond.

Tentative weekly data on the U.S. balance of payments in April suggested a deficit of about the same order of magnitude as the March surplus. For both months, the figures apparently were influenced by movements of liquid funds from and to Canada. It appeared that the deficit for the first 4 months of the year was at an annual rate of $1 billion to $1.5 billion after rough allowance for seasonal factors, compared with an annual rate of about $2 billion in the second half of 1963.

The Committee agreed that its recent policy should be continued unchanged for the next 3 weeks. Some members indicated that they considered recent monetary conditions somewhat easier than desirable, particularly in view of the renewed deficit in the balance of payments. Because of the Treasury's scheduled refunding operation these members did not urge a change at this time, but they suggested that a somewhat firmer tone in the money market might appear desirable when the refunding had been completed. The majority, however, saw no need for a change in policy even apart from Treasury financing activity.

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

It is the Federal Open Market Committee's current policy to accom-

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modate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering further improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the expected stimulus to domestic activity from the recent Federal income tax reduction, and the increases projected for the year in business capital expenditures. It also gives consideration to the continued relative stability in average commodity prices; the country's improved, though still difficult, international payments position; and the interest rate advances over past months in important markets abroad.

To implement this policy, and taking the current Treasury refunding into account, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

> Votes for this action: Messrs. Martin, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, Wayne, and Treiber. Votes against this action: None.

May 26, 1964

Authority to effect transactions in System Account.

The pace of the economic expansion appeared to have quickened somewhat. In April the industrial production index rose a full point, according to preliminary estimates, following smaller gains in preceding months; there was a significant increase in new and unfilled orders received by durable goods producers; and employment rose substantially, although the unemployment rate remained unchanged because of an equivalent increase in the labor force.

Retail sales data for the first 2 weeks in May suggested that sales in the month might be back up close to their February peak. According to a Census Bureau survey conducted in mid-April, the number of families planning to buy new cars within

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12 months was higher than a year earlier, and plans to buy most other durable goods were as strong as or stronger than in the previous year.

Wholesale commodity price averages remained generally stable in April and early May. The consumer price index in March was unchanged from January and was 1.4 per cent above March 1963. In the stock market, prices recovered from their late April declines and moved to new record levels in mid-May.

The configuration of recent banking and monetary statistics had been changed somewhat as a result of benchmark adjustments to the data and revisions of seasonal adjustment factors. According to the new data, which were still tentative, in the first 4 months of 1964 the money supply increased at an annual rate of 2.9 per cent, as compared with 3.7 per cent for the full year 1963. In the tentative new figures for bank credit the rate of increase in the first 4 months was somewhat below the rate for the preceding full year. Loans expanded in April at about the same rate as in the first quarter and slightly faster than in 1963 as a whole, but banks made substantial net sales of Government securities. Free reserves of member banks averaged about $140 million in April, somewhat higher than in the two preceding months, but they were reduced again in early May.

Treasury note and bond yields had tended lower in recent weeks, and the rate on 3-month Treasury bills continued to fluctuate below the discount rate. Municipal yields also moved downward from their late March high, partly because of a light May calendar following a heavy volume of offerings in April. The calendar of public offerings of corporate bonds expanded substantially in May, and yields on new issues rose to a peak early in the month, but subsequently they declined somewhat.

The deficit in the U.S. balance of payments in April was somewhat larger than the March surplus, according to preliminary estimates. Tentative figures (seasonally unadjusted) for the first half of May indicated a surplus in that period, but it was

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noted that normal seasonal influences tend to be favorable to the payments balance in May.

In the Committee's judgment, the current domestic economic situation was strong and well balanced and the expansion was orderly. The restraint characterizing recent business pricing and inventory policies was noted. In view of these considerations, the continued high rate of unemployment, and the improved international payments position of the United States so far this year, it was agreed to continue the Committee's policy unchanged. Some members indicated that the Committee would need to keep the balance of payments problem in the forefront of its considerations over the coming months because part of the recent improvement may have been due to transitory factors, and because the prospective deficit for the year as a whole remained too large.

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

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. With the recent Federal income tax reduction, continued strength reported in consumer buying plans, and anticipated increases in business capital expenditures as immediate background, this policy takes into account the indications in most recent data on production, business orders, and employment of some apparent quickening in the pace of domestic expansion. It also gives consideration to the continued relative stability in average commodity prices; the persistent underutilization of manpower and other resources; the country's improved, though still adverse, international payments position this year; and the interest rate advances over past months in important markets abroad.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

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Votes for this action: Messrs. Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, Wayne, and Treiber. Votes against this action: None.

June 17, 1964

Authority to effect transactions in System Account.

There was additional evidence that the business advance had accelerated, but the expansion remained orderly and largely free of inflationary tendencies and speculative overtones. Nonfarm employment rose only slightly in May, but the labor force was unchanged and the unemployment rate dropped sharply to 5.1 per cent, the lowest level in several years. Industrial production increased about three-fourths of a percentage point in May, and retail sales exceeded the previous record level set in February. The April figures for both production and retail sales had been revised upward.

Business spending also had increased somewhat in recent weeks, but policies with respect to inventories continued cautious. Although stocks were increased in April at a substantially higher rate than during the first quarter, the additions were about in line with increases in sales. Stock–sales ratios remained unusually low, and manufacturers reported in a Commerce Department survey that they planned to expand stocks in coming months at a lower rate than they expected sales to increase.

A Commerce–SEC survey taken in May revealed that actual first-quarter outlays on plant and equipment were larger than had been planned in February, and it tended to confirm the earlier indication that capital outlays would increase throughout the year. According to the survey returns, such outlays in 1964 would be 12 per cent above the 1963 level, rather than 10 per cent higher as indicated in February.

The wholesale price index edged lower in May to 100.1 per

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cent of the 1957-59 average. Industrial prices remained stable and those of foodstuffs declined. Stock market prices declined a little from the record level reached in mid-May, and trading volume slackened.

Bank credit expanded substantially in May following a small reduction in April. Loans grew more rapidly than earlier in the year, and holdings of U.S. Government securities were reduced further. Through May 1964, bank credit had expanded at an annual rate of 6.6 per cent, compared with 8 per cent in the full year 1963. Both the money supply, which averaged moderately lower in May, and commercial bank time and savings deposits, which rose further, also showed smaller rates of increase in the first 5 months of 1964 than in 1963 as a whole. Data for early June, however, suggested that a sizable increase in the money supply was occurring in that month. Free reserves declined in May to about $100 million and fell somewhat further in early June as member bank borrowings rose from their relatively low April level.

In security markets the rate on 3-month Treasury bills continued to fluctuate slightly below the discount rate in recent weeks, and yields on other Treasury securities and on private securities showed little change. Many market observers expected the Treasury to auction about $3 billion of March tax anticipation bills early in July. It was reported at this meeting, however, that Federal spending currently was running below earlier estimates and that the Treasury cash balance was likely to build up to higher-than-expected levels by midyear, with the result that the Treasury's needs for new cash in July might be smaller than had been expected. In these circumstances, the Treasury was considering alternative financing operations designed to achieve some lengthening of the average maturity of the debt.

The deficit in the U.S. balance of payments in May, according to preliminary figures, was smaller than in April but larger than the monthly average in the first quarter. It was now estimated that, despite the sharp first-quarter improvement, the payments

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deficit for the first 5 months of the year was at a seasonally adjusted annual rate of about $2 billion, somewhat higher than the revised figure for the second half of 1963. However, confidence in the dollar abroad was reported to have strengthened considerably in recent months.

The Committee consensus was that no change should be made in policy at this time. In reaching this conclusion the Committee noted the likelihood that the Treasury soon would be engaged in a financing operation. But entirely apart from that factor most members felt that current policy remained appropriate on both domestic and international grounds. The domestic advance was proceeding in a satisfactory fashion and balance of payments developments, although not as favorable recently as they had been earlier, did not yet appear to call for any policy modification.

Within this consensus, there were several shadings of view. Some concern was expressed about the possibility that inflationary pressures might develop domestically and about the implications for the payments balance of rising interest rates in Europe, as well as recent increases in foreign security issues in this country and declines in the U.S. trade surplus. While no members advocated an overt policy move, some indicated a preference for resolving doubts on the side of less ease, and noted the desirability of slightly higher domestic interest rate levels, such as might be brought about by rising demands for credit. Certain other members thought that if the balance of payments problem persisted it would be better dealt with by means of selective measures rather than by general monetary restraints that might possibly have unfavorable effects on domestic activity. Some members, who were concerned about the reduced rates of growth in bank credit and the money supply thus far in 1964 and about the evidences of lower bank liquidity, favored a somewhat greater monetary expansion.

At the conclusion of the discussion, the Committee issued the

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

> It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the recent data on production, actual and planned business capital outlays, retail sales, and unemployment, which indicate some quickening in the pace of domestic expansion. It also gives consideration to the continued relative stability in average commodity prices; the continued underutilization of manpower and other resources; the country's less favorable international payments position thus far in the second quarter; and the interest rate advances over past months in important markets abroad.
>
> To implement this policy, and taking into account probable Treasury financing activity, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Mills.

Mr. Mills dissented from the Committee's decision for no change in policy and from the action on the directive because he believed that the implementation of policy since the preceding meeting had imposed contractive pressures on the expansion of commercial bank credit, at the expense of throttling down economic activity in the absence of inflationary pressures that might call for such action. He thought that corrective action should be taken promptly to supply the banking system with reserves more freely.

July 7, 1964

Authority to effect transactions in System Account.

Some of the latest data available at the time of this meeting suggested a moderate slowing from the recent rapid pace of

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domestic business expansion. However, prospects appeared good for further orderly progress, and consumer and business behavior in general was characterized by optimism.

It was noted that there had been sizable adjustments over the past 12 months within the broad framework of over-all economic expansion. Thus, the dollar rise in private and State and local government spending had more than compensated for a leveling off in Federal outlays; and within the private sector, increasing consumer outlays for goods—initially for durables but later for nondurables—had more than offset a recent modest decline in new housing activity. Throughout the period business fixed capital outlays had continued to expand steadily and by sizable amounts, but the rate of inventory accumulation thus far in 1964 was lower than in the latter part of 1963.

In June the unemployment rate rose to 5.3 per cent from 5.1 per cent in May as employment increased less than seasonally, and on the basis of preliminary data retail sales appeared to have dipped slightly from their May peak. Late in June prices of foodstuffs rose slightly but industrial commodity prices continued stable, and average wholesale prices remained at about the level that had prevailed for 6 years. Prospective supplies of most commodities appeared ample to permit further gains in activity without straining resource availability.

A substantial increase in the money supply in June brought its annual rate of expansion for the first half of the year up to 3.1 per cent, compared with a rate of 2 per cent in the first 5 months and a 3.7 per cent increase for the full year 1963. Free reserves, which had declined in early June, rose in subsequent weeks to levels around $125 million.

In the securities markets, prices of common stocks had recovered their declines of May and early June and moved to new record highs. Yields on new corporate bonds and on all maturities of Treasury securities had drifted downward. The Treasury's cash balance at the end of the fiscal year was estimated at the

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high level of $10.2 billion, and it was reported that the Treasury planned to announce a major advance refunding on the day following this meeting.

The U.S. balance of payments deficit for the second quarter was tentatively estimated at a seasonally adjusted annual rate in the neighborhood of $3 billion, much larger than the first-quarter rate of $0.7 billion. The high month of the second quarter was April, however, and after that the monthly deficits were significantly smaller, although still above the first-quarter rate. A decline in the trade surplus from the unusually high first-quarter rate probably accounted for about half of the increase in the deficit. In early July both Belgium and Switzerland increased their discount rates by one-half of a percentage point.

The Committee concluded that its policy should be continued unchanged for the next 3 weeks. The expected Treasury financing was an important factor in this decision, but most Committee members felt that recent domestic and international developments did not call for a policy change at present in any case. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the continued orderly expansion in economic activity, accompanied recently by a more rapid expansion in money supply and some decline in interest rates. It also gives consideration to the relative stability in average commodity prices; the underutilization of manpower and other resources; the country's less favorable international payments position in the second quarter; and the further interest rate advances in important markets abroad.

To implement this policy, and taking into account probable Treasury financing activity, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

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Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against action: None.

July 28, 1964

Authority to effect transactions in System Account.

Economic activity was continuing to advance, although in some areas expansive tendencies appeared somewhat less strong than earlier in the year. Pressure on resources remained moderate, and industrial prices continued stable.

GNP in the second quarter was estimated at an annual rate of $618.5 billion, about $10 billion above the first quarter. Industrial production rose further in June and was about 4 per cent higher than 6 months earlier. Retail sales in June equaled their record May level and apparently increased moderately further in the first half of July. However, total consumption expenditures increased less in the second quarter as a whole than in the first quarter, despite the tax cut, and personal saving rose sharply. Nonfarm employment rose further in June, but the rate of increase had shown signs of moderating in recent months, and the unemployment rate continued to exceed 5 per cent. Although housing starts rose slightly in June, on balance they had been tending downward since the autumn of 1963. Business inventory policies continued cautious; the rate of inventory accumulation in the second quarter was little larger than the modest first-quarter rate, and inventory–sales ratios remained low.

Both bank credit and the money supply recorded substantial increases in June. Rapid growth in the money supply continued in the first half of July, raising the annual rate of increase for the year to date to over 4 per cent. Time and savings deposits continued to expand at about the average rate of earlier months this year.

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Conditions in financial markets generally were affected relatively little by the Treasury's recently completed advance refunding, in which about $9¼ billion of securities maturing within 3 years were exchanged for longer-term issues. Yields on long-term Government bonds increased slightly, but corporate and municipal bond yields showed little change. This relatively small reaction was attributed to continuing large flows of long-term savings and to investor confidence in current levels of interest rates. The downdrift in Treasury bill rates that was evident earlier continued during the exchange period, but it halted, at least temporarily, after a sale of a $1 billion bill strip by the Treasury. It was reported that the Treasury planned to redeem the remaining issues maturing on August 15 with the proceeds of additional short-term financing.

The balance of payments deficit for the second quarter was somewhat lower than estimated earlier, but tentative figures for the first 3 weeks of July showed an increase much larger than expected on seasonal grounds. Supporting detail was not yet available to indicate the categories of the payments accounts in which the increase had occurred.

It was the consensus of the Committee that domestic and international developments, on balance, did not require a change in policy. Recent and prospective Treasury financing activity also militated against a policy change. Some members thought that it would be desirable to maintain as firm a short-term interest rate structure as possible within the context of a generally unchanged policy, in light of the continuing balance of payments problem and particularly in view of an apparent deterioration in the U.S. payments balance in recent weeks. Other members thought such a course was unjustified because the data reflecting recent worsening were highly tentative; the causes of the deterioration were not yet clear; and domestic circumstances in their judgment called for continuing the existing degree of monetary ease. It was agreed, however, that the balance of payments problem warranted continuing close attention by the Committee.

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

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the continued orderly expansion in economic activity, accompanied recently by a more rapid expansion in money supply and little over-all change in interest rates. It also gives consideration to the relative stability in average commodity prices; the underutilization of manpower and other resources; the apparent deterioration in the international payments balance in the first weeks of July; and the interest rate advances in recent months in important markets abroad.

To implement this policy, and taking into account Treasury financing activity, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

August 18, 1964

Authority to effect transactions in System Account.

In July, according to reports at this meeting, domestic business activity continued to expand in an orderly fashion. The industrial production index recorded a substantial further gain as output of materials, business equipment, and consumer goods all increased. Retail sales, which had declined in June according to revised figures, renewed their earlier rise and exceeded the May peak. The unemployment rate declined appreciably to 4.9 per cent—moving below the 5 per cent level for the first time

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since early 1960—as a result of both a rise in employment and some further withdrawals from the labor force.

Price indexes for some sensitive industrial materials such as nonferrous metals and steel scrap, which had been rising in July, moved up further in early August, partly in reaction to the military incident in Southeast Asia and the renewed fighting on Cyprus. Such price changes, together with discussion of possible advances in steel prices and speculation about the outcome of current wage negotiations in the auto industry, had led to some revival of press comments suggesting the possibility of inflationary developments. However, the broad wholesale index in July continued to show little change and was at about the same level as a year earlier. Wage rate advances remained moderate, and unit labor costs in manufacturing appeared to have changed little thus far in 1964.

The money supply grew at an annual rate of 8.5 per cent in July, as it had in June, following a lower average rate of increase earlier in the year. While total bank credit declined in July, mainly because banks drew down their Government securities holdings substantially and reduced their loans to securities brokers and dealers and to finance companies, it rebounded sharply at weekly reporting banks in early August, as both loans and investments increased. Free reserves at member banks averaged about $130 million in July, but then declined to about $90 million in the first 2 weeks of August as bank borrowings rose above recent average levels.

In capital markets, the securities issued in the Treasury's July advance refunding and August refinancing were still in the process of absorption. Yields on Government and corporate bonds had changed little in recent weeks despite uncertainties created by events in the Far East and in the Mediterranean. Yields on Treasury bills returned to about 3.50 per cent in mid-August, after dropping as low as 3.42 per cent in July.

The deficit in the U.S. balance of payments was substantial in July, and, according to tentative data, also in the first half of

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August. The deficit in the second quarter now was estimated at a seasonally adjusted annual rate of nearly $3 billion, compared with $900 million in the first quarter. The trade surplus declined by about $1 billion (annual rate) from the first to the second quarter, and domestic issues of foreign securities rose. Long-term bank lending to foreigners declined in the second quarter, but the outflow of short-term bank credit and liquid funds remained at near-record levels.

The Committee decided to modify its policy objectives at this time in the direction of slightly firmer money market conditions, including moderately lower free reserves and moderately higher short-term interest rates. It was agreed that this modest policy shift should be implemented cautiously. Some members favored this action primarily for balance of payments reasons, with the object of reducing outflows of funds attracted by the differentials of foreign over domestic short-term interest rates. In the judgment of these members the domestic business expansion was sufficiently vigorous to permit such a policy change. Other members thought that somewhat less ease in the money market, and a lower rate of monetary growth than that experienced in June and July, were also desirable on domestic grounds.

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

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the continued orderly expansion in economic activity, and essential stability in interest rates, unit labor costs, and commodity price averages, including the moderate reactions in markets generally to military incidents in the Far East and Mediterranean. It also gives consideration to the recent improvement in rates of unemployment and industrial capacity utilization, the substantial increases in the money supply in June and July, and the large U.S. balance of payments deficit in July.

To implement this policy, System open market operations shall be

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conducted with a view to maintaining slightly firmer conditions in the money market, while accommodating moderate expansion in aggregate bank reserves.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Hickman, Mills, and Shuford. Votes against this action: Messrs. Daane, Mitchell, Robertson, Swan, and Wayne.

In the opinion of the members dissenting from this action, a firmer policy was not called for at present by domestic conditions. Moreover, they believed that, with the market already somewhat tighter, even a slight policy shift might affect interest rate expectations and trigger market reactions leading to much firmer conditions than intended. This risk was considered particularly great at present because of the relatively low level of liquidity in the banking system. While sharing the concern of the majority with regard to balance of payments developments in July and early August following the deterioration in the second quarter, the dissenting members did not believe that these developments warranted the risk they saw in the action taken. In advancing their reasons for this judgment, individual members of the dissenting group noted the uncertainty as to whether the deficits since midyear constituted a trend, and the lack of information on the role of capital outflows in these deficits. Some expressed doubt that a slight shift in policy of the sort envisaged would have a significant impact on capital outflows, and some indicated that they believed means other than general monetary policy were preferable for coping with the balance of payments problem under prevailing domestic conditions.

September 8, 1964

Authority to effect transactions in System Account.

Available data for August indicated that domestic business activity was continuing to expand in an atmosphere of confidence but not ebullience. From weekly reports it appeared that

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retail sales had increased further in August. Industrial production probably was at least maintained and may have risen further. Nonfarm employment remained strong, totaling about 1.6 million higher than a year earlier, although the unemployment rate moved back up to 5.1 per cent from 4.9 per cent in July.

Manufacturers' inventories continued to increase at a slow pace in July, and stock–sales ratios declined appreciably to a new low for the recent period. Wholesale prices of industrial materials remained stable on the average in August, although prices of some nonferrous metals rose further.

Surveys of consumer and business spending plans suggested continued strong demands in the period immediately ahead. In the July Census Bureau survey of consumer buying intentions, plans to buy new cars and household durable goods were reported more frequently than a year earlier, while plans to buy used cars and houses were somewhat less numerous. The August Commerce–SEC survey of business capital spending plans indicated some further upward revision in anticipated outlays for the year. Capital spending in 1964 was now projected at a level 12.7 per cent above 1963, compared with a rise of 12.0 per cent indicated in the May survey and 10.1 per cent in the February survey.

Bank credit rose sharply in August after declining moderately in July. The movements in both months reflected in part changes in bank holdings of Government securities related to Treasury financing operations. The money supply increased at a considerably slower rate than it had in the two preceding months. Free reserves averaged about $110 million in August, and for the most recent statement week, the one ending September 2, they were estimated to have declined to $44 million. Member bank borrowings in August averaged $310 million, the highest level since March.

The interest rate on 3-month Treasury bills in recent weeks continued at around the 3.50 per cent level. However, market rates on bills maturing in December were depressed relative to rates on surrounding maturities because of their special attrac-

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tion to investors expecting to make tax and dividend payments in that month and having particular liquidity needs in the closing weeks of the year. Bond markets displayed a more hesitant and cautious tone, and yields rose somewhat. Among the contributing factors were heavy inventory positions of dealers in Government securities and municipal issues and the build-up in the September calendar of new corporate and municipal public offerings from the seasonally low level of the summer. The rise in Treasury bond yields was modest partly because substantial Federal Reserve and other official buying had helped to relieve the overhang of supply in the market, but recent new issues of corporate bonds were priced to yield about 10 basis points more than they had a month earlier.

On the basis of preliminary data for August, the deficit in the U.S. balance of payments for July and August combined appeared to be running appreciably above the $3 billion annual rate of the second quarter. However, capital outflows moderated in July; short-term claims on foreigners reported by banks declined, partly offsetting a large rise in June, and outflows on long-term bank loans continued modest.

The Committee concluded that the policy decision taken at the previous meeting should not be altered in the light of the information on domestic and balance of payments developments that had become available in the interim. Accordingly, it was agreed that operations should continue to be directed toward maintaining the slightly firmer conditions in the money market that had prevailed in recent weeks. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the continued orderly expansion in economic activity, some slackening in the rate of money supply

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expansion in recent weeks, and relative stability in broad commodity price averages. It also gives consideration to indications that the deficit in the U.S. balance of payments was appreciably larger in July and August than in the preceding quarter.

To implement this policy, System open market operations shall be conducted with a view to maintaining the slightly firmer conditions in the money market that have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Balderston, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, Wayne, and Treiber. Votes against this action: None.

September 29, 1964

Authority to effect transactions in System Account.

The industrial production index advanced nearly one point further in August, and early indications were that it would show another rise in September. Nonfarm employment increased only slightly in August as temporary layoffs due to auto model changeovers reduced manufacturing employment. Retail sales in the third quarter were running about 2 per cent above the second-quarter level, and it appeared that the unusually high rate of personal saving of the period immediately following the March income tax cut had slackened. While the increase in business inventories thus far in 1964 was considerably less than had been indicated by prior surveys of business anticipations, more recent surveys suggested a higher rate of inventory accumulation in the months ahead.

Not all recent economic indicators were expansive. Private housing starts had been declining irregularly since late 1963, and in the June-August period they averaged one-eighth below the peak levels of last fall. New orders for manufacturers' durable goods dropped sharply in August, mainly because of a decline in defense orders, although they still were at a high level.

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Average wholesale prices of industrial commodities continued stable, as increases for nonferrous metals and some other products were about offset by decreases elsewhere. New 3-year labor contracts entered into by two major automobile companies involved settlements above the administration's recommended wage guideposts, but whether these settlements posed a significant threat to continued over-all price stability was uncertain. It appeared that much would depend on the extent to which the terms of these contracts influenced settlements in other industries, and on the effects that they might have on price expectations and incentives for speculative inventory accumulation.

Bank credit rose substantially further in early September following a large increase in August. Credit extensions to finance corporate tax and dividend payments accounted for a significant part of the September increase. Advance estimates suggested that the money supply rose more in September than in August, and perhaps as much as in June and July when the increase was at an annual rate of 8.5 per cent. Growth in time and savings deposits in September was about in line with the average for the year to date, as gains in savings deposits were partly offset by the mid-September reduction in negotiable time certificates of deposit outstanding.

Member bank borrowings rose somewhat further, averaging $370 million in the 4 weeks ended September 23, as compared with $310 million in the preceding 4 weeks. Excess reserves also rose, but less than borrowings, and free reserves declined a little to an average of $80 million.

Conditions in the money market had firmed somewhat in recent weeks, and the interest rate on 3-month Treasury bills had advanced several basis points to 3.54 per cent. Bond yields continued to rise in early September, but after the middle of the month yields on Treasury bonds moved down; and somewhat later, yields on new corporate issues also declined. Dealer inventories of Treasury bonds had been reduced substantially from earlier levels.

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More complete statistics on the U.S. balance of payments in August and tentative data for September indicated that the deficit in both months was below the high total for July. These data also suggested that for the third quarter as a whole the deficit might be somewhat less than that for the second quarter, which was now estimated at an annual rate of $2.7 billion. There was no evidence at present of net outflows of short-term capital in the third quarter, but outflows of long-term private capital apparently were appreciably higher than earlier in the year.

It was the consensus of the Committee that the slightly firmer money market conditions maintained under the directives issued at the two preceding meetings remained appropriate. Some members expressed concern about the possibilities for inflationary developments that they saw in the auto wage settlements and in the recent rapid growth rates in bank credit and the money supply, and about the continuing large deficit in the U.S. balance of payments. Another possible source of imbalance noted was the reported acceleration in demand for steel products resulting from fears of a work stoppage in that industry next spring. While no members favored a substantial change in policy, there was some sentiment for a further slight shading of market conditions in the direction of firmness, or at least for resolving any doubts that arose in implementing policy on the side of firmness rather than ease. The majority did not favor such a course, on the grounds that it was not warranted by price developments to date and that even a slight further lessening of ease in the money market might, under present circumstances, have large undesired effects on security prices and credit terms.

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

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. inter-

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national payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the continued orderly expansion in economic activity, relative stability in broad commodity price averages, and indications that the money supply is expanding rapidly again after some slackening in August and early September. It also gives consideration to current estimates that the deficit in the U.S. balance of payments in the third quarter continued at a high rate, although possibly not as high as in the preceding quarter.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Swan, Wayne, and Bryan. Votes against this action: None.

October 20, 1964

1. Authority to effect transactions in System Account.

Underlying domestic economic conditions apparently continued strong in recent weeks, although new uncertainties were introduced by recent political developments abroad and aggregate measures of domestic activity were being dampened by a work stoppage at a major automobile company, now in its fourth week. The industrial production index increased slightly in September despite a decline in automobile output. Weekly retail trade reports indicated little change in nondurable goods sales from the advanced August-September level, although durable goods volume declined in reflection of the shortage of new cars. Employment in nonfarm establishments rose further in September, but the unemployment rate, at 5.2 per cent, was little changed

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from August. Wholesale industrial prices remained broadly stable into early October, except for further marked increases in nonferrous metals prices.

Gross national product was estimated to have advanced at an annual rate of $9 billion in the third quarter, to a level 6.9 per cent above a year earlier in current dollars and 4.8 per cent higher in real terms. Consumption expenditures rose more than disposable income in the quarter, and business outlays for fixed capital continued to expand vigorously. On the other hand, residential construction expenditures declined somewhat, and businesses accumulated inventories at an estimated annual rate of only $1.7 billion, $2 billion below the second quarter's moderate rate.

Total bank credit increased substantially again in September, with the rise concentrated in the first half of the month. Both loans and investments declined in early October. Growth in the money supply in September, and in the third quarter as a whole, was at an annual rate of about 6 per cent—twice the rate prevailing in the first half of the year. According to preliminary indications the money supply rose substantially further in the first half of October.

Free reserves of member banks continued to average about $80 million in the 3 weeks ending October 7. In the following week, however, they rose to an estimated $186 million, chiefly because the level of float over the Columbus Day holiday weekend was substantially higher than expected.

In security markets, yields on 3-month Treasury bills increased several basis points further to 3.59 per cent. Long-term markets were characterized by a cautious tone, and yields on long-term Treasury securities edged up after late September. Yields on new issues of corporate bonds declined in recent weeks as the calendar of forthcoming offerings contracted, but even in this market investor caution was suggested by a build-up in dealer inventories of unsold bonds. It was reported that the Treasury soon would announce the terms of its November refunding,

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which was expected to be a routine offering confined to the short-term area. At mid-October, prices of common stocks were at record levels.

Preliminary figures for the U.S. balance of payments in September showed a small over-all deficit for the month. The third-quarter deficit was estimated at an annual rate of about $2¼ billion, somewhat below the estimate for the preceding quarter. U.S. exports declined slightly in August, but the July-August trade surplus was little changed from the second quarter's $6 billion annual rate.

The Committee agreed that no change should be made in policy at this time in view of the forthcoming Treasury financing operation and of the uncertainties and unsettlements resulting from recent international political developments. In addition, some members thought a change in policy was not warranted at present either by domestic economic conditions or by balance of payments developments. Other members, however, believed that recent growth rates in bank credit and the money supply could not be sustained for long without increasing the inflationary dangers they thought already were incipient domestically. Serious concern also was expressed over the continuing sizable deficit in the U.S. balance of payments.

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

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the further expansion in economic activity, tempered by a work stoppage at a major automobile company; relative stability in broad commodity price averages, even though additional price increases have occurred in some materials markets; and indications that the vigorous money supply expansion of recent months continued in the first half of October. It also gives consideration

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to current estimates that the deficit in the U.S. balance of payments in the third quarter continued at a high rate, although not quite as high as in the preceding quarter.

To implement this policy, and taking into account the forthcoming Treasury financing, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Ellis. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

On several occasions since the spring of 1961 the Federal Reserve Bank of New York, acting for the account of the U.S. Treasury, had undertaken forward sales of selected foreign currencies for the purpose of reducing unduly high forward premiums on the foreign currency arising, for example, from market speculation based on expectations of a possible revaluation of that foreign currency. These operations had been successful in lessening pressures on the dollar and the U.S. gold stock.

At this meeting the Committee approved a recommendation of the Special Manager of the System Account that the Federal Reserve Bank of New York be authorized to conduct similar operations for System Account, within certain dollar limits, so that the System and the U.S. Treasury would be able to act in concert in the event a need for such operations should arise in the future. Specifically, it was agreed that the guidelines for foreign currency operations, as reaffirmed at the meeting of March 3, 1964, should be amended by deleting the second paragraph of Section 1 (cited below), and that the continuing author-

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ity directive for transactions in foreign currencies should be amended in two respects: to add a subparagraph (d) to the second paragraph authorizing forward transactions for the purpose indicated, and to revise the combined dollar limit for forward transactions for all authorized purposes from the figure of $150 million that currently applied to forward transactions for the three purposes already authorized to a figure of $200 million to cover the additional purpose for which forward transactions would be authorized as well.

At the same time, it was decided to make two further revisions in the continuing authority directive for foreign currency transactions. One revision consisted of the insertion of the word "concurrent" before the word "sales" in subparagraph (c) of the second paragraph, to clarify the distinction between the type of operation contemplated by this subparagraph and that contemplated by the new subparagraph (d). The other revision involved a change, from $2.05 billion to $2.1 billion, in the dollar limit specified in the first paragraph of the directive on the aggregate amount of foreign currencies held under reciprocal currency arrangements. It had been the Committee's practice to set this limit at the sum of the amounts currently specified by the Committee for all individual authorized reciprocal currency arrangements, which represented the maximum of System covered holdings of foreign currencies under these arrangements in the remote possibility that they might all simultaneously be fully drawn on. This revision was made because earlier in the present meeting the Committee had approved an increase in the size of the reciprocal currency arrangement with the National Bank of Belgium from $50 million to $100 million.

In accordance with these decisions, the guidelines for System foreign currency operations were amended by deletion of the following paragraph from Section 1:

> Holdings of a currency shall generally be kept sufficient to meet forward contracts in that currency (exclusive of contracts made under

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parallel arrangements with foreign monetary authorities which provide their own cover) expected to mature in the following 3-week period.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Ellis. Votes against this action: None.

Also in accordance with these decisions, the following continuing authority directive for transactions in foreign currencies was issued to the Federal Reserve Bank of New York:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 3, 1964, as amended October 20, 1964; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed $2.1 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed $150 million equivalent at any one time:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor
Japanese yen

The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies in accordance with the Guidelines and up to a combined total of $200 million equivalent, by means of:

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(a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;

(b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies;

(c) purchases through spot transactions and concurrent sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations; and

(d) sales through forward transactions, for the purpose of influencing interest arbitrage flows of funds and of minimizing speculative disturbances.

The Federal Reserve Bank of New York is also authorized and directed to make purchases through spot transactions, including purchases from the U.S. Stabilization Fund, and concurrent sales through forward transactions to the U.S. Stabilization Fund, of any of the foregoing currencies in which the U.S. Treasury has outstanding indebtedness, in accordance with the Guidelines and up to a total of $100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell. Robertson, Shepardson, Shuford, Swan, and Ellis. Votes against this action: None.

November 10, 1964

1. Authority to effect transactions in System Account.

Underlying domestic economic conditions appeared to have remained favorable in October despite work stoppages in the

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automobile industry. Industrial production and retail sales apparently continued strong apart from the effects of interruptions in auto output, and over-all commodity price averages remained relatively stable. The unemployment rate was unchanged at 5.2 per cent.

Although declines in output in the auto and closely related industries were estimated to have reduced the index of industrial production for October by 2-3 percentage points, activity in other industries probably was maintained or increased further. New car sales were down sharply on a seasonally adjusted basis in October, but sales at furniture and appliance stores and at outlets for nondurable goods were up. Total construction activity edged down further in October, as residential building remained appreciably below the highs reached in the fall of 1963.

Strong upward pressures on wholesale prices were still limited to nonferrous metals. However, selective increases continued to be announced for other commodities, and recent weekly estimates showed a small increase in the average for industrial commodities. The consumer price index rose further in September at the slow pace of recent years.

Results of a private survey of business plant and equipment spending plans, taken in October, indicated that the level of such outlays planned for 1965 was about 5 per cent above the estimated 1964 total and little changed from the rate indicated for the final quarter of 1964 by the August Commerce–SEC survey. The increase in capital spending from 1963 to 1964 was estimated at about 14 per cent on the basis of returns in the private survey. While it was noted that actual outlays in years of business expansion often were larger than those reported as planned in the preceding autumn, these survey results still suggested some possible slowing from the recent growth rate in capital outlays.

Bank credit, after expanding sharply in September, was down moderately by the end of October according to preliminary estimates, perhaps partly because of the effects of the

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auto industry work stoppages. The money supply, which had grown at an annual rate of about 6 per cent in the third quarter, rose at a 4.6 per cent rate in October, increasing sharply in the first half of the month but then declining in the second half. Commercial bank time and savings deposits rose more than in other recent months. Free reserves at member banks averaged about $90 million, little changed from the September level.

The money market was firm during most of October and early November, although varying conditions in different segments of the market contributed to a slightly easier tone from time to time, notably after the Columbus Day holiday. Bond markets turned stronger in recent weeks as a result of somewhat reduced demands for outside financing, a continuing large flow of savings, and growing investor confidence in current interest rate levels, and at the end of October yields on long-term Government bonds were close to their lowest levels since early August. The Treasury currently was engaged in a $9¼ billion cash offering of new 18-month notes, most of the proceeds of which would be used to redeem securities maturing on November 15.

Preliminary data suggested that the U.S. balance of payments deficit for October, after allowance for seasonal factors, continued at about the same annual rate as in the third quarter, now estimated at $2.3 billion. The trade surplus rose in September mainly because of higher exports in anticipation of a possible port strike. The United Kingdom recently had instituted measures designed to reduce a large deficit in its balance of payments, including a temporary 15 per cent surcharge on imports of manufactured goods, but not including an increase in the discount rate of the Bank of England.

The Committee agreed that no change should be made in monetary policy at this time, although a number of members thought there were some grounds for seeking slightly firmer conditions in the money market and a reduction in the growth rates of bank credit and the money supply from those prevailing during

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recent months. Some of these members expressed the view that firmer money market conditions and less easy credit availability would be helpful in limiting private capital outflows from the United States. Others emphasized domestic considerations, indicating that they believed recent money and credit growth rates were offering an undesirable degree of encouragement to latent inflationary pressures. Most members in this group concluded, however, that other considerations militated against a change in policy at this meeting, including the fact that the current Treasury financing was still in process.

Other members thought that no change in policy was warranted at present even apart from the Treasury financing. Among the reasons advanced by individual members who held this view were that the U.S. balance of payments position had not been deteriorating recently, that commodity prices continued stable on average, and that the case for firmer money market conditions based on domestic considerations was, on the whole, weaker at present than it had been earlier in the fall. Some of these members also believed that even a slight shift in policy now might set off market reactions that would culminate in a need to raise the Federal Reserve discount rate, an action that they considered undesirable at present both on domestic grounds and in view of the balance of payments problems of the United Kingdom.

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

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the apparent underlying strength in current economic conditions, apart from the effects of work stoppages in the automobile industry; indications that the rate of increase in business capital spending may moderate in the coming year; relative stability in

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broad commodity price averages, even though additional price increases have occurred in some materials markets; and the recent reduction in bank credit and monetary expansion from the high rates of summer. It also gives consideration to the persistence of a sizable deficit in the U.S. balance of payments.

To implement this policy, and taking into account the current Treasury financing, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

> Votes for this action: Messrs. Martin, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Hayes.

Mr. Hayes favored undertaking operations designed to encourage somewhat firmer money market conditions immediately after the current Treasury financing was completed. He thought the situation posed by the persistence of a balance of payments deficit at the current rate was sufficiently serious to outweigh other considerations that might argue against a change in policy at this meeting. In his judgment the domestic economy was fully strong enough to withstand a moderate policy change without damage. Moreover, he saw merit in a slight policy change from the domestic standpoint, in light of his views that bank credit had grown at a rapid rate thus far in 1964 and that a threat of inflationary developments existed at present. Accordingly, he dissented from this action.

2. Amendment of continuing authority directive.

On the recommendation of the Account Manager, Section 1(b) of the continuing authority directive to the Federal Reserve Bank of New York was amended to raise the dollar limit on

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System Open Market Account holdings of bankers' acceptances from $75 million to $125 million. The concurrent percentage limit on holdings, of 10 per cent of the total of bankers' acceptances outstanding, was left unchanged. With this amendment, Section 1(b) read as follows:

To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $125 million or 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

In 1958, when the $75 million limit on System Account holdings of bankers' acceptances had been established, the dollar volume of acceptances outstanding in the market was less than half of its current level. The increase in the dollar limit to $125 million was considered appropriate in view of the substantial growth in the market since that time.

November 24, 1964

Authority to purchase and sell foreign currencies.

On the day preceding this meeting, which was held by telephone, the Bank of England had raised its discount rate from 5

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to 7 per cent in another of a series of actions taken in response to heavy pressure on sterling in foreign exchange markets.[1] At this meeting the Special Manager of the System Account reported that pressure on sterling had abated for only a brief period following this action, and had subsequently been renewed in force. He indicated that a number of central banks were consulting regarding the possibility of developing a broad package of financial assistance to Britain, designed to reinforce that country's efforts to defend sterling. On recommendation of the Special Manager, the Committee authorized an increase in the reciprocal currency (swap) arrangement with the Bank of England from $500 million to $750 million, subject to the agreement of the Bank of England and to the satisfactory development of a broad package of credits to Britain.

Concurrently, the Committee raised the dollar limit specified in the first paragraph of the continuing authority directive for foreign currency transactions on the aggregate amount of foreign currencies held under reciprocal currency arrangements by $250 million to $2.35 billion.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

December 1, 1964

Authority to effect transactions in System Account.

Domestic financial markets had reacted in a moderate and orderly fashion to the preceding week's official actions, which

[1] As indicated in the entry for Nov. 23, 1964, in the preceding Record of Policy Actions of the Board of Governors, on the same date the Board approved increases in Federal Reserve discount rates from 3½ to 4 per cent and amended the Supplement to Regulation Q to raise maximum permissible interest rates on time and savings deposits of member banks.

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followed the sterling crisis. These actions included successive increases in discount rates by the Bank of England, the Federal Reserve Banks, and the Bank of Canada; an increase in the maximum interest rates permitted on time and savings deposits of member banks under the Federal Reserve Board's Regulation Q; and announcement of a $3 billion package of short-term credits to Britain by 11 countries, including the United States, and the Bank for International Settlements.

Interest rates, particularly on short-term instruments, adjusted upward promptly in response to the official rate actions. Yields on 3-month Treasury bills advanced about 25 basis points to about 3.85 per cent, and Federal funds frequently traded at the new Federal Reserve discount rate of 4 per cent. The rise in bond yields, however, was quite modest; yields on long-term Treasury issues advanced about 5 basis points on the average, and those on outstanding corporate and municipal bonds appeared to have adjusted to about the same extent. Common stock prices dropped only slightly on somewhat heavier trading volume, and neither spot nor futures markets for sensitive commodities showed unusual changes in price quotations or activity. A number of commercial banks raised rates offered on time and savings deposits, but announcements of increases in prime lending rates by a few banks (all outside New York) were not followed immediately by others.

From reports at this meeting it appeared that the domestic business situation had remained strong in recent weeks, although current measures of activity continued to reflect the effects of recent and threatened work stoppages. Retail sales declined by about 3 per cent in October and somewhat further in early November, both because of a shortage of new cars resulting from the recent auto industry strikes and because of unseasonably warm weather. Industrial production was estimated to have returned in November to about the September level as auto output was partly restored and as production in other industries

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continued to increase. Manufacturers' inventories rose by $550 million in October, more than in any other month thus far in 1964. However, this development also probably was related in part to work stoppages; automobile manufacturers accumulated stocks of materials and parts during the auto strikes and steel users increased inventories against the possibility of a strike in that industry next spring.

Between mid-September and mid-October the index of industrial commodity prices increased by 0.4 per cent to a level above the narrow range within which it had fluctuated earlier this year. The rise was attributable to a recovery in prices of petroleum products, further advances for nonferrous metals, and scattered increases in other commodity groups. Few decreases were recorded other than slight further declines for lumber and plywood.

Bank credit, which had declined in October, rose substantially in November according to data for city banks, as business and financial loans increased and banks acquired sizable amounts of U.S. Government securities offered in Treasury financings. Most of the associated rise in deposits apparently occurred in Government and time deposits, and the money supply probably increased only slightly in November. In the August-October period, bank credit had grown at an annual rate of about 10 per cent, and the money supply at a rate slightly less than 5 per cent. Free reserves, the data for which were affected more sharply than usual by subsequent revisions, averaged about $10 million in November, compared with an average of about $90 million in the previous month.

Data on the U.S. balance of payments for October and tentative figures for early November suggested that the deficit in the fourth quarter would be somewhat higher than in the third, partly because of a substantial increase in new foreign security issues in the United States. It appeared that the large recent outflow of capital from Britain would not greatly affect the statistics for the U.S. payments deficit.

In the discussion of the appropriate monetary policy for the

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next 2 weeks, it was noted that financial markets were still in process of adjustment to recent official actions and that these markets would be under strong seasonal pressures in the period ahead. It also was noted that the Federal Reserve rate actions had been directed primarily to the international payments situation, and that they had been intended to reduce the possibility of an outflow of volatile foreign dollar balances for confidence reasons. The Committee agreed that it was desirable at present to avoid a reduction in domestic credit availability and to moderate firming tendencies in the money market.

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

> It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the fact that financial markets are currently in a period of adjustment in the wake of the recent sterling crisis and the discount rate advances and other responses in Britain, Canada, and the United States. The policy also takes into account the underlying strength of the domestic economy, obscured partially by the effects of recent and threatened work stoppages; the recent increase in average wholesale prices of industrial goods; and the continued expansion of bank credit and money. It also gives consideration to the persistence of a sizable deficit in the U.S. balance of payments.
>
> To implement this policy, and recognizing that a larger-than-usual degree of flexibility in operations will be needed in this period when financial markets, while under strong seasonal pressures, are still adjusting to official rate actions here and abroad, System open market operations over the next 2 weeks shall be conducted with a view to accommodating moderate expansion in aggregate bank reserves, while moderating adjustments of money market conditions to recent official actions.

Votes for this action: Messrs. Martin, Hayes, Balderston, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

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December 15, 1964

Authority to effect transactions in System Account.

Reports at this meeting indicated that domestic economic activity, after being dampened by work stoppages earlier in the fall, currently was being stimulated by efforts of auto producers to rebuild dealer inventories while satisfying accumulated demands and by attempts of steel users to increase stocks against the possibility of a steel strike next spring. It appeared likely that these influences would continue to encourage inventory investment in early 1965.

As the year drew to a close, the course of activity in most other sectors of the economy was showing little change from earlier months. Business and consumer confidence remained high; recent surveys indicated that both groups planned to increase spending in the months ahead. On balance, short-run prospects for continuing economic expansion appeared to be good if activity was not disrupted by major strikes.

With respect to the longer run, some members of the Committee noted that the temporary stimulus to activity of recent and threatened strikes might end at a time when other factors also were acting to dampen activity, including a shift in the position of the Federal budget from deficit to near-balance or surplus. This raised the possibility in their minds that the pace of activity might slacken in the coming year.

The unemployment rate declined slightly to 5.0 per cent in November but remained within the narrow 4.9-5.3 per cent range that had prevailed since May. Joblessness was heavily concentrated among the unskilled, particularly younger workers; the unemployment rate among married men was at its lowest level in 7 years, and shortages of some kinds of skilled labor were being reported. Further increases in employment could be expected with rising activity, particularly in trade and public and private services where gains had continued to be strong and

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steady. But the labor force also was expected to grow rapidly because of a large increase in the number of young people seeking jobs. While recognizing that adequate credit was important to a dynamic and expanding economy, a number of members of the Committee indicated that they thought merely increasing over-all demand by expanding credit at this juncture would not solve the unemployment problem stemming from lack of education and training.

Weekly estimates suggested that average industrial commodity prices rose slightly further in November and early December, following a larger advance in October. Because of declines in prices of farm and food products, however, the average for all wholesale prices apparently remained stable. Upward pressures on prices of nonferrous metals had been maintained recently by high rates of activity in the United States and abroad and, in some cases, by political disturbances and strikes that limited production. The consumer price index continued its mild upward drift in October.

The rate of growth in total bank credit had fluctuated erratically in recent months partly because of the pattern of Treasury financing operations. November witnessed an exceptionally large expansion, with much of the unusual size of the increase attributable directly and indirectly to Treasury financings in that month. This brought the annual rate of growth of bank credit since midyear to about 8 per cent, the same rate as in the first half of 1964 and in the year 1963. Recent fluctuations in the growth rate of the money supply appeared to reflect mainly shifts between private and Government deposits and short-run adjustments by the public in its money balances. In the year to date the money supply had increased at a 4.2 per cent rate, compared with 3.8 per cent in 1963.

Member banks used part of the reserves supplied by System open market operations to reduce their borrowings from the Federal Reserve Banks in the wake of the late November increase in the discount rate. Although excess reserves also were reduced

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somewhat, free reserves rose substantially in the most recent statement week. Federal funds were readily available, frequently at rates below the discount rate.

Yields on 3-month Treasury bills declined about 10 basis points in the first week of December, but subsequently they returned to about 3.85 per cent, the level that had been reached shortly after the discount rate action, as seasonal pressures converged on the money market. These pressures were expected to reverse with the passage of the December tax and dividend dates and the holiday shopping season. Bond yields, which had risen slightly in an initial adjustment to the change in the discount rate, fell back to about earlier levels. The decline was attributable in part to expectations of continuing large flows of savings and little or no rise in long-term credit demands. It also reflected market responses to recent official statements concerning interest rates and credit availability, and to the cancellation by several commercial banks of increases in their prime rate announced earlier. While market yield relations were still expected to be subject to stresses of various sorts, the net effect to date of the adjustments to the discount rate action had been a further flattening of the yield curve in the shorter maturity range.

It was reported that the Treasury probably would raise new cash early in 1965 through additional bill sales. The possibility also was noted that an advance refunding operation would be undertaken in January if market conditions were considered favorable.

In foreign exchange markets, attention continued to be focused on developments in sterling. While that currency appeared to have weathered the recent crisis, the situation had not yet been fully stabilized, partly because of adverse seasonal pressures.

The precise magnitude of the U.S. balance of payments deficit in the fourth quarter was still in doubt but the deficit for 1964 as a whole seemed likely to be on the order of $2.5 billion, compared with $3.3 billion in the preceding year. Net outflows of

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U.S. private capital rose substantially in 1964 to a new record level. The estimated reduction in the over-all deficit was attributable to a further marked increase in the trade surplus, as exports continued to expand rapidly while the growth in imports remained moderate. The gain in the trade surplus was due partly to vigorous economic expansion abroad and partly to the improved competitive position of U.S. goods in world markets as average prices continued to be relatively stable domestically but rose in many foreign countries.

A continuation in 1965 of favorable developments in U.S. foreign trade seemed possible, particularly if domestic prices remained stable. However, there were some factors that appeared unfavorable and that might slow or perhaps even reverse the recent trend. Among these were the restrictive actions—including surcharges levied on imports—that Britain had taken to alleviate its balance of payments difficulties; the possibility that the European Economic Community would reach decisions on farm policy that would reduce U.S. agricultural exports to its members; and the prospect of less buoyant expansion and slower price advances in some industrial countries. At the same time, U.S. imports might rise more briskly in coming months, particularly if inventory demands were strong. On the whole, it appeared to many Committee members that any substantial further improvement in the U.S. balance of payments position in 1965, in a context of continuing domestic expansion, would have to occur mainly in the area of capital flows.

The Committee concluded that no change in policy should be made at this time in view of the various uncertainties characterizing the domestic and international situations, the prospective reversal of seasonal pressures in the money market, and the possibility of a Treasury financing operation soon. It was agreed that for the time being open market operations should continue to be directed primarily at maintaining stable money market conditions, while permitting short-term interest rates to fluctuate within their recent range. Some members felt that a slighly lower range

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of bill rates would be appropriate if brought about by the expected abatement of seasonal pressures. Others, while agreeing with the majority that the balance of factors militated against a policy change now, expressed continued concern about the persisting sizable balance of payments deficit and about recent growth rates of bank credit and the money supply.

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

In light of the economic and financial developments reviewed at this meeting, it remains the Federal Open Market Committee's current policy to facilitate continued expansion of the economy by accommodating moderate growth in the reserve base, bank credit, and the money supply, while seeking to avoid the emergence of inflationary pressures and to strengthen the international position of the dollar.

To implement this policy, and recognizing that international uncertainties and year-end seasonal pressures continue to require a larger than usual degree of flexibility in operations, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as currently prevail.

Votes for this action: Messrs. Martin, Balderston, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, Wayne, and Treiber. Vote against this action: Mr. Mills.

Mr. Mills dissented from this action on the grounds that current money market conditions were easier than he thought justified by immediate or prospective developments. He favored a somewhat more restrictive credit policy because of the possibility of massive inventory stockpiling, the further upward movement in prices of strategic industrial materials, and the evidences he saw of pervasive but latent inflationary pressures. In his judgment a modest tightening in the supply of reserves and in credit availability would still leave reasonable leeway for appropriate credit expansion without encouraging the commercial banking system to press unduly for a further increase in its holdings of loans and investments.

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OPERATIONS OF THE SYSTEM OPEN MARKET ACCOUNT

The following two reports describe the actions taken during 1964 to carry out the policies of the Federal Open Market Committee. The first one is a chronological review of operations in domestic securities. In providing the reserve base for rapid expansion in commercial bank credit and for substantial growth in the money supply—and in view of the public's changing preferences for currency, demand deposits, and time deposits—the Federal Reserve acquired during the year $3.5 billion, net, of U.S. Government securities (including repurchase agreements).

The report on operations in domestic securities was prepared by Robert W. Stone, Manager of the System Open Market Account, who supervises these operations. It is written from the vantage point of the Trading Desk at the Federal Reserve Bank of New York, where operations in these securities are effected to carry out the policy directives of the Federal Open Market Committee. The report stresses the factors—including variations in reserve elements, money market tendencies, and Treasury financings—that the Manager takes into account in the day-to-day provision of bank reserves.

The second report is a review of Federal Reserve operations in foreign currencies. The Federal Reserve has been buying and selling such currencies since early 1962 as part of the efforts to defend the dollar and strengthen the world payments system. During 1964 the volume of Federal Reserve operations in foreign currencies was substantial, and the reciprocal currency, or "swap," network linking the Federal Reserve with foreign central banks and the Bank for International Settlements was enlarged by $300 million.

During the year the Federal Open Market Committee authorized outright forward sales of foreign currencies. The reinforcement of the swap lines and the actual foreign exchange transactions exerted a strongly stabilizing influence on both gold and foreign exchange markets, which remained calm in the face of several potentially dangerous developments during the year.

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The report on foreign currency operations was prepared by Charles A. Coombs, Special Manager of the System Open Market Account, who supervises the Federal Reserve's operations in such currencies. All these operations for the System Account are carried out, under the authorization of the Federal Open Market Committee, by the Federal Reserve Bank of New York, which also handles foreign currency transactions for the U.S. Treasury. This report begins on page 161.

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REVIEW OF OPEN MARKET OPERATIONS IN DOMESTIC SECURITIES

The Federal Reserve maintained during 1964 a monetary and credit policy posture that enabled the banking system, as in the preceding year, to provide an important portion of the credit required to finance the economy's orderly expansion. As in other years, open market operations were conducted with a view both to accommodating the highly variable short-run demands for credit that are made on the banking system and to increasing the supply of bank credit and money so as to foster continued expansion in the economy's output. At the same time, the form and timing of operations were conditioned by the aim of avoiding the possibility of depressing short-term interest rates to levels that might unduly encourage outflows of capital from the United States.

In fostering a reserve climate that was conducive to a further expansion of the monetary and credit base, the Federal Reserve continued to be concerned in its day-to-day operations with accommodating the shifting patterns of reserve utilization and distribution that developed in response to the changing financial needs of the economy. Thus, as the year unfolded, the Federal Reserve found its conduct of operations affected not only by more or less regular seasonal influences but also by the changing nature and timing of the needs of both the Treasury and private borrowers, by occasional marked shifts in investor sentiment, and by changing relationships among market factors in the wake of the increases in foreign and domestic discount rates late in the year.

In relating here some major aspects of open market operations and market developments during 1964, it is convenient to divide the year into five broad periods.

January 2–February 19: Absorbing the seasonal reserve reflux. In early 1964 the operational task of the Manager of the System Open Market Account was one of maintaining reasonably stable money market conditions during a period of heavy Treasury financing while absorbing the usual reserve glut produced by the

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postholiday return flow of currency from circulation and by the seasonal decline of deposits. As the year opened, the money market was notably free of the tensions that in previous years had often built up in December as peak credit demands fell on the banks. Aided by the relatively abundant provision of reserves by the Federal Reserve during the period of intensive reserve utilization, the money market had handled very smoothly the seasonal pressures occurring around the year-end.

SYSTEM OPERATIONS IN GOVERNMENT SECURITIES DURING 1964
(In millions of dollars)

Type of operation	Jan. 2–Feb. 19	Feb. 20–May 20	May 21–Aug. 19	Aug. 20–Nov. 18	Nov. 19–Dec. 31	Total
Outright purchases:						
Treasury bills:						
Market	582	1,552	1,992	1,269	1,306	6,701
Foreign	52	955	607	708	410	2,732
Coupon issues	....	94	219	602	106	1,021
Outright sales:						
Treasury bills:						
Market	925	710	737	1,272	552	4,196
Foreign	202	158	285	282	313	1,240
Coupon issues	....	....	....	....	....	....
Redemptions	369	692	817	....	215	2,093
Repurchase agreements:						
Purchases	556	1,351	2,232	2,732	2,415	9,286
Sales	567	1,287	2,296	2,228	2,382	8,760
Net increase in holdings	−873	1,105	915	1,529	775	3,451

NOTE.—All figures are as of date of delivery.

In January the Federal Reserve sought to allow average free reserves to ease down from the levels to which they had risen in December. Daily operations directed to this end were complicated, however, by a tendency for reserve availability to exceed expectations. This tendency persisted into February. At first, float declined less than seasonally, in part because of widespread snowstorms; and then deposits (and hence required reserves) in country banks dropped more rapidly than they had in earlier years. Through mid-January, however, the money market remained firm despite the high level of marginal reserve availability. The Treasury's debt operations boosted the financing needs of Government securities dealers and thereby maintained considerable pressure

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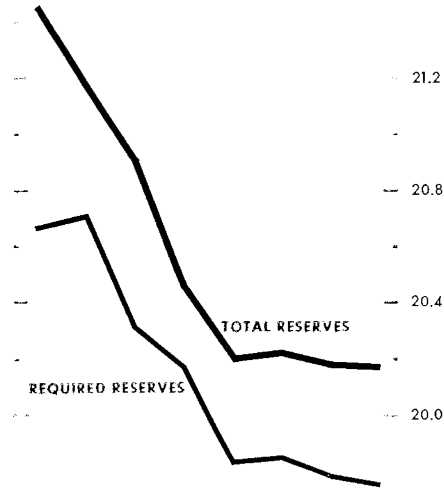
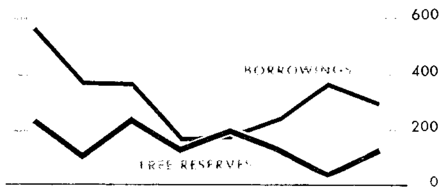
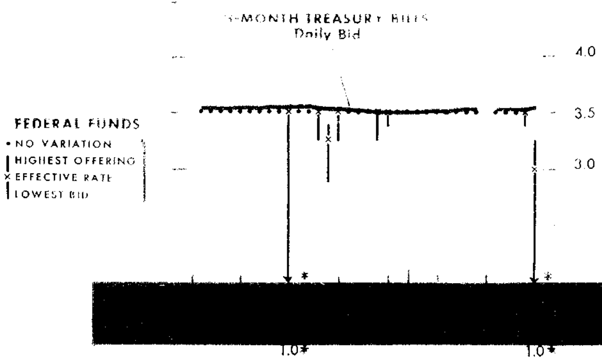
Member Bank Reserves and Borrowings, and Rates on Treasury Bills and Federal Funds







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on the reserve positions of the major New York City banks, which were called on to meet a large part of those needs.

After mid-January the distribution of reserves shifted from country banks towards banks in the money centers. This reflected in part the dealers' success in selling Treasury bills, which provided them with the funds to pay off their loans. As a consequence, the money market became more comfortable. Member bank borrowing from the Federal Reserve Banks declined significantly, and on several occasions in late January Federal funds traded below the discount rate.

The emergence of such conditions is often a more reliable guide to the actual level of free reserves prevailing in the banking system than the reports and projections of reserve levels currently available to the Account Manager. (In fact, in this instance, subsequent revisions did boost significantly the level of free reserves above the estimate first published.) The easier tone in the money market after mid-January would normally have counselled action to reduce reserve availability. At that time, however, Treasury financing operations were holding the market's attention, and it appeared desirable to the Federal Reserve to conduct operations in such a way as to avoid a reserve level that would not have been compatible with the "even keel" approach typically followed during periods of Treasury financing. It was not until the second statement week in February that a degree of tautness was restored to the money market; at that point demand for Federal funds exceeded the supply, and member bank borrowings at the Reserve Banks increased again to the range of $250 million to $400 million prevailing earlier.

In carrying out open market operations in Government securities in the first three statement weeks of the new year, the Federal Reserve relied chiefly on market sales of Treasury bills and the redemption of Treasury bill holdings in the weekly auctions; in this way it absorbed $896 million of reserves. Over the subsequent 4 weeks the Federal Reserve bought a net of $23 million of Government securities as it first bought, and then sold,

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issues to deal with changes in market factors affecting reserves. Transactions during this 4-week interval were executed chiefly in the market, although there were some transactions with foreign accounts. On a few occasions during the 7-week period, the Federal Reserve bought Government securities under short-term repurchase agreements to moderate temporary reserve pressures.

The Treasury bill market was free of special stresses as the year opened, reflecting the smoothness with which the money market had passed through December. In early January an element of caution crept into the market. Bidding on January 9 for $2.5 billion of tax anticipation bills due in June was very light, partly because of the attention banks were giving to the terms of the Treasury's advance refunding, which had been announced the night before. The market's caution, which increased when the large awards of bills to dealers were announced, soon gave way to strength, however, as demand for bills in all maturity ranges developed from sellers of the "rights" to the advance refunding and from holders of the 1-year bills maturing on January 15.

Treasury bill rates moved lower through the second half of January on good demand from corporations and banks, which in effect took up at declining rates large amounts of bills sold and redeemed by the Federal Reserve. The 3-month bill rate, which had crept up 2 basis points to 3.55 per cent bid from the year-end to midmonth, declined to 3.50 per cent at the end of January. Strong demand also spilled over into the market for bankers' acceptances. After reaching a peak of $380 million on January 13, dealers' acceptance portfolios had declined to $177 million by January 29 in the wake of an increase of ⅛ percentage point in rates.

In February a more hesitant tone gradually developed in the Treasury bill market. Investment demand fell off while market participants discussed the possible response of monetary policy to the potentially inflationary implications of the impending tax cut and to an increase in the Bank of England's discount rate, which many deemed likely. In this atmosphere the 3-month bill

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rate rose to 3.54 per cent on February 19 and the 6-month rate, which had been 3.61 per cent at the end of January, rose to 3.68 per cent.

The market for U.S. Government notes and bonds was steady in early January, with prices somewhat above the levels to which they had fallen before Christmas, after having trended irregularly downward since September 1963. Market participants reacted favorably to the President's State of the Union Message and to its promise that the budget deficit in the 1965 fiscal year would be considerably smaller than most observers had expected. On January 8 the Treasury announced that holders of six 1964-65 issues, involving public holdings of $15.3 billion, would be given the right to subscribe to additional amounts of the 4 per cent bonds of 1970 and the 4¼ per cent bonds of 1975-85.

Prices of intermediate- and longer-term issues immediately declined in adjustment to the terms of the advance refunding, which came as a surprise to the market, but prices improved thereafter. Investor interest initially was lukewarm but then it picked up somewhat, particularly for the longer issue, as the offering appeared relatively attractive against the background of a strong corporate bond market with a limited volume of new issues on the near-term calendar. Subscriptions for the refunding amounted to 18 per cent of public holdings, and the Treasury issued $2.2 billion of the 4 per cent bonds of 1970 and $892 million of the 4¼'s of 1975-85. The Treasury allotted in full all subscriptions to the 4's and allotted 83.5 per cent of the large subscriptions to the 4¼'s (except subscriptions from official accounts, which were allotted in full).

On the basis of a broad investment demand, which was also a feature of the corporate and municipal bond markets, prices of Treasury notes and bonds improved into early February. The Treasury carried out its refinancing of $8.4 billion of February 15 maturities—including $4.3 billion publicly held—in a routine fashion with the issuance of a 3⅞ per cent, 18-month note and a 4 per cent, 30-month note. Market sentiment was encouraged by official comments suggesting that interest rates might be near their

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peak for the year and by the strength of prices in the corporate bond market.

A more hesitant atmosphere began to spread through the market as February wore on, however—reflecting the talk, noted earlier, of a possible move toward less monetary ease after passage of the tax reduction bill and widespread speculation in the press that the Bank of England might raise its discount rate. Weighing the implications of these possibilities for domestic interest rates, Government securities dealers stepped up their efforts to distribute the securities acquired during the Treasury's financing operations, and prices edged lower.

February 20–May 20: Maintaining reserve availability in a period of changing interest rate expectations. During the February 20-May 20 interval, investor views concerning the outlook for interest rates swung widely, imposing extended price movements on the bond markets that tended to overshadow the influence of the smoothly functioning money market. Prices of bonds fell irregularly from mid-February through late March, and then moved upward into the second half of May. In this environment Federal Reserve open market operations maintained a reserve availability that fostered continued growth in bank credit and money while keeping generally firm and steady conditions in the money market as changes in expectations were running their course in the capital markets.

In fostering steady conditions, the Federal Reserve provided the reserves that enabled the banking system to accommodate without strain the large financial flows associated with corporate dividend and tax payments in March and with individual income tax payments on April 15. Commercial banks as a group tended to liquidate or shorten their investments during this period, but this reflected the banks' own shifting assessments of prospective interest rates rather than any curtailment of reserves.

Federal Reserve operations alternately provided and absorbed reserves over the February 20-May 20 interval. But provisions heavily outweighed absorptions, with the result that operations supplied a net of $1.1 billion during the period—largely to offset

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the impact on reserves of increases in currency in circulation and in member bank deposits. Of the net provision, $94 million was supplied through outright purchases of coupon-bearing issues.

The money market was firm, but not unduly so, in the period surrounding the mid-March tax date. The Federal Reserve remained at the edge of the market, ready to moderate pressures as they emerged—for example, on the tax date itself when the Federal Reserve acquired $208 million of Government securities under repurchase agreements. The smooth performance of the money market over the tax date reflected in large part the advance preparations by the money market banks to cope with credit demands of Government securities dealers and sales finance companies, which were replacing the corporate funds withdrawn to make tax payments. It also reflected their preparations to meet business loan demands directly. Some New York City banks countered a major portion of the scheduled maturity of time certificates of deposit on the tax date by offering, for a brief period around that time, a rate of 4 per cent for 6-month time deposits.

In the interval from March 5 to March 25 the market was not without crosscurrents, however. After trading as low as 2½ per cent on Wednesday, March 18, Federal funds were bid for aggressively at 3½ per cent later that day, and member bank borrowing from the Reserve Bank shot up to $953 million—chiefly, it was learned later, because of an unexpectedly rapid accumulation of Treasury tax receipts at the Reserve Banks. In the following statement week, in contrast, reserve availability bulged unexpectedly over the week end, and Federal funds traded in volume below the discount rate toward the end of the week.

Crosscurrents also developed in mid-April. On April 15 the Treasury made heavy calls on its commercial bank depositaries to meet needs stemming from its redemption of $2.5 billion of Treasury bills that matured that day. In part because of this, the major commercial banks found themselves unable to cover their accumulated reserve deficiencies in the Federal funds market, and member bank borrowings from the Reserve Banks expanded sharply to $772 million. Within a few days, however, pressures

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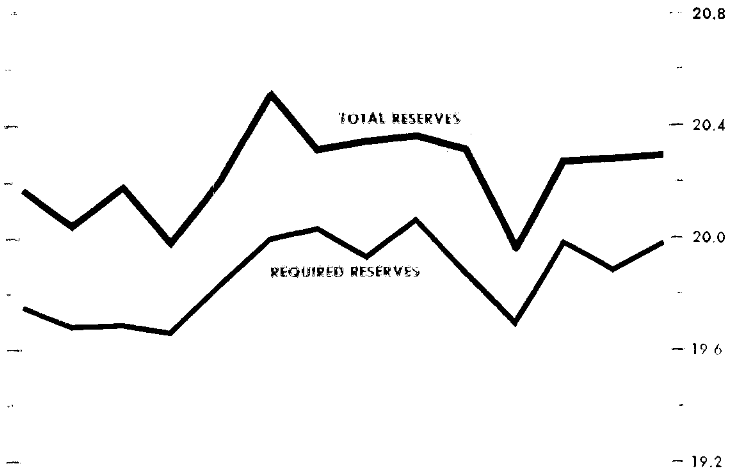
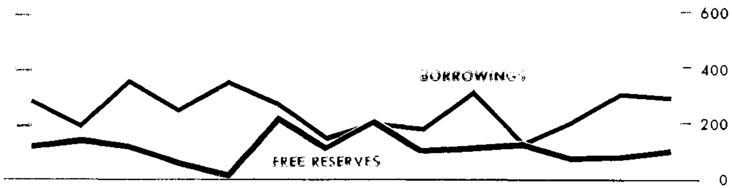
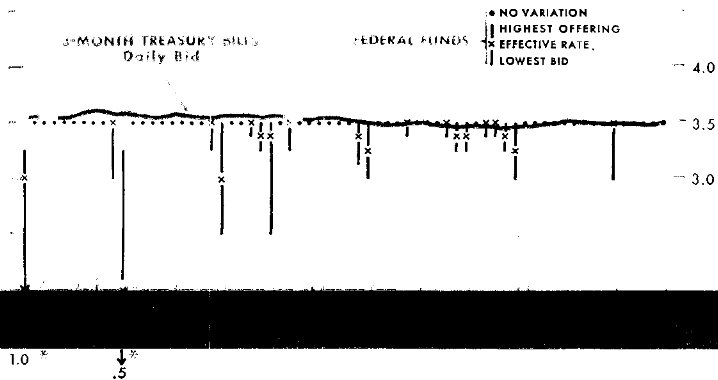
Member Bank Reserves and Borrowings, and Rates on Treasury Bills and Federal Funds







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on the central money market began to abate as the Treasury redeposited with its large depositaries, the "C" banks, the proceeds of individual income tax payments made on April 15 and drawn on banks all over the country. In this way, more than $2 billion was shifted temporarily to the money market banks within the 10-day period from April 22 to May 1. As a result, a comfortable tone developed in the money market. This massive redistribution of reserves more than counterbalanced the effects of a moderate decline in average free reserves in the 3 weeks after April 15. In early May the Treasury recalled the special redeposits made earlier at the "C" banks and the money market firmed again. Federal funds traded predominantly at 3½ per cent, and member bank borrowing from the Reserve Banks rose once more to the vicinity of $300 million.

In the bond markets, as noted earlier, prices of securities fell irregularly from mid-February until late March. First, discussion of the possibility of a rise in the discount rate of the Bank of England, and then its actual rise from 4 to 5 per cent on February 27, led to increased concern that higher rates would consequently be necessary in the United States. In the United States the passage of the Federal income tax cut in late February raised the clear prospect of an enlarged deficit to be financed, and there was some concern expressed that the tax cut might touch off a boom that would spill over in inflation. Evidence also accumulated of the economy's strong advance—for example, the large projected increase in capital spending and the climb of stock prices to record heights. A considerable body of opinion developed that the Federal Reserve Banks would have to raise their discount rates within a short time for both international and domestic reasons. The increase in the discount rate of the Bank of Japan in March reinforced concern about the prospect of rising rates abroad.

Against this background, dealers in Government securities sought to cut their inventories of securities, which they had in part acquired at higher prices from the Treasury in the January

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advance refunding and the February refunding. As the conviction grew among market participants that domestic interest rates were likely to be higher later in the year, commercial banks became more aggressive sellers of intermediate-term Treasury securities—partly in preparation for an anticipated pick-up in loan demand. Although some investor buying was attracted as prices declined, the pressure of offerings continued to push prices lower. By late March, yields on Government securities maturing in 3 to 5 years, the maturity area most affected by commercial bank selling, had risen to 4.25 per cent from 4.00 per cent in mid-February. Yields on longer-term issues also rose, but more mildly; in late March, yields on 3- to 5-year issues were actually above those on issues maturing after 10 years.

Prices of corporate and municipal bonds also moved lower, with investors showing scant interest in the yields prevailing on new issues. In the corporate bond market, where a relative scarcity of new issues tended to exert a stabilizing influence, yields rose by somewhat less than 10 basis points. Municipal bond yields, however, rose as much as 15 basis points because of the size of dealer inventories and the large calendar of prospective offerings. A feature of the market for corporate securities was the sale to the public of $1.2 billion of common stock of a communications corporation.

Around the end of March a feeling began to develop in the Government securities market that the drop in prices might have gone too far. Bank selling tapered off, and prices edged higher in a technical reaction. The heavy oversubscription by banks for $1 billion of new 3⅞ per cent, 16-month notes, which were offered on March 31 for cash to yield 4.10 per cent, contributed to the improved tone in the market.

Gradually, market participants gravitated toward the view that interest rates might remain stable near their current levels for some time. Reports of a marked improvement in the balance of payments in the first quarter led some observers to conclude that a rise in the Federal Reserve discount rate might not, after all,

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be required for international reasons. And as April advanced there were no signs that the tax cut was yet generating the exuberant consumer spending and strong upward price pressures that many had feared a few weeks earlier.

In this improved market atmosphere, the Treasury's offering in late April of an 18-month note and a 10-year bond to holders of the issues maturing on May 15 served to crystallize favorable sentiment. Public holders exchanged their holdings for $1.5 billion of the new 4¼ per cent bonds of 1974, which were offered at par, and $2.1 billion of the 4 per cent notes, which had been priced to yield 4.09 per cent. Market participants were encouraged by the strong interest in the 10-year bond—a substantial volume of which was reportedly taken by banks to serve as high-yielding collateral for public deposit accounts. Official comments suggesting that there appeared to be no immediate prospect for an increase in interest rates also added to confidence in the near-term outlook for rates. Prices of U.S. Government notes and bonds rose through the remainder of the period, so that by May 20 prices of many issues were almost back to the levels of mid-February. Yields on new corporate and municipal bonds also declined during April and May, giving up most of their earlier rise.

The Treasury bill market was also affected by the shifts in expectations in the bond markets during the February-May period. But the pattern of response differed. Bill rates rose before, and right after, the Bank of England raised its discount rate on February 27. The 3- and 6-month bills reached peak rates of 3.60 and 3.77 per cent bid, respectively, around the end of February.

Nevertheless, demand for Treasury bills proved very strong throughout the month of March—particularly for the shorter maturities, as one would expect when there is uncertainty about the future course of interest rates. Special factors also contributing to the consequent downward movement in rates were large purchases of bills by German commercial banks and advance investment in short-term securities of a portion of the proceeds of the $1.2 billion stock offering mentioned earlier. By March 26 the rate on 3-month bills had declined to 3.54 per cent bid—the

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level of February 19—while the yield spread between the 3- and 6-month bills had widened from 14 to 20 basis points.

Near the month-end the bill market was encouraged by the Treasury's decision to raise cash through a 16-month note rather than through bills. Demand remained strong, and the market also anticipated the reinvestment of the proceeds of the $2.5 billion of 1-year bills maturing on April 15. By early April the 3-month bill rate had fallen below the discount rate for the first time since December 1963, and rates continued under downward pressure throughout April. As fears of higher domestic interest rates receded, investors gradually sought to obtain the higher yields available on longer bills. By the end of April the 3-month bill was bid at 3.45 per cent and the 6-month bill at 3.59 per cent, the rates on each being about 8 basis points below the rates prevailing on comparable issues in mid-February. Subsequently, bill rates moved in a narrow band, the 3- and 6-month issues closing on May 19 at 3.49 and 3.60 per cent bid, respectively.

May 21–August 19: Maintaining a climate of reserve availability. System open market operations during the May 21-August 19 interval provided for the accommodation of bank reserve needs in a period when the money market was generally steady. In this environment the banking system passed successfully the usual test posed by the June dividend and tax dates as to its capacity to create deposits and to facilitate large-scale shifts of money and securities. The large currency flows associated with the July 4 holiday were also accommodated without strain. Subsequently, in July and August, the money and Government securities markets handled smoothly a large volume of Treasury financing while short- and long-term interest rates remained steady.

The Federal Reserve maintained a generally firm tone in the money market throughout the period. Average member bank borrowing from the Reserve Banks in most weeks held in a range of $200 million to $350 million, and Federal funds traded fairly consistently at the 3½ per cent discount rate. The Federal Reserve through open market transactions supplied $915 million of reserves over the entire 3-month period—typically pumping in

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large amounts around the end of the month and then withdrawing reserves over the midmonth to counter the rise in float.

In providing reserves, the Federal Reserve relied primarily on outright purchases of Treasury bills in the market and from foreign accounts. Purchases of $219 million of Treasury coupon securities in the market were an important supplementary means of injecting reserves in early June and again in early August, when market conditions and Treasury financing operations allowed this to be done. The Federal Reserve also made increased use of purchases of Treasury issues under short-term repurchase agreements —both to supply reserve needs that were expected to be temporary and to relieve pressures that developed from time to time.

The money market was both steady and firm around the end of May when there were modest pressures related to the Memorial Day holiday. Looking forward to the June dividend and tax dates, banks in the major money centers prepared for the special pressures expected then by reducing the basic-reserve deficiencies that they had been recording and that they had covered largely by purchases of Federal funds. In part, they prepared through the aggressive placement of new negotiable time certificates of deposit; major New York City banks alone increased their outstanding certificates by $259 million in the 4 weeks ended June 3.

The June 10 date, on which major corporate dividend payments were made, passed almost routinely. The inflow of dividend money to New York City banks helped them to refinance the Government securities returning to dealers under maturing repurchase agreements from corporations seeking cash balances with which to make dividend payments. Over the June 15 corporate tax date, however, reserve pressures mounted sharply, especially for the major New York City banks. These banks met a large share of the residual financing needs of Government securities dealers, made loans to businesses and sales finance companies, and experienced a drop in their time certificates of deposit outstanding. A rise in nationwide reserve availability, which was fostered by Federal Reserve action to supply reserves through repurchase agreements, provided additional lubrication to the

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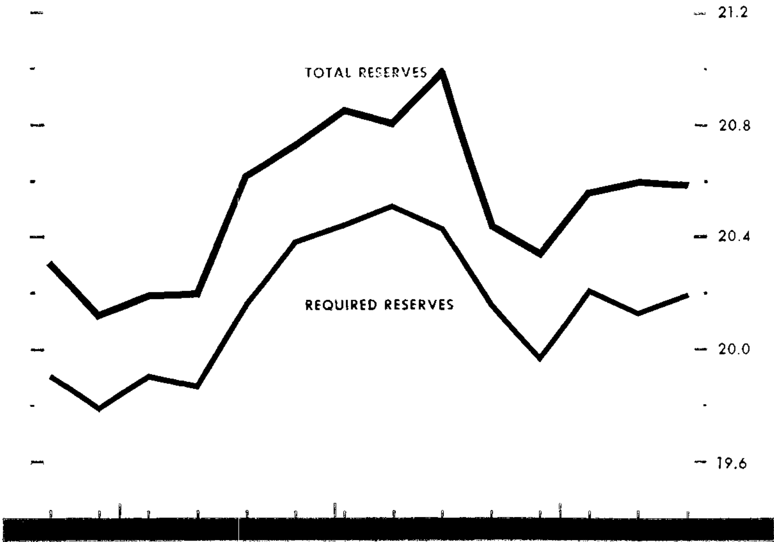
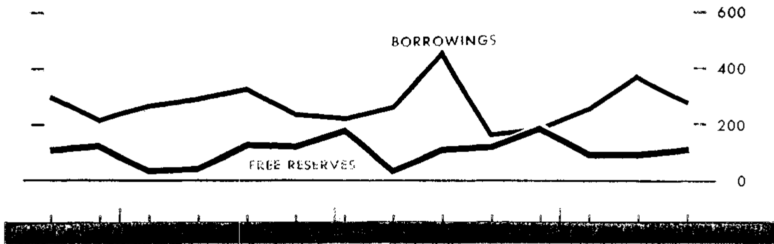
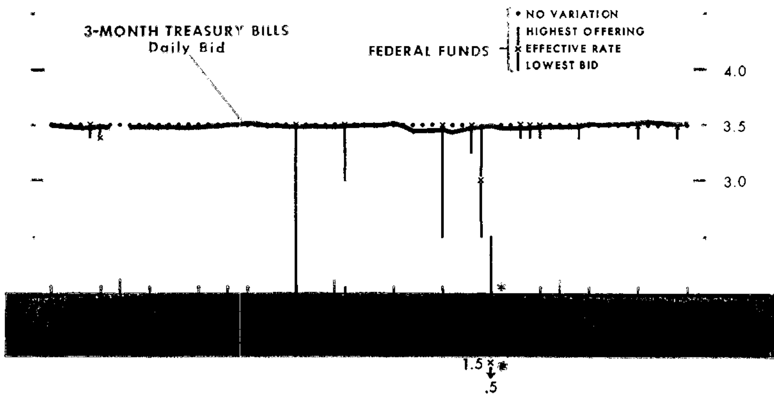
Member Bank Reserves and Borrowings, and Rates on Treasury Bills and Federal Funds







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monetary machinery over the period of maximum pressure. The New York City banks were able to cover most of their increased needs in the Federal funds market, while the major money market banks outside New York experienced little pressure. Member bank borrowing from the Reserve Banks rose only slightly.

In the Treasury bill market, as corporate selling appeared on a moderate scale, bill rates edged up 3 to 4 basis points from late May to mid-June—carrying the 3-month bill as high as 3.51 per cent bid. Subsequently, demand for bills revived, and rates tended lower. Demand was particularly strong for the popular late-December maturities then being auctioned, and the yield spread between 3- and 6-month maturities declined to as little as 2 basis points in early July.

As noted earlier, Treasury financing operations played a major role in activating the financial flows that passed through the money market in July and August. The advance in prices of Treasury notes and bonds, which had been interrupted briefly in late May, resumed in June. By the end of that month prices of most issues were at their highest levels of the year. The sturdy performance of the market, despite growing expectations that the Treasury would soon add to the supply of intermediate- and long-term securities, gradually generated a conviction that existing interest rate levels accurately reflected supply and demand forces in the credit market and that these levels were likely to be sustained for some time. In this atmosphere, and with its cash position adequate for immediately foreseeable cash needs, the Treasury announced on July 8 its largest advance refunding to date. Holders of nine issues maturing within 3 years (involving public holdings of $26.6 billion) were offered the opportunity to exchange these issues for securities maturing in 5, 9, and 28 years.

Market participants responded enthusiastically to the terms of the advance refunding, exchanging $9.3 billion of the shorter issues into the three securities being offered—considerably more than most observers had expected. The large response was taken by many to reflect widespread confidence in the tenability of prevailing interest rates. A statement by the Treasury, at the time

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the refunding was announced, that it would not undertake additional financing in the long-term area over the remainder of the year reinforced this belief. After the initial downward adjustment of longer maturities to the terms of the offering, prices tended to rise throughout the list.

The Treasury's financing operations placed heavy demands on the money market. Government securities dealers bought a huge volume of the advance refunding rights from holders who did not wish to make the exchange. Dealers sold a lesser amount of the when-issued securities for delivery on the July 22 settlement date to investors who wanted to buy the new securities. Meanwhile, the dealers also sold large amounts of Treasury bills to sellers of the rights and to other investors, and by so doing they reduced the impact of their rights acquisitions on their total financing needs. These needs still rose by $1 billion over a 2-week period, however, to an average of almost $4.8 billion in the week ended July 22, as dealers accumulated enough rights to enable them to emerge from the advance refunding with a large net stake in the securities being issued.

The burden of the increase in dealers' financing requirements fell on the banking system, whose lending to the dealers rose by nearly $900 million on the average over the 2 weeks ended July 22. The Federal Reserve took the edge off peak pressures by making repurchase agreements on a large scale in the week ended July 15; even so, average member bank borrowing from the Reserve Banks rose to $460 million in that week. In the following week excess reserves accumulated by country banks in the July 15 week spilled into the money centers. Average member bank borrowing fell sharply, and Federal funds traded predominantly at 1½ per cent on Wednesday, July 22, the final day of the biweekly reserve period for country banks. This temporary easing occurred despite the absorption of $1,046 million of reserves through Federal Reserve open market operations in Government securities in the course of the week.

The advance refunding also left its mark on the Treasury bill market. Demand for Treasury bills from sellers of the rights

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augmented reinvestment demand from holders of the $2 billion of 1-year bills maturing on July 15. Dealers sold more than $2.25 billion of bills net in the week ended July 15 from their earlier holdings and from the bills awarded them in that week's auction. Under the pressure of such demand, Treasury bill rates dropped sharply; the rate on 3-month bills fell as low as 3.42 per cent bid on Thursday, July 16. With a simultaneous rise in rates on British Treasury bills, the covered differential in favor of London on 3-month bills widened to 55 basis points. Under these circumstances the Treasury announced on the following Monday that it would sell a $1 billion strip of bills on July 24. Rates immediately rose, carrying the 3-month bill rate back to 3.50 per cent bid.

Investor demand for the Treasury securities issued in the advance refunding continued good into early August, especially for the 4¼ per cent bonds of 1987-92. The market's fine performance contributed to general confidence in prevailing price levels. In this environment the Treasury offering for cash of $4 billion of new 3⅞ per cent notes of February 1966 on Monday, August 3, was well received, with large public subscriptions subjected to a 15 per cent allotment. The new issue enabled the Treasury to pay off on August 15 at maturity $4.1 billion of issues not exchanged in the advance refunding, for which they had been eligible.

Soon after the cash offering came the U.S. naval action in the Gulf of Tonkin and the flare-up in the Cyprus situation. In addition, concern over the U.S. balance of payments was intensified by talk of an apparently increased deficit in the second quarter, and in July as well. Discussion of a possible rise in steel prices and the approach of labor negotiations in the automobile industry also exerted a restraining influence. Prices dipped temporarily in response to these factors, but later edged upward through mid-August. A renewed investment demand enabled Government securities dealers to make moderate further progress in reducing their still large holdings of securities acquired in the Treasury's July-August financing.

Rates on Treasury bills moved irregularly higher from late

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July through late August. Contributing to this result were not only the Treasury's sale of additional bills, but also a letup in investor demand once the advance refunding was over, and a return of firmer conditions to the money market after a period of reduced pressure in late July. At the same time, the market was expecting that the Treasury would sell $1 billion to $1.5 billion of March tax anticipation bills in late August. By August 19, rates on the 3-, 6-, and 12-month bills outstanding stood at 3.50, 3.62, and 3.67 per cent bid, up 1 and 2 and down 3 basis points, respectively, from the rates prevailing on similar maturities on May 19.

In the corporate bond market prices moved narrowly through most of the May-August period as demands for long-term funds were met by a supply of savings seeking outlets in corporate bond issues. In the municipal bond market, the substantial continuing flow of new issues led to periodic congestion. While advertised dealer inventories of tax-exempt issues reached a 1964 peak of just over $700 million in early August, underlying demand remained good and dealers were able, through some price cutting, to reduce their holdings in August.

August 20–November 18: Gradual move to slightly less monetary ease. At its August 18 meeting the Federal Open Market Committee modified its policy and issued a directive calling for open market operations to be conducted with a view to "maintaining slightly firmer conditions in the money market, while accommodating moderate expansion in aggregate bank reserves." In carrying out the Committee's new instructions, the Account Manager moved cautiously to avoid generating concern that a more pronounced shift was under way.

The task was complicated by the fact that a more hesitant tone had crept into the market for U.S. Government securities at about the time of the Committee's decision. In this atmosphere, with the portfolios of dealers and other quasi-underwriters still swollen with coupon issues acquired in the Treasury's recent financings, there was a real risk that any sizable shift in an indicator of the Federal Reserve's posture, such as free reserves, could

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set off a sharp change in investor expectations and a rise in interest rates that would substantially exceed the Committee's intentions.

Over the entire interval from August 20 to November 18, Federal Reserve operations supplied another $1.5 billion of reserves, a sizable portion of which provided for credit and deposit expansion. The net increase was achieved largely through purchases of $602 million of coupon-bearing issues, the net addition of $504 million to holdings under repurchase agreements, and $427 million of net purchases of bills from foreign accounts. Market purchases and sales of bills about offset each other as the Manager sought, in carrying out the Committee's slight shift in policy, to achieve some increase in bill rates.

At the start of the period the Federal Reserve sought to set in motion a gradual process, the aim of which was to communicate to the public that a decision to shift policy had been made but that the shift was a gentle one. To this end, it undertook to supply reserves a little more slowly than they were being absorbed by market factors associated with the August month-end and the approaching Labor Day holiday. To encourage a rise in Treasury bill rates, despite countervailing investor demands, the Federal Reserve relied heavily on purchases of Treasury notes and bonds, which were available in the market at gently declining prices.

In the 3 weeks ended September 9, purchases of $408 million in Government coupon issues were supplemented by a net increase of $360 million in Treasury securities held under short-term repurchase agreements, so that only $127 million of Treasury bills were bought outright. In these initial weeks the Federal Reserve was able to produce a slight rise in member bank borrowings and to reduce free reserves slightly—although large after-the-fact upward revisions in the figures for free reserves tended to blunt the public's awareness of the shift under way.

Crosscurrents in the money market also proved troublesome. On the eve of the Labor Day holiday, despite Federal Reserve action to supply reserves, reserve city banks as a group borrowed heavily at the Reserve Banks. This appeared to stem in large

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AUGUST 19—NOVEMBER 18, 1964

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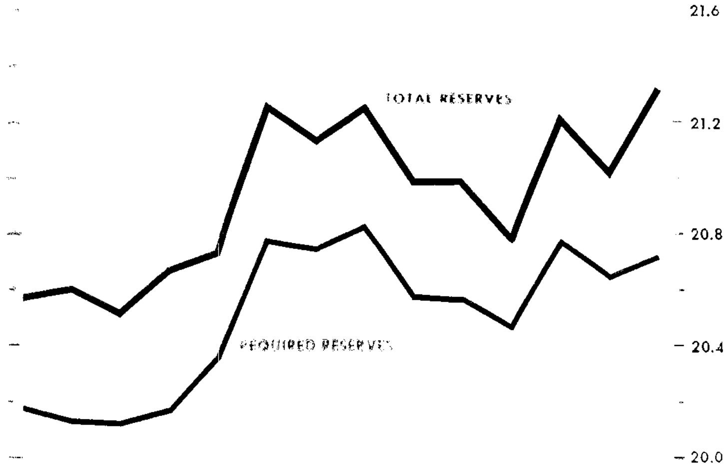

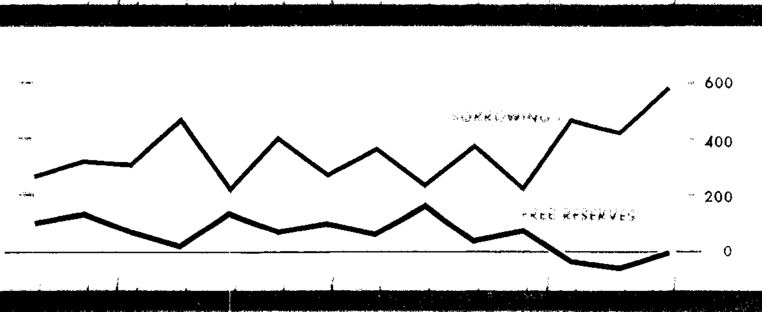

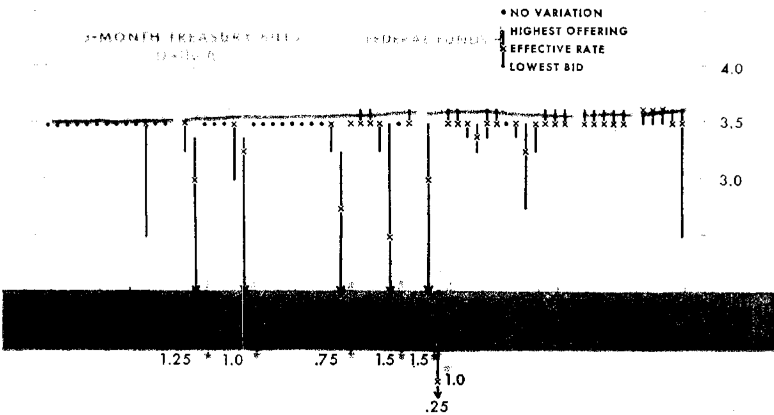

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part from the fact that country banks retained their excess reserves instead of making them available to other banks through the Federal funds market. Subsequently, the excess reserves built up over the long week end came flooding into the money market. As a result the Federal funds rate declined to as low as 1¼ per cent on Wednesday, September 9.

At the low rates a number of the larger country banks entered the market as purchasers—stockpiling funds for use in the second week of their reserve-averaging period. Consequently, an unusually heavy flow of reserves from country banks to their reserve city bank correspondents developed at the end of the September 16 reserve week. This helped the reserve city banks to meet the demands made upon them in connection with the quarterly tax date on September 15. Federal funds were available in heavy volume at 3½ per cent that day, and on the following day trading was predominantly at 3¼ per cent. Member bank borrowings from the Reserve Banks dropped to an average of $225 million in the September 16 week from $478 million in the previous week.

Treasury bill rates were slow to respond to the subtle change in Federal Reserve policy. Investor demand proved strong. In addition, the 3-month bills carried very popular December maturity dates, which normally cause those bills to trade several basis points below rates on surrounding issues. Partly to offset this technical factor, the Treasury announced in early September that it would add $100 million to each issue of bills maturing from December 10 through December 31. This action, and the onset of the September dividend and tax dates, brought some upward pressure on Treasury bill rates. This pressure was augmented by Federal Reserve sales of Treasury bills in the market in the mid-September weeks.

A spreading awareness during September of the slight shift in Federal Reserve policy contributed to the upward drift in Treasury bill rates. Money market conditions became considerably firmer after the corporate tax date as the major reserve city banks

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came under increased pressure and as money that had been shifted from country banks to the money centers around the tax date moved back to those banks. Pressure on the major reserve city banks stemmed from their financing of Government securities dealers and from a large rise in loans to businesses and sales finance companies, as well as from a sharp drop in their negotiable certificates of deposit outstanding. Rates posted by the major New York City banks on dealer loans rose as high as 4⅛ per cent in late September and October. Responding in part to the upward pull of financing costs, the average issuing rate on 3- and 6-month Treasury bills rose to 3.58 and 3.74 per cent, respectively, on October 5, when the 3-month issue no longer involved the popular December dates.

The Treasury bond market made a sustained but orderly downward adjustment in prices from late August through mid-September. During this period Government securities dealers became restive about their large inventories in the face of the economy's strong expansion, of budding inflationary fears that were being stimulated by wage settlements in the automobile industry, and of concern over the continuing problem of the nation's balance of payments. The publication of a lower free reserve level for the September 2 statement week also prompted discussion that the Federal Reserve might be moving toward a less easy monetary policy. As prices worked lower, dealers were willing sellers and this enabled the Federal Reserve to make substantial reserve injections around Labor Day by purchases of coupon-bearing issues. As September wore on, however, and as dealers' inventories declined substantially, prices of Government bonds rebounded in a technical reaction that was later reinforced by the growing conviction that the shift in Federal Reserve policy had been a slight one.

Against the firmer money market of early October, a major New York City bank began on occasion to bid 3⅝ per cent for Federal funds—⅛ per cent above the Federal Reserve discount rate—in an effort to introduce greater flexibility into the Federal

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funds market and to attract excess reserves beyond its reach. At first, the practice attracted little following, particularly since the money market became very easy after the 3-day week end that included Columbus Day, and there appeared to be little point in bidding aggressively for funds. In early November, however, when a surge in deposit expansion in country banks limited the flow of Federal funds to the central money market, a somewhat larger number of banks began to bid 3⅝ per cent for Federal funds in competition with those already bidding that rate, and funds traded predominantly at 3⅝ per cent on a number of days.

Rates on Treasury bills fluctuated narrowly in October and the first half of November, with the rate on 3-month bills ranging between 3.55 and 3.60 per cent and the rate on 6-month bills moving in a range of 3.70 to 3.78 per cent. The Treasury, looking ahead to the prospect of making net repayments of debt in the first half of the 1965 calendar year, met much of its seasonal needs for cash by selling $1 billion of March 1965 tax anticipation bills in late August, by offering an additional $1.5 billion of such bills in October, and by offering $1.5 billion of June tax anticipation bills in November. In addition, high dealer financing costs in a generally firm money market tended to insure built-in resistance to any significant decline in rates. In this environment, rates held steady despite continuing investment demand and large-scale purchases of Treasury bills by the Federal Reserve around the end of September and the end of October.

In the Treasury bond market a more cautious tone reappeared in early October. Against the background of domestic economic strength and of concern about wage-price developments after the settlement of the wage contract in the automobile industry, market participants interpreted official comments as suggesting the possibility of a less stimulative monetary policy later in the year. The approach of the British elections on October 15 also led to some concern that the Bank of England might raise its discount rate.

In the second half of October, however, statements by the

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British authorities that they had no intention at that time of lifting rates, together with the checking of the momentum of the U.S. economy—and hence of inflationary sentiment—caused by the auto strike, led to a strong and sustained rally in Government bonds. Prices of many intermediate- and long-term issues reached their highest levels of the year around November 12. In this kind of market atmosphere, the Treasury's cash offering on November 2 of $9.5 billion of 4 per cent, 18-month notes was heavily oversubscribed. Large public subscribers were alloted 16.5 per cent of their subscriptions, and the public took up $3.1 billion of the issue.

During most of September, prices in the corporate and municipal bond markets moved lower, reflecting the weight of a large volume of new issues and concern over the interest rate outlook. In the corporate bond market a somewhat hesitant atmosphere continued to prevail through much of October, and modest price cutting was necessary around midmonth to move unsold issues. Subsequently, however, the buoyancy affecting the Government securities market spread to the corporate sector. Prices of corporate issues in this period were also aided by the dearth of new public offerings scheduled for November. Demand for tax-exempt bonds continued good, and these issues moved irregularly higher in price through most of October and November; from time to time, however, price cutting was necessary on individual issues.

November 19–December 31: Moderating adjustments in interest rates in the wake of British and U. S. discount rate changes. Money and capital markets in this country were generally steady and quiet on the eve of the increase from 5 to 7 per cent in the Bank of England's discount rate on Monday, November 23, for the purpose of dealing with a major speculative attack on the pound sterling. Immediately before the British move, Treasury bill rates had edged up slightly in a firm money market as market participants began to view the approach of the December tax and dividend period with a measure of caution. Prices of Treasury notes and bonds

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had declined slightly after a month-long rise, while prices of corporate and municipal bonds were firm.

The timing and extent of the British rate action took U.S. financial markets by surprise. While there had been some concern over the prospects for sterling, the announcement that the discount rate had been raised by as much as 2 percentage points—and on a Monday morning rather than on the traditional Thursday—caught market participants off balance. Nevertheless, the market again demonstrated its extraordinary capacity to make orderly adaptations to sharp and sudden changes. Price declines in Treasury bonds were limited to about ½ point while Treasury bill rates rose only 10 to 15 basis points despite the Treasury's auction of new 3- and 6-month bills that day and the prospective auction of $1 billion of 1-year bills the next day.

Attention then focused on the Federal Reserve discount rate, with most observers expecting that a move to 4 per cent would come before the end of the year. The announcement the same day (November 23) of an increase in the rate to that level, as a protective measure, removed the uncertainties. The move was accompanied by an upward revision in Regulation Q ceilings on permissible rates on time and savings deposits. A further, but smaller, downward adjustment in bond prices and a rise in bill rates followed on Tuesday. The market then steadied temporarily, encouraged to a major degree by Chairman Martin's statement at the time of the discount rate rise that credit would continue to be made available for domestic economic expansion. On Wednesday, November 25, prices weakened in response to the news that sterling had again come under heavy attack despite the increase in the British discount rate. The announcement that afternoon that 11 nations and the Bank for International Settlements had joined to provide a credit of $3 billion to the British produced an immediate turn-around in the Government securities market, as well as in the foreign exchange market, and prices steadied above their lows reached earlier in the day.

In the new environment the Federal Reserve sought to facilitate the adjustment of the market to the official rate actions abroad and at home. With the Government securities dealers well

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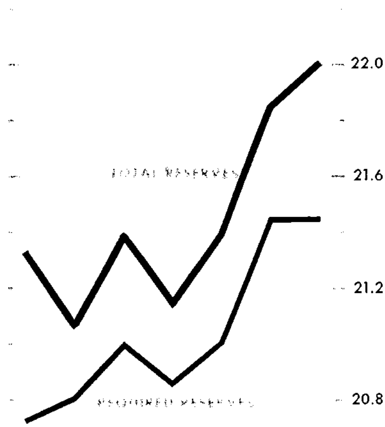
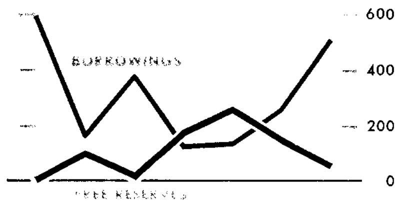
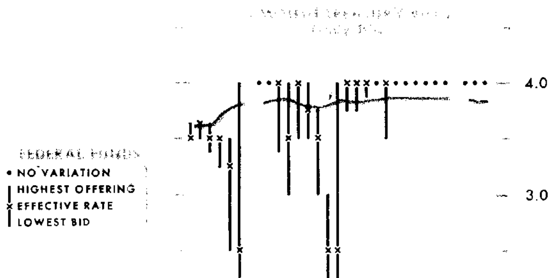
Member Bank Reserves and Borrowings, and Rates on Treasury Bills and Federal Funds







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stocked with short-term issues but not overloaded with longer-term issues, there was a good prospect that if the short-term market adjusted in orderly fashion, the capital markets would do so too. On the other hand, if the short-term market became disorderly, similar conditions would probably follow in the bond markets. Accordingly, the Federal Reserve's first operations were carried out in the short-term market. In that market it purchased $607 million of Treasury bills during the calendar week ended November 27.

As the markets steadied after the damping down of the exchange market crisis, attention turned to the longer-run implications of the rise in the domestic discount rate. Prices of Treasury coupon securities began to erode further, with some selling by commercial banks in evidence. Announcements of an increase of ¼ percentage point in the prime lending rate by several large banks located throughout the country contributed to the market's nervousness. Treasury bill rates also moved higher as Government securities dealers found that the major New York City banks were posting loan rates of 4 to 4¼ per cent, in line with the 4 per cent rate then prevailing in the Federal funds market. Average issuing rates on the 3- and 6-month bills auctioned on November 30 were 3.868 and 4.030 per cent, each up about 25 basis points from the averages for comparable issues offered 2 weeks earlier. After that auction, rates began to edge still higher amid talk that the rate on 3-month bills would settle near the new discount rate.

In the wake of the directive given at the Committee's December 1 meeting (see p. 121 of this REPORT), the Account Manager took action to underscore the intention of the Federal Reserve to maintain reserve availability. To do this he bought $106 million of Treasury coupon securities and a large volume of Treasury bills. (No purchases of coupon securities had been made up to this time because the market had been adjusting well and the Federal Reserve did not want to appear to be aborting the adjustment.) At about the same time President Johnson indicated

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that he saw no reason for any increase in bank lending rates. Almost immediately after that one of the large banks that had raised its prime rate rescinded the increase.

Taken together, these developments produced a rapid reversal in market sentiment. Prices of Treasury notes and bonds snapped back quickly, and by December 11 many issues were above the year's previous highs set a month earlier. Treasury bill rates dropped back about 10 basis points as dealers, who had been willing sellers as rates moved higher, found their inventories substantially depleted. In this environment the Federal Reserve, which had bought $1,037 million of Treasury bills in the week ended December 2, found a ready market for the considerably smaller volume of bills it sold in the following week.

During the remainder of December the Federal Reserve directed its open market operations at accommodating the heavy seasonal reserve needs of the period while moderating upward pressures on short-term interest rates, particularly Treasury bill rates. As has been done a year earlier, average free reserves were allowed to rise in December, to about $140 million, to avoid a build-up of excessive strains over the quarterly dividend and tax dates and around the year-end statement date for banks. In addition, the Federal Reserve made large purchases of Government securities under repurchase agreements, and for the first time since March 1962 these carried a rate below the discount rate. This action was directed at moderating the impact of the heavy seasonal pressures on the Treasury bill market by lowering dealers' financing costs.

Between December 10 and December 31 the Federal Reserve made almost $2.2 billion in very short-term repurchase agreements in order to deal with the seasonal pressures that developed. The net increase in its holdings of Government securities under such contracts was $537 million. Over the same interval, but with different timing, the Federal Reserve redeemed or sold, net, $423 million of Treasury bills. Reflecting the Federal Reserve's activity as well as the extensive preparations made by the larger

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banks for peak seasonal needs, the money market readily accommodated an unusually large flow of funds. Federal funds traded predominantly at 4 per cent, but there were ample funds available at that rate; during the first half of the month there was considerable trading at even lower rates. Member bank borrowing from the Reserve Banks averaged $254 million in the 4 weeks ended December 30, compared with $431 million in the 4 weeks ended November 18.

Vagaries of the calendar contributed to the money market problems during the month. For the first time since 1959 the major dividend date and the corporate tax date fell within a single statement week. On December 10, when over $1.1 billion in dividends were paid by major corporations, nonbank dealers in Government securities needed about $1.2 billion of funds. Since this was a Thursday, the need reflected not only the maturing of repurchase agreements with corporations, but also the dealers' need for funds with which to pay for the unsold portion of their record awards of almost $1.1 billion of Treasury bills in the preceding Monday's auction. With higher bank lending rates threatening to pull bill rates as well as the entire rate structure higher, the Federal Reserve made a substantial volume of repurchase agreements against Government securities at 3.85 per cent. The money market atmosphere eased immediately.

Nevertheless, financing costs remained high, and on the December 15 corporate tax date and on several subsequent occasions the Federal Reserve made repurchase agreements at 3⅞ per cent. The atmosphere that prevailed in the Treasury bill market on the tax date was one of caution; selling was moderate, and demand fell off. But the injection of reserves at 3⅞ per cent tempered the tendency for bill rates to rise.

Special problems were encountered on the final day of the year, which happened to fall on a Thursday. The market's need for credit—typically high on Thursday—was particularly heavy on December 31, since dealers had to pay both for their unsold Treasury bills obtained in the weekly auction and for unsold

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1-year bills acquired in the regular monthly auction on December 23. Furthermore, since banks usually publish statements of condition for December 31, most banks were less willing than usual to borrow Federal funds from other banks or to borrow from the Reserve Banks in order to support dealer loans on that day. (In other years banks have borrowed heavily on 1-day loans from the Reserve Banks on December 30 and built up their excess reserves in order to finance dealer loans at the year-end. This alternative was ruled out in 1964, however, since reserve city banks could not carry over into the new statement week any excesses built up on Wednesday, December 30.) All market participants anticipated the special problems of that day, however, and advance preparations were made to reduce it to manageable proportions. For its part, the Federal Reserve was prepared to provide through repurchase agreements whatever volume of reserves might be necessary to finance the market on that day, but it turned out that no unusually heavy volume of repurchase agreements was necessary.

Treasury bill rates moved narrowly throughout December, in part because of the Federal Reserve's actions described above. In the final auction of the year, 3- and 6-month bills sold at average rates of about 3.87 and 3.96 per cent, respectively, compared with 3.60 and 3.77 per cent before the increase in the British discount rate. Prices of Treasury notes and bonds drifted lower during the last 3 weeks of the year as concern over the position of sterling persisted and as the market weighed the possibility that the Treasury might offer additional intermediate- and long-term securities in January, through either a cash financing or an advance refunding. The decline was mild, however, reflecting the feeling that interest rates in 1965 might be stable or that they might decline under the weight of substantial flows of savings. And indeed, on December 30, when the Treasury announced a large-scale advance refunding of nearby maturities, to be accomplished in the opening days of the new year, it appeared that the public would give a favorable reception to the offering.

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In the corporate and municipal bond markets, prices dropped sharply after the increases in discount rates here and abroad, but they soon worked back toward their earlier levels. New corporate issues, in fact, sold well at about the same yields as those prevailing a month or two earlier. Participants in the municipal market were encouraged by the upward revision in Regulation Q rate ceilings, for past experience led them to think that a good portion of any rise in time deposits would be placed in tax-exempt issues. (Banks in New York City and in several other large cities raised their rates on savings deposits to 4 per cent, thus improving their position in the competition for savings.) The volume of municipal issues was sizable and bidding was aggressive, with commercial bank investment interest reported strong. By the end of December, yields on municipal issues were generally below those prevailing in mid-November.

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REVIEW OF OPEN MARKET OPERATIONS IN FOREIGN CURRENCIES

The Federal Reserve's network of reciprocal currency arrangements, developed and expanded during the past 3 years, was again extensively employed in 1964. Foreign central banks in particular made greater use of the swap facilities as payments positions in Italy, Japan, and the United Kingdom shifted sharply during the year.

Federal Reserve drawings on the swap network were completely repaid during the first half of 1964, as the improvement in the U.S. balance of payments in the second half of 1963 carried over into 1964. As the year progressed, however, it became increasingly clear that the improvement in our balance of payments had not been sustained, and as pressures on the dollar developed in foreign exchange markets, sizable new swap drawings by the Federal Reserve became necessary. These pressures were intensified by the backwash of a severe speculative attack on sterling during the closing months of the year.

As a reserve currency, the dollar is inevitably influenced by crosscurrents of payments flows between third countries. Consequently, the U.S. Treasury and the Federal Reserve have often engaged in exchange operations designed to protect the dollar and the U.S. gold stock from any adverse effects of such payments flows. During the winter months of 1963-64, for example, the large surplus in the German balance of payments was accompanied by a very large deficit in Italian payments. This imbalance within the Common Market brought about a simultaneous weakening of the lira and a strengthening of the mark against the dollar. Under the circumstances, Bank of Italy drawings of dollars from the Federal Reserve and Federal Reserve drawings of marks from the German Federal Bank served to temper potentially disturbing market pressures, with benefit for all concerned.

A second aspect of U.S. involvement in the German-Italian payments imbalance was the repayment by the U.S. Treasury

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during March-April of $200 million of lira bonds issued to the Bank of Italy in 1962 and the issuance to the German Federal Bank at about the same time of $200 million equivalent of mark bonds. The role of the United States in the international financial mechanism was further demonstrated in this case by the sale of $200 million of gold by the Bank of Italy to the U.S. Treasury in order to replenish the dollar reserves of the Bank of Italy. The Treasury immediately resold this gold to the German Federal Bank in recognition of the fact that the Italian deficit and German surplus were, to a considerable extent, opposite sides of the same coin.

Similarly, in the case of sterling pressures in the autumn of 1964, a good part of the outflow of funds from the United Kingdom showed up, sooner or later, in dollar gains by other countries, particularly on the continent. To cushion losses from its reserves, the Bank of England drew on its swap facility with the Federal Reserve. In turn, the Federal Reserve made use of its swap facilities with Belgium, Germany, the Netherlands, and Switzerland to absorb part of the dollars that were flowing into those countries. Thus here too, as in the earlier case of the lira, the United States found itself acting as an intermediary between those losing dollars and those taking them into reserves.

Quite apart from shifts of dollars from one country to another as a result of underlying payments imbalances, the dollar reserves of several countries increased as inflows of private funds were stimulated by relatively tight conditions in the money markets of those countries. Such inflows occurred in nearly all the continental countries at one time or another during the year, and Federal Reserve swap drawings were used in a number of instances to offset part of the resulting increases in uncovered dollar reserves.

During 1964 reciprocal currency arrangements with Belgium and the United Kingdom were increased to $100 million and $750 million, respectively (in October and November). This brought total facilities available under the swap network to $2,-

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FEDERAL RESERVE RECIPROCAL CURRENCY ARRANGEMENTS

Other party to agreement	Date of original agreement	Amount (in millions of dollars)		Term of arrangement (in months)[1]
		Original	Dec. 31, 1964	
	1962			
Bank of France	Mar. 1	50	100	3
Bank of England	May 31	50	750	12
Netherlands Bank	June 13	50	100	3
National Bank of Belgium	June 20	50	100	12
Bank of Canada	June 26	250	250	12
Bank for International Settlements	July 16	100	150	6
Swiss National Bank	July 16	100	150	6
German Federal Bank	Aug. 2	50	250	6
Bank of Italy	Oct. 18	50	250	12
Austrian National Bank	Oct. 25	50	50	12
	1963			
Bank of Sweden	Jan. 17	50	50	12
Bank of Japan	Oct. 29	150	150	12
Total			2,350	

[1] Term is that stated in latest renewal of agreement.

350 million as the accompanying table shows. Total drawings during the year, including those initiated by foreign central banks and those initiated by the Federal Reserve, amounted to $2,000 million, while repayments amounted to $1,939 million.[1] Since the inception of the swap network, such drawings have aggregated $3,558 million, of which $3,128 million or 88 per cent has been repaid. As of the end of 1964, the net debtor position of the Federal Reserve under the swap lines amounted to $95

[1] These figures differ somewhat from those in the table on p. 168, because disbursements and acquisitions, rather than drawings and repayments, are included for Belgium since they better reflect transactions under the fully drawn portion of the arrangement with the National Bank of Belgium.

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FEDERAL RESERVE NET DEBTOR POSITION UNDER RECIPROCAL CURRENCY ARRANGEMENTS

(In millions of dollar equivalent)

Other party to agreement	End of year	
	1963	1964
German Federal Bank	60	50
Bank of England	....	[1]−200
Swiss National Bank	75	....
Bank for International Settlements	145	100
Netherlands Bank	80	100
National Bank of Belgium	15	45
Bank of Italy	[1]−50	....
All parties	325	95

[1] Net creditor position.

NOTE.—Figures exclude undisbursed balances.

million, as against $325 million at the end of 1963, as shown in the accompanying table. The System's drawings on the swaps, which had amounted to $375 million at the end of 1963, were completely paid off by the end of June 1964. By the end of the year, however, its drawings had again risen to $295 million.

As in previous years, the bulk of the Federal Reserve's exchange operations took the form of direct transactions with foreign central banks. The Federal Reserve also engaged in market operations both in New York and, through foreign central banks, in foreign markets. Total foreign exchange transactions of the Federal Reserve in 1964—including purchases and sales directly with foreign central banks as well as in the market—amounted to $1.3 billion, as shown in the table on page 168. Operations for Treasury account came to $900 million, not including sales of foreign currencies drawn by the Treasury from the International Monetary Fund, which totaled $450 million in 1964.

Aside from spot transactions, the Federal Reserve Bank of New York again arranged third-currency swaps through the

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Bank for International Settlements—that is, it used balances in one foreign currency to obtain another currency—for Federal Reserve and Treasury accounts. During the year $82 million equivalent in such swaps were newly arranged, while $60 million old swaps were reversed. To date, transactions of this type have involved sterling, lire, Swiss francs, guilders, and German marks. In addition to third-currency swaps the Federal Reserve employed market swaps—that is, the simultaneous spot purchase and forward sale of a foreign currency—on a number of occasions during the year to reduce the incentives for funds to move to Canada and London on a covered basis.

In October, the Federal Open Market Committee authorized the Federal Reserve Bank of New York to undertake outright forward sales of foreign currencies for System account "for the purpose of influencing interest-arbitrage flows of funds and of minimizing speculative disturbances." [2] (The New York Bank had previously conducted operations of this nature on a substantial scale for the account of the Treasury.) Operations under the new authorization were undertaken toward the end of the year, when outright forward sales of Swiss francs and Netherlands guilders were employed to calm market uncertainties and prevent further increases in the dollar reserves of Switzerland and the Netherlands. The operations in Swiss francs were carried out for System account—the Treasury already had some Swiss franc forward commitments—while transactions in guilders were evenly divided between System and Treasury accounts.

During 1964 the Treasury continued to issue to foreign monetary authorities medium-term U.S. Government securities denominated in foreign currencies. During the year a total of $524 million equivalent in securities of this type were issued—$402 million equivalent in German marks and $122 million equivalent in Swiss francs—while $200 million equivalent of Italian lira bonds were redeemed. The total volume of Treasury securi-

[2] For the record of this action, see pp. 109-12.

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ties denominated in foreign currencies thus rose to $1,086 million equivalent.

Sterling. At the outset of 1964 sterling was already being affected by the deterioration in the United Kingdom's balance of payments during 1963 and by the uncertainties arising out of the general election scheduled for some time in 1964. In early February, sterling came under some speculative selling pressure. The main factors involved appear to have been expectations of a general election in the spring, publication of January data showing an unusually large trade deficit, and market rumors of a revaluation of the German mark. These pressures were resisted by Bank of England intervention in the exchange markets and, in a minor way, by Federal Reserve purchases of sterling in New York.

On February 27 the Bank of England raised its discount rate from 4 to 5 per cent. This action produced an immediate strengthening of market confidence in sterling, and the sterling rate recovered sharply. Following the increase in the discount rate, the British Treasury bill rate rose to a level about 0.60 per cent per annum over the U.S. bill rate, but the forward discount on sterling promptly widened and the covered arbitrage differential on Treasury bills settled at about zero. Immediately following the increase in the British discount rate the Federal Reserve and the U.S. Treasury cooperated with the German Federal Bank in both spot and forward operations in German marks. As detailed elsewhere in this report, these operations helped to dispel market rumors of a possible change in the mark parity, and thereby also helped relieve the pressure on sterling that had been coming from this source.

In early April, sterling strengthened further following the announcement that the British general elections would not be held until October. Immediately thereafter commercial interests that had previously postponed their purchases bought sterling to cover their near-term requirements, and by the end of April the spot rate for the pound sterling had risen to $2.8002. Demand

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from this source, together with the continued strength of the payments position of the overseas sterling area, bolstered sterling during April and most of May.

In the last few days of May, however, sterling once again came under pressure as the covering of commitments was completed and as very tight conditions in several continental money markets, as well as in the Euro-dollar market, led to a withdrawal of funds from London. Moreover, toward the end of June heavier-than-usual midyear window-dressing by continental banks put additional temporary pressure on sterling. To temper the impact of these movements of funds on official reserves, the Bank of England on June 30 drew $15 million against its $500 million swap line with the Federal Reserve. The drawing was repaid on July 13. Also in June the Federal Reserve Bank of New York purchased for U.S. Treasury account approximately $6 million in sterling.

As the credit squeeze in continental money market centers continued into July, sterling was subject to recurrent selling pressures, and the spot rate on sterling moved downward with a minimum of official support to a low for the month of $2.7874 on July 20. The decline in the spot rate was taken in stride by the market without any speculative reaction developing. Moreover, as the spot rate declined, the technical position of sterling was correspondingly improved by the increasing possibility of a rebound of the spot rate and consequent loss to those with short positions in sterling. Indeed, market confidence in the sterling parity at that time was such that the discount on forward sterling tended to narrow as the spot rate declined.

The strength of the forward sterling rate, while gratifying to all concerned, nevertheless created certain complications. As the discount on forward sterling was reduced, the covered interest-arbitrage differential on Treasury bills in favor of London became correspondingly more attractive and by July 13 had reached 0.44 per cent per annum. To forestall private covered outflows in response to this arbitrage inducement, the Federal

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Reserve, with the agreement of the British authorities, intervened in the market to widen the discount on forward sterling and thereby reduce the arbitrage differential. This intervention, amounting to a total of $28 million equivalent during a 5-day period, was accomplished by swap transactions in the New York market, with the Federal Reserve buying sterling spot and selling forward against U.S. dollars.

TYPES OF FOREIGN CURRENCY TRANSACTIONS OF THE FEDERAL RESERVE, 1964

(In millions of dollars)

Currency	Drawings and repayments under swap lines		Foreign exchange operations				
			Under swap lines		Other operations [1]		Total
	Drawings	Repayments	Disbursements	Acquisitions	Purchases	Sales	
German mark	105.0	115.0	105.0	115.0	.3	.3	220.6
Swiss franc	125.0	245.0	125.0	175.0	12.9	21.5	334.4
Netherlands guilder	100.0	80.0	98.0	79.1	25.0	93.2	295.3
Pound sterling	[2] 1,370.0	[2] 1,170.0	....	....	99.5	88.6	188.1
Canadian dollar	....	....	....	....	1.9	1.9	3.8
Belgian franc	95.0	50.0	120.0	90.0	....	1.0	211.0
French franc	....	9.0	....	....	....	....	....
Italian lira	[2] 100.0	[2] 150.0	....	....	83.0	....	83.0
Japanese yen	[2] 80.0	[2] 80.0	....	....	....	....	....
All currencies	1,975.0	1,899.0	448.0	459.1	222.6	206.5	1,336.2

[1] In the market and directly with foreign central banks. Includes third-currency swaps, and forward as well as spot transactions.
[2] Initiated by foreign central bank.

NOTE.—Excludes transactions with U.S. Treasury.

At about the same time, on July 20, the U.S. Treasury announced that it was offering an additional $1 billion of Treasury bills to help strengthen rates on U.S. Treasury bills. By July 23 the arbitrage differential on Treasury bills in favor of London had been reduced to 0.32 per cent per annum, and Federal Reserve intervention was discontinued. In the second half of August, however, the covered interest differential in favor of London again widened to more than 0.40 per cent per annum as U.S.

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Treasury bill yields softened and the discount on 3-month forward sterling narrowed. Consequently, during the three business days of August 27-31 the Federal Reserve undertook additional swap operations to narrow the differential, this time to the extent of $26 million equivalent.[3]

Once again, these operations had the effect of diminishing the interest incentive in favor of London while at the same time lending support to the spot rate, which by mid-August had begun to weaken noticeably as continental interests shifted funds from sterling into the Euro-dollar market. In fact, mid-August marked the beginning of renewed pressure on sterling. The basic cause of these pressures was the mounting British balance of payments deficit, evidenced by a continued succession of poor trade figures. In addition, a less strong payments position in the overseas sterling area, which reflected essentially seasonal factors, meant that the central reserves no longer benefited to the same extent as previously from sterling-area receipts of dollars. Against this background, market confidence was all the more difficult to sustain in the first instance because of the uncertainties surrounding the scheduled general election and subsequently because of the skepticism with which some segments of the market viewed the Labor Party's economic program.

Sterling was hit by intermittent waves of selling in mid-September and late September and on several occasions in October. On October 26 the new British Government announced a temporary 15 per cent import surcharge on most semifinished and finished goods and a small tax rebate on exports as part of a program to reduce the trade deficit. In November selling waves became increasingly severe, and the Bank of England on Monday, November 23, increased its discount rate from 5 to 7 per cent. This measure brought only short relief, and on November 24 and 25 selling resumed on an even heavier scale, with the forward market particularly hard hit. Under the circumstances,

[3] No further market swap transactions were initiated except for a limited operation in November.

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immediate and decisive international action had to be taken to defend sterling. On November 24 a massive credit package to back up sterling began to take shape. That day the Federal Open Market Committee approved a $250 million increase in the swap arrangement with the United Kingdom. The Export-Import Bank authorized a $250 million credit. Beginning early on the morning of November 25, the Bank of England, the Federal Reserve Bank of New York, and the central banks of other major countries were in almost continuous telephone communication. At 2 p.m., New York time, it was announced that a $3 billion credit package provided by 11 countries and the BIS was at the disposal of the Bank of England.

This emergency credit package superseded the various arrangements under which short-term credits were extended to the United Kingdom by the United States and other countries when the pound had come under pressure in the late summer. In late August, the Bank of England had reactivated its swap arrangement with the Federal Reserve (then $500 million) by drawing $15 million. It made additional drawings during succeeding months and also obtained short-term assistance that eventually totaled $500 million from other foreign central banks. These central bank credits, together with drawings on the original $500 million swap line with the Federal Reserve were repaid in early December following a $1 billion multicurrency drawing by the United Kingdom from the IMF.

In view of the heavy pressures to which sterling had been subjected during the autumn, it could hardly be expected that confidence would be fully restored immediately. Indeed at various times in December, notably prior to the long Christmas week end, sterling again came under selling pressure, and the Bank of England provided support when necessary in both the spot and forward markets. To reduce the drain on reserves from these support operations, the Bank of England again made use of both its swap line with the Federal Reserve and its credit facilities with other central banks. As the year closed, there was

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growing awareness that the steps taken by the British authorities during the two preceding months added up to a stronger program in defense of sterling than had been generally recognized.

In addition to the short-term credits made available to the Bank of England through the swap facility, the Federal Reserve Bank of New York provided some support for spot sterling at various times during the fall through market purchases for System and Treasury account. Part of these acquisitions were made on an outright basis, and part on the basis of market swap transactions, as noted above. The particular technique employed was determined by market conditions at the time, in consultation with the Bank of England.

German mark. During 1963, there had been almost continuous upward pressure on the German mark. The pressure reflected mainly a substantial increase in the German foreign trade surplus, large inflows of long-term capital, and occasional inflows of short-term funds in response to tight money market conditions or hedging operations. Although the Federal Reserve frequently drew upon its $250 million swap line with the German Federal Bank in order to cushion these pressures, all drawings effected during 1963 had been repaid by January 9, 1964.

In late January and in February 1964, buying pressure on the mark resumed in even greater force, with indications of speculative overtones developing. To counter these pressures, the German Federal Bank intervened strongly in Frankfurt—buying dollars at rates just below the ceiling on the mark. In addition, the Federal Reserve made sizable new drawings on the swap line to support market intervention in New York and to absorb dollars taken in by the German Federal Bank. During the first half of March its drawings totaled $55 million equivalent.

These operations in the spot market were reinforced by a resumption—for the first time since 1961—of joint operations by the U.S. Treasury and the German Federal Bank in the forward market in an effort to dispel rumors of a prospective change in the mark parity. Sales of 3-month forward marks in New York

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by the Federal Reserve Bank of New York on behalf of the Treasury during the first half of March amounted to approximately $21 million equivalent, at rates ranging between 0.96 and 0.75 per cent per annum premium on the mark. All of these contracts were liquidated without difficulty at maturity.

On March 23 an important turning point occurred as the German Government announced its intention to propose to parliament the imposition of a 25 per cent withholding tax on income from fixed-interest German securities held by nonresidents. This action not only checked the long-term capital inflow but also actually induced liquidation of a considerable volume of foreign investments in German fixed-interest securities. Earlier, on March 10, the German Federal Bank had taken steps to encourage an outflow of German funds into dollar investments by providing dollars on a swap basis—selling dollars spot and repurchasing them 90 to 180 days forward at a preferential discount of 0.50 per cent per annum on the forward dollar—to German commercial banks for purchases of U.S. Treasury bills. This rate compared with a market discount at the time of more than 0.75 per cent per annum. By April 15 the total of such dollar swaps outstanding had risen to $186 million. As a consequence of the outflows on both short- and long-term capital account, the exchange market moved into a much closer balance, which continued to prevail during April and May.

In these circumstances the Federal Reserve was able in late March to acquire $20 million equivalent of marks and thereby reduce its swap drawings from $55 million to $35 million equivalent. This remaining drawing was liquidated on March 31 by the purchase from the Bank of Italy of $35 million of marks, part of an Italian drawing of marks from the IMF. On the same date, the U.S. Treasury also acquired $45 million equivalent of marks from the Bank of Italy.[4]

No further operations in German marks for either Federal

[4] In early April, the Treasury absorbed $200 million by issuing $200 million equivalent in mark-denominated bonds to the German Federal Bank and selling

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Reserve or Treasury account occurred until early June, when a brief revival of speculation concerning a mark revaluation was met by spot sales on the New York market of $5 million of marks for Federal Reserve account and $6 million for U.S. Treasury account. The German Federal Bank simultaneously supported the dollar with sizable operations in Frankfurt, and on June 3 the U.S. Treasury employed $40 million equivalent of mark balances acquired at the time of the Italian drawing on the IMF to absorb dollars taken in by the German Federal Bank. Buying pressure on the mark was further intensified in mid-June by window-dressing operations of commercial banks, and $150 million of the resultant inflow of dollars to the German Federal Bank was absorbed by an additional Treasury issue of mark-denominated bonds.

On July 9 the German Federal Bank announced an increase in reserve requirements for commercial banks, effective August 1. The mark again was subject to upward pressure, and the Federal Reserve Bank of New York sold for the U.S. Treasury a total of $4 million equivalent of marks in New York on July 9 and July 10. To counter possible repatriation of short-term bank funds, the German Federal Bank on July 13 reduced its special swap discount rate on forward dollars from 0.50 to 0.25 per cent per annum.

The demand for marks then eased, and no further operations were undertaken by the Federal Reserve or the U.S. Treasury until the end of October when the U.S. Treasury issued to the German Federal Bank a $50 million equivalent mark-denominated bond. This raised the total of such mark bonds outstanding to $678 million equivalent. The mark proceeds of this bond, together with $7 million of Treasury mark balances remaining from U.S. drawings of marks from the IMF, were sold to Canada at the time of a repayment to the IMF by that country.

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the proceeds to the central bank. (As indicated earlier, the Treasury at approximately the same time redeemed an equivalent amount of lira-denominated bonds.)

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Subsequently, in early December when the U.S. Treasury drew $125 million equivalent of marks from the IMF, it used $50 million equivalent to purchase excess dollars from the German Federal Bank, in effect compensating for the fact that marks derived from the earlier bond issue had been used in conjunction with Canada's repayment to the IMF.

In general, the market for German marks during the second half of the year was in much better balance than it had been for some years. This balance was attributable to the cessation of capital inflows following the proposal for a withholding tax on bond interest earned by nonresidents and to reduced surpluses on the trade account.

The effect on the exchange market of these basic shifts in the German balance of payments was reinforced by a number of technical measures initiated by the German authorities to reduce pressures on the exchange market at the year-end. The special swap facilities made available by the German Federal Bank to German commercial banks for investments in U.S. Treasury bills were used flexibly throughout the second half of the year, with maturities designed to provide the banks with liquidity at the year-end. In addition, under a special temporary arrangement in December German commercial banks were permitted to borrow against collateral from the central bank at an effective cost lower than the posted rate. Nevertheless, the unsettled conditions for sterling led to some inflow of funds to Germany in late December. Consequently, the Federal Reserve reactivated its $250 million swap facility with the German Federal Bank by drawing $50 million equivalent of marks in order to absorb that amount of dollar inflows.

Italian lira. Italy's balance of payments deficit had assumed major proportions in the fall of 1963, and the Bank of Italy had drawn $50 million on its swap facility with the Federal Reserve pending the outcome of various corrective measures. In addition, the U.S. authorities had provided support for Italian reserves by purchasing spot lire in advance of requirements for eventual use

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by the U.S. Treasury in redeeming outstanding lira-denominated bonds issued to the Bank of Italy. As a result of such purchases, the Treasury at the beginning of the year held $67 million equivalent in lire (of which $17 million was temporarily employed in a swap against Swiss francs with the BIS), while the Federal Reserve held $50 million equivalent—all of which was sold forward to the Treasury.

During the first quarter of 1964 Italy's payments deficit continued to be very large, and the Bank of Italy drew $50 million in January and again in March under its swap facility with the Federal Reserve—bringing its total drawings to $150 million. In addition, the Federal Reserve purchased $50 million of spot lire from the Bank of Italy in January and another $33 million in March, again selling such lire forward to the U.S. Treasury. On March 9 the Treasury redeemed one $50 million lira bond at its maturity, and on April 1 it prepaid the remaining $150 million of lira bonds then outstanding (having reversed its $17 million equivalent Italian lira–Swiss franc swap with the BIS). Altogether, Federal Reserve and Treasury operations in the autumn of 1963 and the first quarter of 1964 cushioned the decline in the Bank of Italy's reserves to the extent of some $350 million and thereby helped to restrain speculative pressures against the lira.[5]

During the week of March 9 through March 14, 1964, an Italian delegation, headed by Governor Carli of the Bank of Italy, visited Washington to discuss with the World Bank and the IMF various possible sources of financing for Italy's longer-term investment requirements and its expected further balance of payments deficits. In the midst of these discussions, the lira was suddenly struck by a burst of speculation. This brought heavy

[5] Also during the first quarter of 1964 the Treasury liquidated the last of its technical obligations to sell forward lire; the first of these obligations had been undertaken in January 1962. The initial value of the contracts taken over from the Bank of Italy by the U.S. Treasury in January 1962 amounted to $200 million. Total U.S. commitments to sell forward lire rose to a peak of $500 million in August of that year and thereafter—with some fluctuations—generally declined as Italian commercial banks reduced their dollar holdings. The last of the contracts were reacquired by the Italian authorities in March 1964.

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pressures not only on the spot rate but also on the forward rate, which for a 3-month maturity moved to a discount of 7 per cent per annum. In this dangerous situation, an immediate and massive reinforcement of the Italian reserve position was clearly called for, and within 48 hours the Italian authorities were able to announce that approximately $1 billion of external assistance was at their disposal. This credit package included: (1) a $100 million swap arrangement with the U.S. Treasury (in addition to the partly drawn swap facility with the Federal Reserve System), (2) a $200 million standby credit from the Export-Import Bank, (3) $250 million in credits of up to 3 years from the U.S. Commodity Credit Corporation, and (4) short-term credit facilities of $250 million each from the Bank of England and the German Federal Bank. Had time permitted, other foreign official sources of short-term credit could readily have been tapped.

Announcement of this credit package immediately broke the speculative wave. As market confidence in the lira revived, the Bank of Italy temporarily withdrew its support from the spot market and allowed the lira to decline to a level close to par where it settled in relatively orderly and balanced trading. At the same time the discount on the 3-month forward lira narrowed from 7 to 3 per cent per annum, further reflecting the improvement in market confidence.

At the end of March the Italian Government made a drawing on the IMF of $225 million equivalent in various currencies. Of this total, it immediately sold $80 million equivalent of German marks to the Federal Reserve and the U.S. Treasury and $20 million equivalent of guilders to the Federal Reserve. These transactions enabled the Federal Reserve to settle outstanding commitments in the respective currencies and provided marks to the Treasury to meet possible future operational needs.

In June the Bank of Italy negotiated a $100 million equivalent lira–Swiss franc swap with the Swiss National Bank. In this instance, too, the Bank of Italy sold the entire Swiss-franc proceeds to the Federal Reserve for dollars. (The Federal Reserve

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then employed these Swiss francs to liquidate outstanding Swiss franc indebtedness to the Swiss National Bank.)

With its dollar reserve position reinforced not only by bilateral credits and the IMF drawing but also by net accruals of dollars from exchange market operations, the Bank of Italy proceeded to repay during the second quarter of the year all its previous drawings of $150 million on the Federal Reserve as well as the short-term credit drawn under the facility provided by the German Federal Bank. In addition, about three-quarters of the $100 million credit from the Swiss National Bank had also been repaid by the end of December. (No drawings were made under the credit facilities extended by the U.S. Treasury and the Bank of England.)

One of the most satisfactory aspects of this display of international cooperation in beating back a speculative attack on the Italian lira was that the provision of massive credit assistance to Italy more or less coincided with a turning point in the Italian economic and financial scene. During the first quarter of 1964 the Italian balance of payments had registered a deficit of $436 million. In contrast, a surplus of $226 million was recorded in the second quarter, as corrective policy measures initiated by the Italian authorities began to take effect and as a reversal in the leads and lags in payments brought about the covering of short positions in lire. In early July, a governmental crisis generated a temporary speculative flurry, but operations in force in the forward market by the Bank of Italy through the agency of the Federal Reserve Bank of New York provided reassurance, and the speculation quickly subsided. Indeed, Italy gained reserves during the summer, and on September 1 it repaid $65 million of its $225 million drawing from the IMF. This repayment reduced the IMF's holdings of lire to 75 per cent of the Italian quota. Thus, Italy's obligation to the IMF was completely liquidated.

Italy continued to run a payments surplus during the third and fourth quarters of 1964, and by the year-end Italian official reserves, which had dipped $233 million during the first quarter,

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were $389 million higher than at the outset of 1964. The reappearance of political uncertainties in the late summer triggered some selling of forward lire, and discounts for 3-month maturities tended to widen at times to 4 per cent per annum. In such instances, the Federal Reserve Bank of New York again intervened for account of the Bank of Italy to support the forward lira in the New York market and thus helped to relieve market uncertainties. By early October the discount on the 3-month forward lira had narrowed to less than 1 per cent per annum, and as the year drew to an end, both the forward and spot markets were quiet.

Canadian dollar. The spot market for Canadian dollars was relatively quiet through the first half of 1964, but there was considerable activity in the forward market as a result of grain sales to the Soviet Union beginning the previous autumn. These sales generated heavy demands on the part of grain dealers for Canadian dollars for future delivery against U.S. dollars. (The contracts with the Soviet Union called for payment in U.S. dollars, whereas the grain companies had to purchase the wheat from the Canadian Wheat Board with Canadian dollars.) Commercial banks, after meeting the grain dealers' demand—and after covering their forward sales to the dealers to some extent through spot purchases of Canadian dollars—attempted to balance their forward positions by engaging in swap transactions, selling Canadian dollars spot against forward purchases timed to meet likely calls on their forward commitments to the grain dealers. Consequently, the forward Canadian dollar advanced to a premium over spot, while the spot rate tended to decline.

In order to offset some of these pressures, the Bank of Canada sold U.S. dollars spot and purchased them forward, thus providing some counterpart to the commercial banks' swap needs. Despite such operations on a substantial scale by the Bank of Canada, the forward Canadian dollar remained at a premium, and the incentive to move funds from the United States to Canada on a covered basis, as measured by the differential on 3-month

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Treasury bills, rose to about 0.34 per cent per annum in the latter part of March. With the agreement of the Canadian authorities, the Federal Reserve began in late March to sell Canadian dollars forward against spot purchases. As it turned out, the pressures on the forward Canadian dollar temporarily subsided, and Federal Reserve swaps in the market amounted to only $2 million.

The matching of forward-exchange commitments with shipment deliveries in connection with the very large grain sales continued to dominate the forward market in Canadian dollars through June. Although the 3-month forward Canadian dollar widened to a premium of over one-quarter of 1 per cent per annum, the covered differential in favor of Canada held below 0.40 per cent per annum as Canadian short-term interest rates declined, and no further official operations were deemed necessary. By the end of July, Canadian grain shipments to the Soviet Union had been fairly well completed, and pressures on the forward market eased.

Then, during August a series of developments reversed the pressures in the Canadian dollar market. Initially, there was some buying of spot Canadian dollars by continental interests at the time of the Gulf of Tonkin incident, and as the spot rate rose in a thin market, Canadian exporters proceeded to sell out U.S. dollar balances. Also, there were new grain purchases by several eastern European countries, the effect of which was felt mainly in the spot market. At about the same time there was a tightening of the Canadian money market, and this induced a flow of short-term funds into Canada from the United States on a covered basis. In addition, the eastern European countries exercised earlier than commercial banks had anticipated the options they had entered into in the autumn of 1963 on August grain contracts. These influences caused a sharp change in the relation between the spot and the forward Canadian dollar. As a result, the differential moved from a premium to a discount, and the incentive for interest-arbitrage flows was reduced.

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By September additional factors began to reinforce the upward pressure on the Canadian dollar in the spot market. Substantial Canadian long-term borrowings in the U.S. market, a continued strong trade position, and fiscal-year-end positioning by Canadian banks in October and November all helped push the spot rate for the Canadian dollar to its effective ceiling by November. In addition, the pressure on sterling during the autumn at times reinforced the demand for Canadian dollars. As the Canadian dollar strengthened, the Bank of Canada intervened to moderate the rise in the rate, with the result that Canadian reserves increased by $210 million during the August-November period despite repayments of $107 million to the IMF in September and October. By December the market had returned to a more balanced position.

Swiss franc. The Federal Reserve's short-term commitments in Swiss francs amounted to $233 million equivalent at the outset of 1964: $75 million and $145 million equivalent of swap drawings of Swiss francs from the Swiss National Bank and the BIS, respectively, and $13 million equivalent of third-currency swaps with the BIS. In addition, the U.S. Treasury had outstanding short-term commitments of $121 million equivalent in 3-month forward sales of Swiss francs, as well as $40 million equivalent of third-currency swaps with the BIS. A sizable portion of these liabilities had been incurred during the last 4 months of 1963 when substantial amounts of short-term funds were transferred to Switzerland, first in connection with market uncertainties surrounding that year's IMF meeting and the weakness of the Italian lira, and later because of year-end window-dressing operations by Swiss commercial banks.

Some easing of the Swiss franc developed after the year-end, but continuing inflows of capital to Switzerland during the first quarter of 1964 limited the usual seasonal weakening. Moreover, interest rates there had risen rapidly from the fall of 1963 through the first quarter of 1964. The rate paid by Swiss banks on 3-month time deposits, which had ranged from about 2.65 to 3.00

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per cent per annum during most of 1963, moved up to 3.25 per cent by March. Consequently, opportunities for the Federal Reserve to acquire Swiss francs for settlement of its outstanding indebtedness in such francs developed more slowly than expected, and by mid-April it had paid off only $45 million equivalent of its drawings on the BIS.

In April a severe tightening of the Swiss credit market pushed interest rates up further and drove the Swiss franc to its ceiling once more, and the Swiss National Bank was forced to take in a sizable amount of dollars at that level. Part of this inflow was absorbed when the Federal Reserve made a new drawing of $25 million equivalent on its swap line with the Swiss National Bank, thus increasing the Federal Reserve debt under the Swiss franc swap lines to $200 million.

In order to curb inflationary pressures in the Swiss economy, the Swiss Government in March had placed restrictions on construction activity and had authorized the Swiss National Bank to introduce measures limiting credit expansion by banks and discouraging the inflow of foreign funds. Similar arrangements between the central bank and the commercial banks had been in effect for several years on a voluntary basis. The informal agreements concerning restrictions on domestic credit growth took on legal force in May 1964. In an effort to halt the heavy inflow of foreign capital and the rise in dollar holdings of the Swiss National Bank, restraints on the inflow of funds from abroad were implemented at the end of March. All Swiss banking institutions were forbidden to pay interest on foreign deposits received after January 1, 1964, and were required to invest in foreign-currency assets or to deposit with the Swiss National Bank any net increase after January 1, 1964, in their Swiss franc liabilities to foreigners.

While these measures were successful in halting further inflows of foreign funds, they did not of course prevent the repatriation by Swiss banks of funds already held abroad. Since the credit squeeze in Switzerland was continuing, there seemed

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little likelihood of an early reversal of the previous inflow of funds. As a result, following the Federal Reserve swap drawing in April, the Swiss and U.S. authorities agreed on a combination of special measures to liquidate all the Federal Reserve swap drawings and to reduce the Treasury's outstanding forward contracts.

The first step was taken in May, when the U.S. Treasury issued to the BIS a $70 million Swiss franc bond. The Swiss franc proceeds of this bond issue were then sold by the Treasury to the Federal Reserve, which immediately repaid an equivalent amount of its Swiss franc debt to the BIS.

The second step came in June when the Bank of Italy entered into a $100 million lira–Swiss franc swap agreement with the Swiss National Bank. The Bank of Italy sold the Swiss francs it acquired to the Federal Reserve, which retired the remainder of its Swiss franc debt to the Swiss National Bank. At the end of June the Federal Reserve paid off the remaining $30 million of its swap drawings with the BIS with francs obtained in conjunction with a sale of gold to the Swiss National Bank by the Treasury. The Federal Reserve swap arrangements with both the BIS and the Swiss National Bank thus reverted to a standby basis.

Meanwhile, interest rates in Switzerland had risen still further as the heavy demands imposed on the Swiss money and capital markets by the continuing high level of economic activity further squeezed the liquidity position of Swiss banks and firms. The interest rate on 3-month deposits reached 3.50 per cent in June, an increase of about 0.75 per cent per annum over the previous year, while the average yield on government bonds moved up to 4.05 per cent, compared with 3.15 per cent a year earlier. To relieve the squeeze on their liquidity positions, and to satisfy midyear window-dressing needs, the Swiss commercial banks made additional sizable repatriations of funds during June.

These commercial bank operations caused the Swiss National Bank once again to take in a sizable amount of dollars. In July

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the reversing of some window-dressing operations and an easing of the Swiss money market brought about only a partial reversal of the previous inflows. In these circumstances the U.S. Treasury issued to the Swiss National Bank on August 4 an additional Swiss franc bond in the amount of $52 million equivalent and used the proceeds to absorb an equivalent amount of dollars on the books of the Swiss National Bank. (This issue brought the outstanding amount of U.S. Treasury securities denominated in Swiss francs to $327 million equivalent.)

Generally easier conditions prevailed in the market for Swiss francs from mid-August to mid-October, and the Swiss franc declined from its ceiling for a while, only to firm again in late October as the Swiss money market tightened. Then in the early part of November, funds began to move into Switzerland in quantity—some directly out of sterling, some through the Euro-currency markets in response to the general uneasiness that pervaded the exchanges. Throughout the rest of the year dollar gains by the Swiss National Bank continued to be large.

To absorb part of this intake of dollars, the Federal Reserve reactivated its $150 million swap with the BIS in early December by drawing $100 million of Swiss francs, which it simultaneously employed to purchase dollars from the Swiss National Bank. In addition, to calm the market and to encourage Swiss banks to invest abroad dollars that they might otherwise have sold to the Swiss National Bank—the dollar holdings of which had already increased substantially—the Federal Reserve began in December to sell Swiss francs forward in the market, through the Swiss National Bank.

On the other hand, the Treasury by the year-end had reduced its market forward commitments in Swiss francs to $51.5 million equivalent through repayments, which it had begun to make in May, with Swiss francs bought from the Swiss National Bank. In addition, the Federal Reserve and the Treasury in December reversed sterling–Swiss franc swaps with the BIS totaling $26 million. Thus, by the year-end, the combined short-term com-

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mitments of the Federal Reserve and the Treasury in Swiss francs totaled $197 million.

Effective November 17 the Swiss National Bank and the Federal Reserve Bank of New York, which was acting for the Federal Reserve System, entered into an arrangement that implements insofar as the United States and Switzerland are concerned the association of Switzerland with the General Arrangements to Borrow of the IMF. This agreement provides a framework not only for medium-term credit to the United States from Switzerland but also for similar considerations of aid to Switzerland from the United States, should such assistance be required.

Netherlands guilder. At the beginning of the year, Federal Reserve commitments in guilders amounted to $80 million equivalent, all in the form of outstanding swap drawings. During the first 2 months of the year the Netherlands guilder declined as the Dutch trade position began to weaken, and the Federal Reserve was able to purchase $44 million equivalent of guilders from the Netherlands Bank. This amount, together with existing balances, was used to repay $55 million equivalent of swap drawings. An additional $20 million equivalent of guilders was purchased at the end of March from the Bank of Italy, which had taken guilders as part of its drawing on the IMF, and another $5 million equivalent was acquired from the Netherlands Bank. These purchases were then used on April 2 to pay off at maturity the Federal Reserve's remaining $25 million equivalent swap drawing from the Netherlands Bank, thus placing the entire $100 million swap arrangement on a standby basis.

During most of the second quarter the Dutch guilder continued to decline as the Dutch trade deficit increased. However, after midyear the guilder strengthened and the Netherlands Bank took in dollars in market operations. In May the money market had begun to tighten, and in early June the Netherlands Bank raised its discount rate by ½ percentage point to 4½ per cent. In July Dutch commercial banks began to repatriate funds in substantial amounts. In addition, the Netherlands balance of pay-

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ments strengthened owing to a better trade balance and an inflow of long-term capital. By November the intensified pressures on sterling and the ensuing movement of some funds out of sterling and into guilders helped push the guilder to its ceiling.

Meanwhile, the Netherlands Bank had been taking in dollars in an effort to moderate the rise in the rate. During the first week of August the Federal Reserve drew $20 million equivalent of guilders under the swap line and immediately used the guilders to absorb some of the Netherlands Bank's accruals of dollars. Additional Federal Reserve drawings and sales of guilders followed in rapid sequence, and by mid-October the $100 million swap facility had been fully drawn. Additional dollars were purchased by the Federal Reserve and the U.S. Treasury from the Netherlands Bank in September and December with guilders acquired through 3-month swaps of sterling for guilders with the BIS, for a total of $50 million equivalent.

In mid-December, as market uncertainty surrounding sterling and the flow of funds to the Netherlands continued, the Federal Reserve Bank of New York through the Netherlands Bank began to sell forward guilders for Federal Reserve and Treasury account to calm market fears and induce covered capital outflows from the Netherlands.

Belgian franc. The Belgian franc softened in February when speculation concerning a revaluation of the German mark led to some outflow of short-term funds from Belgium. As a result, the Federal Reserve was able to purchase from the National Bank of Belgium $15 million equivalent of Belgian francs in order to reconstitute in full the franc balances it held under the fully drawn $50 million facility with that Bank. Throughout most of the second quarter the Belgian franc moved narrowly in a market that was essentially in balance, and there was no occasion for either the Federal Reserve or the National Bank of Belgium to employ its swap balances.

Early in July, however, the Belgian franc strengthened following the announcement of new measures designed to curb the

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growth of credit in Belgium. On July 3 the National Bank of Belgium raised its discount rate by ½ percentage point to 4¾ per cent and announced that effective August 17 it would impose a cash reserve-requirement against commercial bank deposits for the first time. After that, tighter money market conditions prevailed. These, in conjunction with long-term investment in Belgium and an improved trade balance beginning in the third quarter, as well as selling of sterling later in the year, contributed to substantial dollar inflows into Belgium.

Early in August, the Federal Reserve used $7.5 million equivalent of Belgian francs drawn under the swap to absorb dollars from the National Bank of Belgium. By mid-October the $50 million equivalent of franc balances had been utilized. Effective October 22 the Federal Reserve and the National Bank of Belgium expanded the existing $50 million swap facility with an additional $50 million arrangement to be available on a standby basis. With dollars continuing to flow into Belgium, the Federal Reserve made further drawings on this additional swap, and by the end of November the full amount had been used.

In early December, when the National Bank of Belgium purchased $75 million from the Federal Reserve to make special outpayments, the Federal Reserve was able to reduce its swap commitments to Belgium to $25 million equivalent. On December 30, however, the Federal Reserve again drew $20 million equivalent of francs in order to absorb further inflows of dollars into Belgium. This raised its commitments on the standby facility in Belgium francs to $45 million equivalent at the end of the year.

Japanese yen. The Japanese balance of payments moved into deficit in the autumn of 1963, and during the first quarter of 1964 the trade gap widened further. As a result, the Japanese yen remained at or close to its floor during most of the first half of the year.

The Japanese authorities had initiated a series of restraint

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measures beginning in October 1963, and in March 1964 the Bank of Japan raised its discount rate from 5.84 to 6.57 per cent. In order to avoid further deterioration in the Japanese reserve position until the restraint measures should bring about the desired effect, as well as to support confidence in the yen in connection with the acceptance by Japan on April 1 of Article VIII status under the IMF Articles of Agreement, the Bank of Japan on April 30 drew $50 million under the $150 million swap arrangement with the Federal Reserve. This was the first use of this facility since its inception in October 1963.

The pressure on reserves continued into July. Consequently, on July 30 the Bank of Japan renewed the $50 million drawing for another 3 months, and on July 31 drew an additional $30 million under the swap arrangement. In August, however, domestic restraint measures began to take effect: import demand diminished, and with a continued growth in exports, the trade balance improved considerably. With this improvement in Japan's balance of payments and reserve position, which continued through the rest of the year, the Bank of Japan began repaying its swap obligations at the end of September. By early November it had liquidated them in full.

French franc. During January the Federal Reserve repaid a $9 million equivalent swap commitment to the Bank of France with francs acquired by previous forward market purchases through that Bank.

The French franc held firmly at its ceiling throughout most of the year as the French balance of payments continued in surplus, and there were no Federal Reserve or Treasury market operations in the franc. However, as indicated later in this report, the Treasury did effect certain sales of French francs—drawn from the IMF—to various countries for their use in making repayments to the IMF. These repayments were spread out over a period of several months. Since the Treasury did not want to leave sizable franc balances uninvested, it entered into a special

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swap arrangement with the Bank of France, with provision for the gradual reduction of the swap as the francs were required.

Other currencies. There were no Federal Reserve or Treasury operations in Swedish kronor or Austrian schillings during the year.

The gold market. Throughout the first 8 months of 1964 the London gold market was generally stable, with the gold-fixing price ranging between $35.06 and $35.10. With the improvement in the U.S. balance of payments, and consequent strengthening of confidence in the dollar, speculative demand for gold receded, and as new production also increased, the Gold Pool regularly absorbed surpluses of output reaching the market. The Pool took in further sizable amounts of gold from Russian sales, which were heavily concentrated in a few weeks in late March and early April.

Over 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 have continued to generate market apprehension. But the basic cause of 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 during the closing months of 1964. Both the United Kingdom and the United States have now taken forceful actions to deal with their balance of payments deficits, and if these corrective programs are vigorously pursued, speculative pressures in the gold market may be expected to subside.

The Bank of England, on behalf of the Gold Pool, continued to exert a stabilizing influence on the market and to moderate price movements. Although private demand for gold increased during the closing months of 1964, over the year as a whole the Pool once again acquired and distributed to its members more than $600 million.

U.S. drawing on the IMF. Over the course of several years before 1964, foreign countries had been repaying more dollars to the

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IMF than the IMF had been paying out in new drawings. As a result, the IMF's dollar holdings rose to a point where they equaled the amount that the United States had paid into the IMF as part of its quota. At this point the IMF, under its rules, could no longer accept dollars in repurchase, and countries having repurchase obligations could make repayments only with gold or with other eligible convertible currencies. So as to be able to sell such currencies to countries having repurchase obligations, the U.S. Treasury on February 13 and June 1 made two drawings on the IMF—predominantly in German marks and French francs—in the amount of $125 million equivalent each under the $500 million standby agreement with the IMF announced by President Kennedy in July 1963. By September the bulk of these drawings had been sold to various countries effecting repayments to the IMF.

On July 23 the original standby arrangement expired, and the Treasury announced that it had made a further standby arrangement with the IMF for another year. This restored the amount available to $500 million. The first drawing under the new standby arrangement was made on September 1, when the United States drew $50 million in five European currencies. Unlike the first two drawings under the original arrangement, which were used to cover a number of transactions that took place during ensuing weeks, this drawing was occasioned by Italy's repurchase of $65 million equivalent of lire from the IMF. Again, on September 30, the U.S. Treasury drew equal amounts of Dutch guilders and German marks totaling $100 million equivalent, half of which it immediately sold to Canada in connection with a repayment to IMF. The remaining balances were disbursed in subsequent weeks. On December 7 a fifth drawing of $125 million equivalent was made, this time solely in German marks.

In all, during 1964 the U.S. Treasury drew $525 million equivalent of seven continental European currencies, of which $75 million equivalent remained undisbursed at the year-end. The

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effect of these drawings on the U.S. position in the IMF was to a considerable extent offset, however, by drawings of dollars by other countries. The largest single drawing of this sort was the British drawing of $200 million, the dollar component of its $1 billion equivalent multicurrency drawing in December. As a result, the U.S. repayment obligation to the IMF at the year-end amounted to about $262 million.

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BANK SUPERVISION
BY THE FEDERAL RESERVE SYSTEM

Examination of Federal Reserve Banks. The Board's Division of Examinations examined the 12 Federal Reserve Banks and their 24 branches during the year as required by Section 21 of the Federal Reserve Act. In conjunction with the examination of the Federal Reserve Bank of New York, the Board's examiners also made a detailed audit of the accounts and holdings of the System Open Market Account, operated at that Bank in accordance with policies formulated by the Federal Open Market Committee, and rendered a report thereon to the Committee. The procedures followed by the Board's examiners were surveyed and appraised by a private firm of certified public accountants.

Examination of member banks. Although authorized to examine all member banks, both State and national, neither the Federal Reserve Banks nor the Board of Governors as a matter of practice examines national banks because the law charges the Comptroller of the Currency directly with that responsibility. The Comptroller provides reports of examinations of national banks to the Board of Governors in Washington on loan, and each Federal Reserve Bank purchases from the Comptroller copies of reports of examination of national banks in its district.

State member banks are subject to examinations made by direction of the Federal Reserve Bank of the district in which they are situated by examiners selected or approved by the Board. The established policy is to conduct at least one regular examination of each State member bank, including its trust department, during each calendar year, with additional examinations if considered desirable. Wherever practicable, joint examinations are made in cooperation with the State banking authorities, or alternate independent examinations are made by agreement with State authorities. All but 12 of the 1,452 State member banks were examined under the Federal Reserve System's 1964 program.

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The Board of Governors makes its reports of examination of State member banks available to the Federal Deposit Insurance Corporation, and the Corporation in turn conducts examinations of insured nonmember State banks and makes its reports available to the Board when needed. Also as needed reports of examination of State member banks are made available to the Comptroller of the Currency.

In its supervision of State member banks, the Board receives, reviews, and analyzes reports of examination of State member banks and coordinates and evaluates the examination and supervisory functions of the System. In addition, under provisions of the Federal Reserve Act and other statutes, the Board passes on applications for admission of State banks to membership in the System and for permission, among other things, to (1) merge banks, (2) form or expand bank holding companies, (3) establish domestic and foreign branches, (4) exercise expanded powers to create bank acceptances, (5) establish foreign banking and financing corporations, or (6) invest in bank premises in excess of 100 per cent of a bank's capital stock.

During 1964, bank examination procedures relating to the records, systems, and controls of State member banks were supplemented specifically to provide for a more detailed review of bank premises, protective equipment, and precautionary measures used by banks to protect against losses from external crimes. These procedures should serve to alert the management of banks to weaknesses in these areas and help to check the increase in crimes against banking institutions.

Steps also were taken to implement the provision of Public Law 88-593, which requires that Federal bank supervisory authorities be notified of changes in the control of management of insured banks, and of Public Law 88-467, which extends the disclosure requirements of the Securities Exchange Act to various banks and vests in the Board responsibility for regulating and administering that law as it relates to State member banks. With respect to Public Law 88-467, the Board issued its Regulation F, effective January 1, 1965.

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Federal Reserve membership. As of the December call date in 1964, member banks accounted for 45 per cent of the number of all commercial banks in the United States and 62 per cent of all commercial banking offices, and they held approximately 85 per cent of the total deposits in such banks. State member banks accounted for 16 per cent of the number of all State commercial banks and 31 per cent of the State banking offices, and they held 65 per cent of total deposits in State commercial banks.

Of the 6,225 member banks of the Federal Reserve System at the end of 1964, 4,773 were national banks and 1,452 were State banks. There was a net increase of 117 member banks during the year. This reflected an increase of 158 national banks and a decrease of 41 State members. The increase in national banks resulted from the organization of 200 new national banks and the conversion of 19 nonmember banks to national banks, offset by 63 conversions to branches incident to mergers and absorptions and 5 conversions to nonmember banks; and the State member decrease reflected 14 conversions to branches incident to mergers and absorptions, and 19 withdrawals from membership.

At the end of 1964, member banks were operating 11,215 branches, 845 more than at the close of 1963; this included 761 de novo establishments.

Detailed figures on changes in the banking structure during 1964 are shown in Table 19, page 242.

Bank mergers. Under Section 18(c) of the Federal Deposit Insurance Act, as amended May 13, 1960, the Board of Governors passes upon each merger, consolidation, acquisition of assets or assumption of liabilities in which the acquiring, assuming, or resulting bank is to be a State member bank. Unless the Board finds that it must act immediately to prevent the probable failure of one of the participating banks, it must request reports from the Attorney General, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation on the competitive factors involved in each transaction. The Board in turn responds to requests by the Comptroller or the Corporation for reports on competitive factors involved when the acquiring, as-

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suming, or resulting bank is to be a national bank or an insured nonmember State bank.

During 1964 the Board approved 16 and disapproved 2 mergers, consolidations, acquisitions of assets or assumptions of liabilities, and it submitted 92 reports on competitive factors to the Comptroller of the Currency and 35 to the Federal Deposit Insurance Corporation. As required by Section 18(c) of the Federal Deposit Insurance Act, a description of each of the 16 cases approved by the Board, together with other pertinent information, is shown in Table 21 on pages 245-63.

Statements and orders of the Board with respect to all bank merger and bank holding company applications, whether approved or disapproved, are released immediately to the press and the public and are published in the *Federal Reserve Bulletin*. These include comprehensive presentations of the factors considered, the conclusions reached, and the vote of each Board member present. Dissenting statements, if any, are appended.

Bank holding companies. During 1964, pursuant to Section 3(a)(1) of the Bank Holding Company Act of 1956, the Board approved 4 applications for prior approval to become a bank holding company (2 of the applicants were related, one controlling the other), and denied 1 application. Pursuant to Section 3(a)(2) of the Act, the Board approved the acquisition by 7 bank holding companies of voting shares in 6 banks (2 related bank holding companies, one of which controlled the other, filed applications to acquire shares of one of the banks). To provide necessary current information, annual reports for 1963 were obtained from all registered bank holding companies under Section 5(c) of the Act.

During 1964, pursuant to the Banking Act of 1933, the Board authorized the issuance to holding company affiliates of member banks of 16 voting permits for general purposes and 12 for limited purposes. In accordance with established practice, a number of holding company affiliates were examined by examiners for the Federal Reserve Banks in whose districts the principal offices of the holding companies are located.

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Section 301 of the Banking Act of 1935 provides that the term "holding company affiliate" shall not include—except for the purposes of Section 23A of the Federal Reserve Act, which restricts loans to affiliates and loans on or investments in the stock or obligations of affiliates—any organization that is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. The Board made such determinations with respect to 35 organizations during 1964.

Foreign branches of member banks. At the end of 1964, 11 member banks had in active operation a total of 180 branches in 45 foreign countries and overseas areas of the United States; 5 national banks were operating 139 of these branches, and 6 State member banks were operating 41. The number and location of these foreign branches were as shown in the accompanying tabulation.

Under the provisions of the Federal Reserve Act (Section 25 as to national member banks and Sections 9 and 25 as to State member banks), the Board during 1964 approved 26 applications made by member banks for permission to establish branches in foreign countries.

During the year a member bank opened branches in London, England, and in Osaka and Tokyo, Japan. Another opened branches in San Salvador, El Salvador; Mexico, D. F., Mexico; Lima, Peru; Athens, Greece; Amsterdam, The Netherlands; Dubai, Trucial State of Dubai; Hong Kong, Colony of Hong Kong; and it closed one of its branches in Asuncion, Paraguay. A third opened branches in Managua, Nicaragua; Panama, Republic of Panama; Rotterdam, The Netherlands; Hong Kong, Colony of Hong Kong; and Bombay, India. A fourth opened branches in Hong Kong, Colony of Hong Kong; Singapore and Kuala Lumpur, Federation of Malaysia; and Bangkok, Thailand. Two other member banks also opened branches in London, England. Sixteen of these branches had been authorized before 1964.

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Region / Country	Number
Latin America	*77*
Argentina	16
Bahamas	2
Brazil	15
Chile	2
Colombia	5
Dominican Republic	3
Ecuador	2
El Salvador	1
Guatemala	2
Jamaica	1
Mexico	5
Nicaragua	1
Panama	10
Paraguay	2
Peru	2
Trinidad	1
Uruguay	2
Venezuela	4
Virgin Islands (British)	1
Continental Europe	*15*
Belgium	2
France	4
Germany	3
Greece	1
Italy	1
Netherlands	3
Switzerland	1
England	*17*
Africa	*3*
Liberia	1
Nigeria	2
Near East	*5*
Dubai	1
Lebanon	3
Saudi Arabia	1
Far East	*40*
Hong Kong	6
India	5
Japan	12
Malaysia	7
Okinawa	1
Pakistan	2
Philippines	5
Thailand	2
U.S. Overseas Areas and Trust Territories	*23*
Canal Zone	2
Guam	1
Puerto Rico	15
Truk Islands	1
Virgin Islands	4
Total	**180**

Acceptance powers of member banks. During the year no applications were received from member banks pursuant to the provisions of Section 13 of the Federal Reserve Act for increased acceptance powers to accept commercial drafts or bills of exchange to an amount not exceeding at any time, in the aggregate, 100 per cent of paid-up and unimpaired capital stock and surplus, or for permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange.

Foreign banking and financing corporations. At the beginning of 1964 there were 5 corporations operating under agreements with

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the Board pursuant to Section 25 of the Federal Reserve Act relating to investment by member banks in the stock of corporations engaged principally in international or foreign banking. Three of these "agreement" corporations with head offices in New York were examined during the year by examiners for the Board of Governors. Two of these each have an English fiduciary affiliate. Another has a branch in England, and it owns: the stock of 2 banks organized under the laws of, and operating in, Liberia and the Republic of South Africa; the stock of 2 trust companies, 1 organized under the laws of the Bahamas and 1 of Canada; and 50 per cent of the stock of a bank in Canada. The fourth "agreement" corporation is a national member bank in the Virgin Islands and is owned by a State member bank in Philadelphia. During the year the fifth corporation converted into a foreign banking and financing corporation organized under the provisions of Section 25(a) of the Federal Reserve Act.

During 1964, under the provisions of Section 25(a) of the Federal Reserve Act, the Board issued final permits to 3 corporations to engage in international or foreign banking or other international or foreign financial operations. All 3 corporations commenced operations in 1964. A fourth corporation that began operations in 1964 had received its final permit in 1963. Also, the activities of 2 other corporations owned by a member bank were combined at the year-end into a single corporation through the transfer of assets and assumption of liabilities. At the end of 1964, there were 33 corporations in active operation under Section 25(a): 19 have home offices in New York City, 1 in Boston, 4 in Philadelphia, 2 in Pittsburgh, 2 in Chicago, 2 in Detroit, 2 in San Francisco, and 1 in Seattle. Examiners for the Board of Governors examined 32 of these corporations during the year.

Twenty-four of these corporations have no subsidiaries or foreign branches. One opened a branch in Hong Kong during the year. One has a Canadian investment and development subsidiary, a branch in France, and an English fiduciary affiliate that has a branch in Canada. Another owns the stock of: a bank organized under the laws of, and operating in, the Republic of

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South Africa; a trust company organized under the laws of the Bahamas; and a Brazilian corporation that holds stock of a Brazilian bank. Another owns substantially all of the stock of a bank organized under the laws of, and operating in, Italy. One has a finance and investment subsidiary organized under the laws of Panama, with headquarters in Bermuda; 1 has an Argentine finance company subsidiary; 1 has a Bahaman finance company subsidiary; 1 has a Swiss investment research subsidiary; and another has a French investment banking subsidiary.

Bank Examination School. In 1964 the Bank Examination School conducted two sessions of the School for Examiners, five sessions of the School for Assistant Examiners, and the first session of a newly inaugurated School for Trust Examiners. The Bank Examination School, established in 1952 by the three Federal bank supervisory agencies, has been conducted jointly by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation since withdrawal of the Office of the Comptroller of the Currency in 1962.

Since the establishment of this program, 2,475 persons have attended the various sessions. This number includes representatives of the Federal bank supervisory agencies; another Federal agency; the State Banking Departments of California, Connecticut, Indiana, Louisiana, Maine, Michigan, Mississippi, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, Tennessee, Vermont, Virginia, and Washington; the Treasury Department of the Commonwealth of Puerto Rico; and seven foreign countries.

LEGISLATION ENACTED

Extension of authority of Federal Reserve Banks to purchase Government obligations. By Act of Congress approved June 30, 1964 (Public Law 88-344), the authority of Federal Reserve Banks under Section 14(b) of the Federal Reserve Act (12 U.S.C. 355) to purchase and sell direct or fully guaranteed obligations

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of the United States directly from or to the United States was extended until July 1, 1966.

Extension of Defense Production Act of 1950. An Act of Congress approved June 30, 1964 (Public Law 88-343), extended through June 30, 1966, the termination date of the Defense Production Act of 1950 (50 U.S.C. App. 2166), Section 301 of which is the basis for guarantees of loans for defense production.

Loans by national banks on forest tracts. By Act of Congress approved June 30, 1964 (Public Law 88-341), Section 24 of the Federal Reserve Act (12 U.S.C. 371) was amended to liberalize the restriction on national banks with respect to loans on forest tracts.

Application of Securities Exchange Act to stocks and other securities of banks. 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.

Real estate loans by national banks. By Act of Congress approved September 2, 1964 (Public Law 88-560), Section 24 of the Federal Reserve Act (12 U.S.C. 371) was amended to increase from 75 to 80 per cent the maximum loan-to-value ratio with respect to conventional real estate loans by national banks and to increase from 20 to 25 years the maximum maturity of such loans.

Interest equalization tax information. By Act of Congress approved September 2, 1964 (Public Law 88-563), a new Section 6011(d) was added to the Internal Revenue Code of 1954 to require com-

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mercial banks to file information returns with respect to loans and commitments to foreign obligors. Such returns were made available for inspection by the Board of Governors of the Federal Reserve System and the Federal Reserve Banks by Executive Order 11176 and a regulation of the Secretary of the Treasury (26 CFR §301.6103(a)-107), issued pursuant to Section 6103(a) of the Code.

Changes in control of banks. By Act of Congress approved September 12, 1964 (Public Law 88-593), insured banks are required to inform the appropriate Federal banking agency of any changes in control of management of such banks and of any loans secured by 25 per cent or more of the voting stock of such banks.

PROPOSED LEGISLATION

Lending authority of Federal Reserve Banks. In 1963 the Board of Governors recommended legislation that would permit member banks of the Federal Reserve System to borrow from the Federal Reserve Banks on the security of any sound assets without paying a "penalty" rate of interest. (See the Board's ANNUAL REPORT for 1963, page 198.)

Under present law, a member bank must pay interest at a rate not less than one-half of 1 per cent higher than the Federal Reserve Bank's normal discount rate if it borrows on any collateral other than U.S. Government obligations or limited types of paper that meet certain outmoded "eligibility" requirements.

The Board of Governors again recommends legislation that would repeal these restrictive provisions of present law and thus facilitate rather than penalize efforts by banks to meet the changing credit needs of the public.

Reserve requirements. The Board believes that serious consideration should be given to improving the present system of reserve requirements on demand deposits. The two-way classification of all member banks into reserve city and country banks has become increasingly arbitrary and inequitable, as differences in both

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size and function between country and city banks have lessened markedly.

Uniform reserve requirements applied to all banks would bring certain advantages, but there is also much to be said for preserving that aspect of the present structure which places lower requirements on smaller banks. As a practical way of recognizing both of these considerations, and as "an improvement over the present system, whether or not all commercial banks were subject to the reserve requirements of the Federal Reserve," the President's Committee on Financial Institutions in 1963 concluded "that a system of graduated requirements for demand deposits would eliminate many of the inequities and administrative difficulties in the present system of reserve requirements and would facilitate a decision to bring all commercial banks under the reserve jurisdiction of the Federal Reserve."

With graduated reserve requirements, the required reserves of each bank would depend on the size of its demand deposits rather than its location. A smoothly graduated system would permit each bank to maintain a relatively low reserve against the first few million dollars of its net demand deposits, a higher reserve against its deposits above this minimum and up to a substantial figure, and a still higher reserve against its demand deposits, if any, above the latter amount.

Under such a structure of reserve requirements, all banks of the same size, in terms of demand deposits, would carry equal reserves. As a bank grew in size and passed into a higher reserve bracket, its reserve-requirement percentage would rise smoothly and gradually, because the higher requirement would apply only to its marginal demand deposits. This proposed system would probably lessen changes in total required reserves resulting from shifts in deposits among banks of different size, and would eliminate the need for decisions that in some instances must necessarily be arbitrary in classifying particular cities as reserve cities.

It would be within the present authority of the Federal Reserve to establish, for banks that are members of the System, a structure of graduated reserve requirements, subject to the maximum

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and minimum percentages and other restrictions set forth in present law. The interests of equity and efficiency would best be served, however, if all commercial banks (or perhaps all insured banks) were obligated to observe the same reserve standards and if, at the same time, such banks were afforded access to the Federal Reserve Bank discount window. Deposits in nonmember banks are no less a part of the country's money supply than those in member banks. Furthermore, because banks other than national banks may choose whether or not to be members of the System, it is now a matter of their own volition whether or not they are to be subject directly to reserve requirements established for the purpose of effectuating national monetary policy. To permit commercial banks a choice as to the reserve requirements they will meet cannot be defended in principle.

Bank Holding Company Act of 1956. In a Special Report submitted to Congress on May 7, 1958 (published in the *Federal Reserve Bulletin* of July 1958), the Board recommended a number of amendments to this statute that would improve its effectiveness and facilitate administration. Those proposed amendments (with the exception of Recommendation 15, which was withdrawn in the Board's ANNUAL REPORT for 1960) continue to merit congressional consideration and legislative action.

The Board particularly emphasizes the desirability of prompt amendment of the Holding Company Act in the following respects:

1. The present definition of "bank holding company" covers only situations involving 2 or more banks. In the Board's judgment, this definition is not adequate to control certain potential evils toward which the Act is directed, in that it permits common corporate control of banking and nonbanking interests. Accordingly, the Board reiterates its recommendation (1958 Special Report, Recommendation 1) 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.

2. The Act now applies only to situations involving a holding company that is a "corporation, business trust, association, or

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similar organization"; it is not applicable where banks are controlled by an individual, group of individuals, trust (other than a business trust), or partnership. Congress so confined the coverage of the Act because the dangers were considered to be concentrated principally in unregulated *corporate* control of banks.

The Board agrees with the policy of restricting the coverage of the Act to those areas in which the potential evils of unregulated control of banks are substantial. However, in recent years it has appeared that there are significant dangers in permitting unregulated control of banks and other interests by *trusts* of long duration. Accordingly, it is recommended that Section 2(b) of the Act (the definition of "company") be amended to include not only corporations, business trusts, and the like, but also "any trust unless by its terms it must terminate within 25 years or not later than the death of a named beneficiary."

3. The Act exempts a company that was registered under the Investment Company Act of 1940 before May 15, 1955, and certain of its related corporations. As pointed out in Recommendation 7 of the 1958 Special Report, this exemption has no logical basis. It has been actively utilized to expand a bank-holding-company system, free from regulatory control, in a manner inconsistent with the basic principles of the Bank Holding Company Act. The Board therefore urges prompt repeal of this unwarranted exemption.

The Act also excludes from its coverage (a) companies with most of their resources "in the field of agriculture" and (b) companies "operated exclusively for religious, charitable, or educational purposes." As pointed out in Recommendations 8 and 9 of the 1958 Special Report, however, the principal dangers with which the statute is concerned—unregulated expansion of corporate ownership of banks, and ownership of banking and nonbanking interests by the same organization—are not obviated by the fact that a holding company is engaged chiefly in agriculture or is operated for religious, charitable, or educational purposes. Accordingly, these exemptions should be repealed.

4. In administering the Act the Board has confirmed its view

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(explained in Recommendation 23 of the 1958 Special Report) that Section 6 of the Act should be repealed or, at least, amended. That section, broadly speaking, prohibits intrasystem investments and extensions of credit by banks in holding company systems. This constitutes, in the Board's judgment, an unnecessary restriction upon the operations of banks controlled by holding companies. For member banks, the same purpose (control over intrasystem credit) is accomplished by Section 23A of the Federal Reserve Act, which imposes reasonable limits on such transactions, without prohibiting them completely. The Board therefore recommends that Section 6 be repealed and Section 23A be broadened to cover insured nonmember banks as well as member banks.

5. Before enactment of the Bank Holding Company Act of 1956, Federal regulation of bank holding companies was based principally on provisions of the Banking Act of 1933 relating to "holding company affiliates." As pointed out in Recommendation 25 of the 1958 Special Report, the effectiveness of the laws relating to holding company affiliates is open to question, and it is doubtful whether, in view of the enactment of the Bank Holding Company Act, these laws are sufficiently useful to justify their retention. Eliminating them would remove the confusion and the administrative burden that result from the existence of two sets of laws relating to the same general subject but based on different definitions of what constitutes a holding company.

Loans to executive officers. Under present provisions of Section 22(g) of the Federal Reserve Act, a member bank of the Federal Reserve System is prohibited from making loans to any of its executive officers, except in an amount not exceeding $2,500, and then only with the prior approval of a majority of the bank's board of directors. In addition, an executive officer is required to make a written report to his bank with respect to any loan obtained by him from any other bank.

Because the Board believes that some liberalization of these restrictions would be in the public interest, it recommends (1) that an executive officer of a member bank be permitted to borrow from his own bank up to $5,000, or in the case of home

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mortgage loans, up to $30,000; (2) that, in lieu of the present requirement for prior approval by the bank's board of directors with respect to exempted borrowings by an executive officer from his own bank, the officer be required to report any such borrowing to his board of directors; and (3) that reports as to borrowings from *other* banks be required only where they would exceed in the aggregate the amount an executive officer could borrow from his own bank. In connection with these changes, certain obsolete provisions of the law should be repealed.

To preclude favoritism, these changes should be accompanied by a requirement that any loan to a bank's executive officer shall be made on terms not more favorable than those extended to other borrowers.

Home mortgage loans to bank examiners. The U.S. Criminal Code makes it a criminal offense for any member bank of the Federal Reserve System or any nonmember insured bank to make any loan to an examiner who examines or has authority to examine such bank and, conversely, prohibits an examiner from obtaining any loan from any such bank examined by him. These prohibitions unduly and unfairly place bank examiners at a serious disadvantage in obtaining financing for the purchase or construction of their homes. The Board recommends legislation that would permit member banks and nonmember insured banks to make home mortgage loans to bank examiners up to an amount not exceeding $30,000. In the Board's judgment, such a change in the law would not defeat or impair the accomplishment of its objectives.

Purchase of obligations of foreign governments by Federal Reserve Banks. Economic use of Federal Reserve Bank balances with foreign central banks in connection with the System's foreign currency operations (ANNUAL REPORT for 1962, page 39, and ANNUAL REPORT for 1963, page 171) has been impeded by the fact that these balances, when idle temporarily, may not be invested in short-term obligations of foreign governments, such as foreign treasury bills. Under present law, such balances may be invested in bills of exchange and acceptances that arise out of actual com-

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mercial transactions and have maturities of not more than 90 days, or in interest-bearing time accounts, but there have been instances when these investment media have not been available.

The Board, therefore, recommends that this inadequacy in the law be remedied by an amendment to Section 14(e) of the Federal Reserve Act that would permit the investment of such balances in obligations of foreign governments or monetary authorities having original maturities not exceeding 12 months and denominated payable in a convertible currency.

Underwriting of "revenue bonds." The Board of Governors continues to be concerned about the confusion that has developed in recent years as to the authority of commercial banks to underwrite and deal in certain types of municipal bonds. This situation arose out of conflicting interpretations by the Comptroller of the Currency and the Board regarding the authority of national banks and State member banks to underwrite and deal in "general obligations of any State or of any political subdivision" (Revised Statutes, Section 5136). At the present time, consequently, and despite the intent of Congress that all member banks should have equal powers in this respect, the rules that govern national banks are different from those that govern State member banks.

Bills have been introduced in recent years that were designed to eliminate this disparity by permitting member banks (both national and State) to underwrite and deal, to a limited extent, in the class of governmental obligations commonly known as "revenue bonds." The Board has not favored enactment of these bills. However, the present inequality between national and State member banks is detrimental to the banking system and calls for corrective legislation of some character. In the circumstances, the Board recommends legislation that would reaffirm and clarify existing law on the subject, which forbids member banks to underwrite or deal in revenue bonds. This could be effected by adding the following sentence at the end of paragraph Seventh of Section 5136:

As used in this paragraph, the term "general obligations of any State or of any political subdivision thereof" means only obligations that are supported by

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an unconditional promise to pay, directly or indirectly, an aggregate amount which (together with any other funds available for the purpose) will suffice necessarily to discharge, when due, all interest on and principal of such obligations, which promise (1) is made by a governmental entity that possesses general powers of taxation, including property taxation, and (2) pledges or otherwise commits the full faith and credit of said promisor; said term does not include obligations not so supported that are to be repaid only from specified sources such as the income from designated facilities or the proceeds of designated taxes.

Margin requirements for securities transactions. Section 7 of the Securities Exchange Act of 1934 (15 U.S.C. 78g) authorizes the Board of Governors to limit the credit that brokers and dealers may extend on securities that are registered on a national securities exchange and to limit the credit that banks (and other lenders) may extend for the purpose of purchasing or carrying equity securities that are so registered. However, with respect to securities that are not traded on exchanges but only "over the counter," that Act forbids brokers and dealers, generally speaking, to extend any credit whatever, and permits banks to extend credit without being subject to any governmentally-imposed margin requirements.

For many years the Board has favored amendment of the law in this area. The present arrangement is inequitable in its contrasting treatment of brokers and banks. In addition it limits the effectiveness of salutary controls over security credit and unnecessarily deprives over-the-counter securities of credit facilities that might appropriately be extended by brokers and dealers. The growth of the over-the-counter securities market has given this problem increased importance, and the Securities and Exchange Commission's *Special Study of Securities Markets,* a report made to Congress in 1963, recommended amendment of the 1934 Act in these respects.

The Board urges enactment of legislation modifying Section 7 of that Act to eliminate this unwarranted difference in the status, for credit purposes, of securities traded on exchanges and securities traded over the counter.

Delegation of authority. In recent years, the responsibilities and tasks of the Board of Governors have substantially increased, both in determining monetary and credit policies and in the field of bank supervision. The efficient and expeditious performance

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of these functions might, at times, be impaired in the absence of authority on the part of the Board to delegate certain types of bank supervisory functions.

Accordingly, the Board recommends that Section 11 of the Federal Reserve Act be amended to add a new subsection (k) that would authorize, but not require, the Board to delegate its functions, except those relating to rule-making and to monetary and credit policies, to members or employees of the Board or to the Federal Reserve Banks. Assignment of responsibility for the performance of particular delegated functions should, as is the case with other Federal agencies that are authorized to delegate functions, be a prerogative of the Chairman of the Board of Governors. A provision requiring, at the instance of any one member, Board review of action taken at a delegated level would (1) assure any party adversely affected by such action of a means of administrative appeal and (2) provide the Board with an effective means for review and control of actions at the delegated level.

LITIGATION

Whitney Holding Corporation, New Orleans, Louisiana. In 1964 the U.S. Supreme Court reversed a U.S. Court of Appeals affirmance of a lower Federal Court's action in enjoining the Comptroller of the Currency from issuing a certificate authorizing Whitney National Bank in Jefferson Parish (Louisiana) to open for business. (See ANNUAL REPORT for 1963, pp. 201-02.) The Comptroller's proposal to issue the certificate followed action by the Board in authorizing Whitney Holding Corporation, New Orleans, to become a bank holding company by acquiring stock of 2 Louisiana banks. One of these was Whitney National Bank in Jefferson Parish. Prior to instituting action for an injunction in the U.S. District Court for the District of Columbia, the same parties had filed in the U.S. Court of Appeals for the Fifth Circuit (New Orleans) a petition for review of the Board's May 1962 order approving formation of the bank holding company. By

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order of October 7, 1963, the Court of Appeals stated that it would not act on the petition until final disposition of the case pending before the Supreme Court.

The case was decided by the Supreme Court on January 18, 1965. The Court, with two Justices dissenting, reversed the judgment of the U.S. Court of Appeals for the District of Columbia Circuit and remanded the case to the U.S. District Court with direction to dismiss the complaint. The Court stayed the effective date of its action for 60 days to allow the parties in the case pending before the Fifth Circuit Court of Appeals to seek from that Court a remand of the case to the Board. The Supreme Court indicated that the Board should reconsider the application of Whitney Holding Corporation to become a bank holding company, in the light of a Louisiana statute, enacted subsequently to the Board's approval of that application, which provides that "It shall be unlawful . . . for any bank holding company or subsidiary thereof to open for business any bank not now [July 10, 1962] opened for business, . . .".

It is anticipated that the Fifth Circuit Court of Appeals will remand the matter to the Board for further consideration consistent with the decision of the Supreme Court.

Wm. D. Bryan* v. *Federal Open Market Committee, et al. In January 1964 a motion was filed on behalf of the Federal Open Market Committee in the U. S. District Court for Montana to dismiss the complaint filed in August 1963, wherein plaintiff sought to have the powers exercised by the Committee declared to have been an unconstitutional delegation by Congress, and to have the Committee and its members restrained from purchasing and selling U.S. Government securities on the open market.

After hearing arguments on defendants' motion in September 1964, the District Court, on December 7, 1964, granted the Committee's motion to dismiss the complaint and issued an opinion setting forth the reasons for its action.

Virginia M. Kirsch, et al.* v. *Board of Governors. On July 27, 1964, the Board approved the application of Society Corporation, Cleveland, Ohio, to become a bank holding company through

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the acquisition of shares of stock of The Fremont Savings Bank Company, Fremont, Ohio. At the time of the Board's action Society Corporation owned a majority of the shares of Society National Bank of Cleveland, Cleveland, Ohio.

On September 25, 1964, a petition for review of the Board's order was filed in the U.S. Court of Appeals for the Sixth Circuit (Cincinnati) on behalf of Virginia M. Kirsch, and others, together with a motion for a stay of the Board's order of approval. An opposition to the motion for stay was filed on behalf of the Board. Society Corporation filed a motion to intervene in the pending appeal and sought to have the petitioners' motion for stay denied and their appeal dismissed.

On October 16, 1964, the Court of Appeals granted Society Corporation's petition to intervene, denied the petitioners' motion for a stay of the Board's order, and withheld action on Society Corporation's motion to dismiss, pending a hearing on the merits of the case. At the year-end no date had been set for oral argument of the pending matters.

United States* v. *Wegematic Corporation. In October 1956 a corporate predecessor of the defendant corporation contracted with the Board of Governors to deliver an electronic digital computing system by July 1, 1957. The contract contained a provision relating to liquidated damages for any delay in delivery as called for in the contract.

The defendant's predecessor failed to meet the terms of its contract, whereupon the Board undertook to procure elsewhere a comparable machine. Following the breach by defendant's predecessor of its contract with the Board, suit was brought in the U.S. District Court for the Southern District of New York by the United States on behalf of the Board against Wegematic Corporation as successor to the corporation with whom the Board originally contracted.

Following trial of the case in November 1964, the Court rendered a judgment in favor of the United States for the sum of $237,806, with interest thereon at the rate of 6 per cent from October 6, 1958. The judgment included sums for liquidated damages, actual damages, and expenses incurred by the Board

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in anticipation of, and preparatory to, performance of the contract. Wegematic Corporation has noted an appeal from the District Court's judgment.

RESERVE BANK OPERATIONS

Earnings and expenses. The following table summarizes earnings, expenses, and the distribution of net earnings of the Federal Reserve Banks for 1964 and 1963.

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1964 AND 1963

(In thousands of dollars)

Item	1964	1963
Current earnings	1,343,747	1,151,120
Current expenses	197,396	187,273
Current net earnings	1,146,351	963,847
Net addition to current net earnings[1]	726	615
Net earnings before payments to U. S. Treasury	1,147,077	964,462
Dividends paid	30,782	28,912
Payments to U. S. Treasury (interest on F.R. notes)	1,582,119	879,685
Transferred to surplus	−465,823	55,864

[1] Includes net profits on sales of U.S. Govt. securities of $616,000 in 1964 and $312,000 in 1963.

Current earnings of $1,344 million in 1964 were $193 million, or 17 per cent, more than in 1963. Of the increase, $186 million represented larger earnings on U.S. Government securities, which in turn reflected a rise in average holdings and a higher average yield, as shown in the table on page 213.

Current expenses of $197 million were about 5 per cent higher than in 1963. Current net earnings increased $183 million, or 19 per cent, over 1963.

Net earnings before payments to the U.S. Treasury were $1,147 million, an increase of 19 per cent from 1963.

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Statutory dividends to member banks amounted to $31 million, about $2 million more than in 1963. This rise reflected an increase in the capital and surplus of member banks and a consequent increase in the paid-in capital of the Federal Reserve Banks.

Payments to the Treasury as interest on Federal Reserve notes totaled $1,582 million for the year. This amount consists of all net earnings after dividends, plus the amount necessary to reduce surplus to the level of paid-in capital.

The Federal Reserve Banks have been paying into the Treasury as interest on Federal Reserve notes all net earnings after providing for statutory dividends to member banks and amounts necessary to maintain the surplus account at a level equal to the amount of capital subscribed by the member banks.

Member banks are required to subscribe to Federal Reserve Bank capital stock in an amount equal to 6 per cent of their own capital and surplus and to pay in one-half of the subscribed amount. Because of the growth in the capital structure of the 6,200 member banks, in reflection of the growth of the economy, the subscribed capital of the Reserve Banks at the end of 1964 had reached $1,048 million, an increase of nearly $273 million since 1959, when the procedure was last changed.

The Board concluded that the growth in the capital and accumulated surplus of the Reserve Banks, as well as in their net earnings (which rose from $840 million in 1959 to $1,147 million in 1964), warranted reducing the surplus of the Reserve Banks to the level of paid-in capital instead of subscribed capital.

Expenses of the Federal Reserve Banks include costs of $156.59 for 2 regional meetings incident to the Treasury Department Savings Bond program.

A detailed statement of earnings and expenses of each Federal Reserve Bank during the year 1964 is shown in Table 7 on pages 230-31, and a condensed historical statement in Table 8 on pages 232-33.

Holdings of loans and securities. Average daily holdings of loans and securities during 1964 amounted to $34,985 million—an

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increase of $2,900 million over 1963. Holdings of U.S. Government securities accounted for $2,852 million of the increase, and discounts and advances for $25 million.

The average rate of interest on holdings of U.S. Government securities increased from 3.58 per cent in 1963 to 3.82 per cent in 1964, and the average rate of interest on discounts and advances from 3.30 to 3.57 per cent. The increased rate of earnings on discounts reflects primarily the full effect of the discount rate increase in July 1963 and to a slight extent the increase in November 1964. The following table shows holdings, earnings, and average interest rates on loans and securities held by the Federal Reserve Banks during the past 3 years.

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1962-64

Item and year	Total	Discounts and advances	Acceptances	U.S. Govt. securities
	In millions of dollars			
Average daily holdings:[1]				
1962	29,703	137	42	29,524
1963	32,085	269	53	31,763
1964	34,985	294	76	34,615
Earnings:				
1962	1,044.7	4.1	1.3	1,039.3
1963	1,148.8	8.9	1.7	1,138.2
1964	1,337.0	10.5	2.8	1,323.7
	In per cent			
Average rate of interest:				
1962	3.52	3.02	2.97	3.52
1963	3.58	3.30	3.28	3.58
1964	3.82	3.57	3.67	3.82

[1] Based on holdings at opening of business.

Volume of operations. Table 10 on page 234 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1961-64. The volume of checks handled reached a

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new high again in 1964. At year's end more than half of these items were being processed on electronic check-handling equipment, which is now in operation at 25 of the 36 Federal Reserve Banks and branches.

Although production of new coin continued to increase, the number of pieces of coin received and counted decreased sharply again this year, as deposits from member banks declined still further. Currency received and counted continued to rise moderately.

Both the number and dollar value of issues, redemptions, and exchanges of U.S. Government securities reached a new peak. This increase reflected an unusually large number of advance refundings by the Treasury Department.

Loan guarantees for defense production. Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force, the Defense Supply Agency of the Department of Defense, the Departments of Commerce, Interior, and Agriculture, the General Services Administration, the National Aeronautics and Space Administration, and the Atomic Energy Commission are authorized to guarantee loans for defense production made by commercial banks and other private financing institutions. The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies under the Board's Regulation V.

During 1964 the guaranteeing agencies authorized the issuance of 7 guarantee agreements covering loans totaling $14 million. Loan authorizations outstanding on December 31, 1964, totaled $77 million, of which $59 million represented outstanding loans and $18 million additional credit available to borrowers. Of total loans outstanding, 79 per cent on the average was guaranteed. During the year approximately $140 million was disbursed on guaranteed loans, most of which are revolving credits.

Authority for the V-loan program, unless extended, will terminate on June 30, 1966.

Table 14 (page 236) shows guarantee fees and maximum interest rates applicable to Regulation V loans.

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Foreign and international accounts. Assets held for foreign account at the Federal Reserve Banks declined by $413 million in 1964. At the end of the year they amounted to $20,306 million: $10,802 million of earmarked gold; $8,389 million of U.S. Government securities (including securities payable in foreign currencies); $229 million in dollar deposits; $122 million of bankers' acceptances purchased through Federal Reserve Banks; and $763 million of miscellaneous assets. The latter item includes mainly dollar bonds issued by foreign countries and international organizations. Assets held for international organizations decreased by $30 million to $8,063 million.

In 1964 new accounts were opened in the names of the central banks of Burundi, Congo, and Rwanda.

Gold collateral loans totaling $32 million, which were outstanding at the beginning of 1964, were repaid. New arrangements—including a standby commitment—amounted to $57 million, of which $30 million was outstanding at the end of the year. Loans on gold are made to foreign monetary authorities to help them meet dollar requirements of a temporary nature.

The Federal Reserve Bank of New York continued to act as depositary and fiscal agent for international organizations. As fiscal agent of the United States, the Bank continued to operate the Exchange Stabilization Fund pursuant to authorization and instructions of the Secretary of the Treasury. Also on behalf of the Treasury Department, it administered foreign assets control regulations pertaining to assets in the United States of North Viet-Nam (since May 5, 1964), Cuba, Communist China, and North Korea, and their nationals, and to transactions with those countries and their nationals.

Bank premises. With the approval of the Board, the following real estate was acquired by the Federal Reserve Banks during 1964: (1) property adjacent to the Jacksonville Branch, for future expansion, (2) property adjacent to the Federal Reserve Bank of Kansas City, for use as a security entrance, (3) a site for a new building for the Denver Branch, and (4) a site for the con-

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struction of a communications and records center for the Federal Reserve Bank of Richmond.

Table 6 on page 229 shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks and of real estate acquired for banking-house purposes.

BOARD OF GOVERNORS—INCOME AND EXPENSES

The accounts of the Board for year 1964 were audited by the public accounting firm of Haskins & Sells.

ACCOUNTANTS' OPINION

Board of Governors of the
Federal Reserve System:

We have examined the balance sheet of the Board of Governors of the Federal Reserve System as of December 31, 1964 and the related statement of assessments and expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1964 and its assessments and expenditures for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

Washington, D. C.
February 4, 1965.

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Board of Governors of the Federal Reserve System

Balance Sheet, December 31, 1964

Assets

Operating Fund:		
Cash		$ 861,872
Miscellaneous receivables and travel advances		21,409
Stockroom and cafeteria inventories—at cost		21,391
Total operating fund		904,672
Property Fund—At cost:		
Land and improvements		792,852
Building		4,117,532
Furniture and equipment		1,211,006
Total property fund		6,121,390
Total		$7,026,062

Liabilities and Fund Balances

Operating Fund:		
Current liabilities:		
Accounts payable and accrued expenses	$ 241,780	
Income taxes withheld	208,862	
Accrued payroll	189,897	$ 640,539
Fund balance:		
Balance, January 1, 1964	305,255	
Excess of expenditures over assessments for the year	(41,122)	264,133
Total operating fund		904,672
Property Fund:		
Fund balance, January 1, 1964	5,615,928	
Expenditures for additions	515,876	
Property adjustments and disposals	(10,414)	
Total property fund		6,121,390
Total		$7,026,062

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Statement of Assessments and Expenditures for the Year Ended December 31, 1964

Assessments Levied on Federal Reserve Banks:		
For Board expenses and additions to property		$ 8,655,200
For expenditures made on behalf of the Federal Reserve Banks		14,965,546
Total assessments		23,620,746
Expenditures:		
For printing, issue and redemption of Federal Reserve notes, paid on behalf of the Federal Reserve Banks		14,965,546
For expenses of the Board:		
Salaries	$5,292,372	
Retirement and insurance contributions	799,725	
Traveling expenses	310,945	
Consumer Finances Surveys	572,721	
Legal, consultant and audit fees	51,423	
Other contractual services	149,045	
Printing and binding—net	281,290	
Equipment and other rentals	206,274	
Telephone and telegraph	104,462	
Postage and expressage	108,149	
Stationery, office and other supplies	73,011	
Heat, light and power	57,248	
Operation of cafeteria—net	44,511	
Repairs, maintenance and alterations	53,990	
Books and subscriptions	23,427	
Insurance	4,130	
System membership, Center for Latin American Monetary Studies	18,000	
Miscellaneous—net	29,723	8,180,446
For property additions		515,876
Total expenditures		23,661,868
Excess of Expenditures Over Assessments for the Year		$ 41,122

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Tables

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1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS COMBINED, DECEMBER 31, 1964

(In thousands of dollars)

ASSETS

Item				
Gold certificates on hand:				
Held by F.R. Banks		286,056		
Held by F.R. Agents		2,530,000		
Gold certificates due from U.S. Treasury:				
Interdistrict settlement fund		6,532,087		
F.R. Agents' Fund		4,157,000	13,505,143	
Redemption fund for F.R. notes			1,569,836	
Total gold certificate reserves				15,074,979
F.R. notes of other F.R. Banks				684,235
Other cash:				
United States notes			22,087	
Silver certificates			106,053	
Standard silver dollars			53	
National bank notes and F.R. Bank notes			329	
Subsidiary silver, nickels, and cents			17,311	
Total other cash				145,833
Discounts and advances secured by U.S. Govt. securities:				
Discounted for member banks		137,639		
Discounted for others		....	137,639	
Other discounts and advances:				
Discounted for member banks		18,212		
Foreign loans on gold		30,000	48,212	
Total discounts and advances			185,851	
Acceptances:				
Bought outright			58,929	
Held under repurchase agreement			34,839	
U.S. Govt. securities:				
Bought outright:				
Bills	6,044,275			
Certificates	....			
Notes	25,187,522			
Bonds	5,274,497			
Total bought outright		36,506,294		
Held under repurchase agreement		537,500		
Total U.S. Govt. securities			37,043,794	
Total loans and securities				37,323,413
Cash items in process of collection:				
Transit items			7,973,195	
Exchanges for clearing house			381,585	
Other cash items			631,626	
Total cash items in process of collection:				8,986,406
Bank premises:				
Land			26,465	
Buildings (including vaults)		106,242		
Fixed machinery and equipment		59,068		
Total buildings		165,310		
Less depreciation allowances		90,761	74,549	
Total bank premises				101,014
Other assets:				
Denominated in foreign currencies			294,899	
Reimbursable expenses and other items receivable			2,719	
Interest accrued			243,158	
Premium on securities			4,501	
Deferred charges			2,057	
Real estate acquired for banking-house purposes			3,425	
Suspense account			759	
All other			780	
Total other assets				552,298
Total assets				62,868,178

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1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS COMBINED, DECEMBER 31, 1964—Continued

(In thousands of dollars)

LIABILITIES

Item			
F.R. notes:			
Outstanding (issued to F.R. Banks)		37,231,387	
Less: Held by issuing F.R. Banks	1,704,921		
Forwarded for redemption	184,251	1,889,172	
F.R. notes, net (includes notes held by U.S. Treasury and by F.R. Banks other than issuing Bank)			**35,342,215**
Deposits:			
Member bank reserves		**18,084,984**	
U.S. Treasurer—General account		**819,985**	
Foreign		**228,910**	
Other deposits:			
Nonmember bank—clearing accounts	68,665		
Officers' and certified checks	17,000		
Reserves of corporations doing foreign banking or financing	32,426		
International organizations	87,308		
All other	115,085		
Total other deposits		**320,484**	
Total deposits			**19,454,363**
Deferred availability cash items			**6,378,886**
Other liabilities:			
Accrued dividends unpaid		....	
Unearned discount		355	
Discount on securities		113,086	
Sundry items payable		6,557	
Suspense account		850	
All other		524,080	
Total other liabilities			**644,928**
Total liabilities			**61,820,392**

CAPITAL ACCOUNTS

Item	
Capital paid in	**523,893**
Surplus	**523,893**
Other capital accounts[1]	....
Total liabilities and capital accounts	**62,868,178**
Contingent liability on acceptances purchased for foreign correspondents	**122,447**

[1] During the year this item includes the net of earnings, expenses, profits, etc., which are closed out on Dec. 31; see Table 7, pp. 230–31.

NOTE.—Amounts in boldface type indicate items shown in the Board's weekly statement of condition of the F.R. Banks.

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2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1964 and 1963

(In millions of dollars unless otherwise indicated)

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1964	1963	1964	1963	1964	1963	1964	1963	1964	1963	1964	1963
ASSETS												
Gold certificate account	13,505	13,819	679	720	3,073	3,608	759	728	1,147	1,072	896	845
Redemption fund for F.R. notes	1,570	1,418	90	81	355	334	86	79	138	121	133	118
Total gold certificate reserves	15,075	15,237	769	801	3,428	3,942	845	807	1,285	1,193	1,029	963
F.R. notes of other Banks	684	496	49	37	183	110	51	35	47	31	56	39
Other cash	146	182	9	9	32	32	5	6	11	11	9	9
Discounts and advances:												
Secured by U.S. Govt. securities	137	31	18	*	33	1	*	1	20	6	12	2
Other	49	32	1	2	8	9	2	2	3	3	2	1
Acceptances:												
Bought outright	59	70			59	70						
Held under repurchase agreements	35	92			35	92						
U.S. Govt. securities:												
Bought outright	36,506	33,582	1,911	1,571	8,748	8,697	2,003	1,831	3,051	2,784	2,647	2,351
Held under repurchase agreements	538	11			538	11						
Total loans and securities	37,324	33,818	1,930	1,573	9,421	8,880	2,005	1,834	3,074	2,793	2,661	2,354
Cash items in process of collection	8,984	7,791	643	742	1,833	1,689	492	453	616	509	666	589
Bank premises	102	104	3	3	8	8	3	3	6	6	5	5
Other assets:												
Denominated in foreign currencies	295	153	14	7	78	41	16	9	27	14	15	7
All other	257	247	13	12	61	64	15	13	20	21	18	17
Total assets	62,867	58,028	3,430	3,184	15,044	14,766	3,432	3,160	5,086	4,578	4,459	3,983

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LIABILITIES												
F.R. notes	35,343	32,877	2,084	1,926	8,254	7,940	2,077	1,917	3,005	2,812	3,010	2,703
Deposits:												
Member bank reserves	18,086	17,049	653	691	4,830	4,995	784	768	1,351	1,158	780	707
U.S. Treasurer—General account	820	880	55	37	152	227	75	32	70	44	57	79
Foreign	229	171	11	8	68	54	12	9	20	15	11	7
Other	321	291	5	4	181	167	7	6	8	8	10	9
Total deposits	19,456	18,391	724	740	5,231	5,443	878	815	1,449	1,225	858	802
Deferred availability cash items	6,378	5,191	542	443	1,113	967	384	341	482	399	504	398
Other liabilities	642	82	30	4	172	20	35	4	56	7	35	6
Total liabilities	61,819	56,541	3,380	3,113	14,770	14,370	3,374	3,077	4,992	4,443	4,407	3,909
CAPITAL ACCOUNTS												
Capital paid in	524	497	25	24	137	132	29	28	47	45	26	25
Surplus	524	990	25	47	137	264	29	55	47	90	26	49
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	62,867	58,028	3,430	3,184	15,044	14,766	3,432	3,160	5,086	4,578	4,459	3,983
Ratio of gold certificate reserves to deposit and F.R. note liabilities combined	27.5%	29.7%	27.4%	30.0%	25.4%	29.5%	28.6%	29.5%	28.9%	29.6%	26.6%	27.5%
Contingent liability on acceptances purchased for foreign correspondents	122	92	6	5	32	25	7	5	11	9	6	4
F.R. NOTE STATEMENT												
F.R. notes:												
Issued to F.R. Bank by F.R. Agent and outstanding	37,233	34,317	2,171	2,004	8,733	8,274	2,138	1,976	3,221	2,992	3,125	2,787
Less held by issuing Bank, and forwarded for redemption	1,890	1,440	87	78	479	334	61	59	216	180	115	84
F.R. notes, net[1]	35,343	32,877	2,084	1,926	8,254	7,940	2,077	1,917	3,005	2,812	3,010	2,703
Collateral held by F.R. Agent for notes issued to Bank:												
Gold certificate account	6,687	6,890	420	483	1,730	1,700	450	425	500	610	615	625
Eligible paper	12	15	....	....	....	....	*	1	....	....	12	1
U.S. Govt. securities	31,430	28,242	1,765	1,530	7,200	6,700	1,800	1,600	2,775	2,450	2,535	2,275
Total collateral	38,129	35,147	2,185	2,013	8,930	8,400	2,250	2,026	3,275	3,060	3,162	2,901

For notes see end of table.

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2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1964 and 1963—Continued

(In millions of dollars unless otherwise indicated)

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1964	1963	1964	1963	1964	1963	1964	1963	1964	1963	1964	1963	1964	1963
ASSETS														
Gold certificate account	733	730	2,207	2,427	573	633	282	282	563	587	647	516	1,946	1,671
Redemption fund for F.R. notes	95	87	287	256	63	60	28	29	62	55	51	44	182	154
Total gold certificate reserves	828	817	2,494	2,683	636	693	310	311	625	642	698	560	2,128	1,825
F.R. notes of other Banks	63	41	62	50	32	22	27	41	18	16	31	23	65	51
Other cash	13	25	25	25	6	13	5	7	6	7	4	8	21	30
Discounts and advances:														
Secured by U.S. Govt. securities	10	3	2	4	*	2	*	*	22	11	20	....	....	1
Other	11	2	4	4	1	1	1	1	2	1	2	2	12	4
Acceptances:														
Bought outright	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Held under repurchase agreements	....	....	....	....	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities:														
Bought outright	2,082	1,957	6,302	5,395	1,436	1,325	776	649	1,404	1,354	1,363	1,286	4,783	4,382
Held under repurchase agreements	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Total loans and securities	2,103	1,962	6,308	5,403	1,437	1,328	777	650	1,428	1,366	1,385	1,288	4,795	4,387
Cash items in process of collection	714	549	1,401	1,277	410	298	250	211	583	387	489	307	887	780
Bank premises	18	17	22	23	6	6	4	4	6	7	11	12	10	10
Other assets:														
Denominated in foreign currencies	16	8	42	22	10	5	7	4	13	7	17	9	40	20
All other	16	14	43	39	11	11	4	5	13	10	10	9	33	32
Total assets	3,771	3,433	10,397	9,522	2,548	2,376	1,384	1,233	2,692	2,442	2,645	2,216	7,979	7,135

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LIABILITIES														
F.R. notes	2,085	1,929	6,386	5,891	1,410	1,340	631	592	1,349	1,258	1,089	979	3,963	3,590
Deposits:														
Member bank reserves	993	916	2,638	2,498	695	652	466	404	824	767	1,051	844	3,021	2,649
U.S. Treasurer—General account	48	63	81	65	56	83	54	46	64	73	48	51	60	80
Foreign	12	9	31	23	7	5	5	4	10	7	13	9	29	21
Other	6	5	18	33	4	3	3	1	6	5	4	4	69	46
Total deposits	1,059	993	2,768	2,619	762	743	528	455	904	852	1,116	908	3,179	2,796
Deferred availability cash items	528	422	999	789	318	239	186	149	365	264	345	240	612	540
Other liabilities	37	5	94	13	22	3	15	2	28	3	33	4	85	11
Total liabilities	3,709	3,349	10,247	9,312	2,512	2,325	1,360	1,198	2,646	2,377	2,583	2,131	7,839	6,937
CAPITAL ACCOUNTS														
Capital paid in	31	28	75	70	18	17	12	12	23	22	31	28	70	66
Surplus	31	56	75	140	18	34	12	23	23	43	31	57	70	132
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	3,771	3,433	10,397	9,522	2,548	2,376	1,384	1,233	2,692	2,442	2,645	2,216	7,979	7,135
Ratio of gold certificate reserves to deposit and F.R. note liabilities combined	26.3%	28.0%	27.2%	31.5%	29.3%	33.3%	26.7%	29.7%	27.7%	30.4%	31.7%	29.7%	29.8%	28.6%
Contingent liability on acceptances purchased for foreign correspondents	7	5	17	13	4	3	3	2	5	4	7	5	17	12
F.R. NOTE STATEMENT														
F.R. notes:														
Issued to F.R. Bank by F.R. Agent and outstanding	2,203	2,009	6,727	6,147	1,487	1,402	652	618	1,406	1,296	1,168	1,054	4,202	3,758
Less held by issuing Bank, and forwarded for redemption	118	80	341	256	77	62	21	26	57	38	79	75	239	168
F.R. notes, net[1]	2,085	1,929	6,386	5,891	1,410	1,340	631	592	1,349	1,258	1,089	979	3,963	3,590
Collateral held by F.R. Agent for notes issued to Bank:														
Gold certificate account	340	365	1,100	1,100	280	250	112	120	225	272	180	190	735	750
Eligible paper	....	....	....	....	*	2	....	....	....	11	....	....	....	....
U.S. Govt. securities	1,900	1,700	5,700	5,077	1,260	1,210	545	500	1,200	1,100	1,050	900	3,700	3,200
Total collateral	2,240	2,065	6,800	6,177	1,540	1,462	657	620	1,425	1,383	1,230	1,090	4,435	3,950

* Less than $500,000.
[1] Includes F.R. notes held by U.S. Treasury and by F.R. Banks other than the issuing Bank.

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3. FEDERAL RESERVE HOLDINGS OF U.S. GOVERNMENT SECURITIES DECEMBER 31, 1962–64

(In thousands of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (−) during—	
		1964	1963	1962	1964	1963
Treasury bonds:						
1962-67	2½	107,560	107,560	107,560	...	...
1963 Aug	2½	...	...	348,500	...	−348,500
1963-68	2½	169,085	164,085	146,085	5,000	18,000
1964 Feb	3	...	90,750	90,750	−90,750	...
1964-69 June	2½	306,740	306,740	296,740	...	10,000
1964-69 Dec	2½	335,199	334,199	325,199	1,000	9,000
1965 Feb	2⅝	480,600	480,600	407,100	...	73,500
1965-70	2½	573,540	573,540	572,540	...	1,000
1966-71	2½	144,007	144,007	144,007	...	...
1966 May	3¾	252,200	247,200	210,500	5,000	36,700
1966 Aug	3	36,550	36,550	27,850	...	8,700
1966 Nov	3⅜	209,100	209,100	165,600	...	43,500
1967-72 June	2½	54,566	54,566	52,766	...	1,800
1967-72 Sept	2½	44,052	44,052	40,052	...	4,000
1967 Nov	3⅝	590,550	579,550	533,950	11,000	45,600
1967-72 Dec	2½	95,858	95,858	79,358	...	16,500
1968 May	3⅞	253,700	250,700	226,200	3,000	24,500
1968 Aug	3¾	224,100	116,600	29,900	107,500	86,700
1968 Nov	3⅞	29,500	8,000	...	21,500	8,000
1969 Feb	4	84,000	69,500	13,000	14,500	56,500
1969 Oct	4	103,450	40,450	23,450	63,000	17,000
1970 Aug	4	86,800	45,200	...	41,600	45,200
1971 Aug	4	158,100	93,600	45,100	64,500	48,500
1971 Nov	3⅞	153,900	126,900	44,000	27,000	82,900
1972 Feb	4	132,000	98,000	23,500	34,000	74,500
1972 Aug	4	97,600	88,600	32,200	9,000	56,400
1973 Aug	4	83,200	21,000	...	62,200	21,000
1973 Nov	4⅛	91,400	...	...	91,400	...
1974 May	4¼	45,300	...	...	45,300	...
1974 Nov	3⅞	37,150	35,150	33,400	2,000	1,750
1975-85	4¼	47,090	5,750	4,250	41,340	1,500
1978-83	3¼	500	500	500	...	...
1980 Feb	4	34,800	32,800	16,300	2,000	16,500
1980 Nov	3½	22,400	19,400	18,400	3,000	1,000
1985 May	3¼	20,800	20,800	20,800	...	...
1987-92	4¼	58,500	5,000	4,000	53,500	1,000
1988-93	4	13,500	13,500	...	...	13,500
1989-94	4⅛	21,400	13,900	...	7,500	13,900
1990 Feb	3½	61,450	57,450	43,450	4,000	14,000
1998 Nov	3½	14,250	14,250	9,750	...	4,500
Total	...	5,274,497	4,645,407	4,136,757	629,090	508,650
Treasury notes:						
Feb. 15, 1963—A	2⅝	...	...	224,500	...	−224,500
Feb. 15, 1963—E	3¼	...	...	173,500	...	−173,500
May 15, 1963—B	4	...	...	52,500	...	−52,500
May 15, 1963—D	3¼	...	...	814,600	...	−814,600
Nov. 15, 1963—C	4⅞	...	...	188,039	...	−188,039
May 15, 1964—A	4¾	...	2,797,983	2,796,383	−2,797,983	1,600
May 15, 1964—D	3¾	...	219,000	219,000	−219,000	...
Aug. 15, 1964—B	5	...	122,550	118,550	−122,550	4,000
Aug. 15, 1964—E	3¾	...	1,739,400	1,794,400	−1,739,400	−55,000
Nov. 15, 1964—C	4⅞	...	2,306,300	2,310,400	−2,306,300	−4,100
Nov. 15, 1964—F	3¾	...	4,074,993	...	−4,074,993	4,074,993
Apr. 1, 1965—EA	1½	15,000	15,000	15,000	...	...
May 15, 1965—A	4⅝	206,700	206,700	185,100	...	21,600
May 15, 1965—C	3⅞	3,911,506	3,911,506	...	...	3,911,506
Aug. 13, 1965—D	3⅞	3,891,732	...	...	3,891,732	...
Nov. 15, 1965—B	3½	76,500	63,000	17,000	13,500	46,000
Nov. 15, 1965—E	4	6,282,232	...	...	6,282,232	...
Feb. 15, 1966—B	3⅝	340,000	274,500	114,000	65,500	160,500
Feb. 15, 1966—C	3⅞	1,892,950	...	...	1,892,950	...
May 15, 1966—D	4	6,387,293	...	...	6,387,293	...
Aug. 15, 1966—A	4	1,643,959	1,643,959	1,605,159	...	38,800
Feb. 15, 1967—B	3⅝	244,000	119,000	...	125,000	119,000
Aug. 15, 1967—A	3¾	295,650	235,150	89,150	60,500	146,000
Total	...	25,187,522	17,729,041	10,717,281	7,458,481	7,011,760

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3. FEDERAL RESERVE HOLDINGS OF U.S. GOVERNMENT SECURITIES DECEMBER 31, 1962–64—Continued

(In thousands of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (−) during—	
		1964	1963	1962	1964	1963
Certificates:						
Feb. 15, 1963	3½			3,402,482		−3,402,482
May 15, 1963	3¼			2,393,149		−2,393,149
Aug. 15, 1963	3½			3,731,493		−3,731,493
Nov. 15, 1963	3⅛			3,654,815		−3,654,815
Feb. 15, 1964	3¼		3,800,982		−3,800,982	3,800,982
May 15, 1964	3¼		3,265,249		−3,265,249	3,265,249
Total			7,066,231	13,181,939	−7,066,231	−6,115,708
Treasury bills:						
Tax anticipation		130,500	19,000	108,000	111,500	−89,000
Other due—						
Within 3 mos.		3,818,045	2,893,512	1,666,922	924,533	1,226,590
3-6 mos.		1,534,480	1,061,610	446,735	472,870	614,875
After 6 mos.		561,250	167,300	220,352	393,950	−53,052
Total		6,044,275	4,141,422	2,442,009	1,902,853	1,699,413
Repurchase agreements		537,500	10,800	342,000	526,700	−331,200
Total holdings		37,043,794	33,592,901	30,819,986	3,450,893	2,772,915
Maturing—						
Within 90 days		4,647,157	6,815,044	5,917,404	−2,167,887	897,640
91 days to 1 year		16,798,888	15,754,385	11,850,183	1,044,503	3,904,202
Over 1 year to 5 years		13,505,586	8,668,760	10,807,452	4,836,826	−2,138,692
Over 5 yrs. to 10 yrs.		1,797,473	2,136,212	2,094,097	−338,739	42,115
Over 10 years		294,690	218,500	150,850	76,190	67,650

4. FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1953–64

(In millions of dollars)

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1953		1953		1954			
Mar. 18	110	June 11	358	Jan. 14	22	1955	none
19	104	12	506	15	169	1956	none
20	189	13	506	16	169	1957	none
21	189	14*	506	17*	169		
22*	189	15	999	18	323	1958	
23	333	16	1,172	19	424	Mar. 17	143
24	186	17	823	20	323	18	207
25	63	18	364	21	306		
26	49	19	992	22	283	1959	none
June 5	196	20	992	23	283	1960	none
6	196	21*	992	24*	283	1961	none
7*	196	22	908	25	203	1962	none
8	374	23	608	26	3	1963	none
9	491	24	296	Mar. 15	134	1964	none
10	451			16	190		

* Sunday or holiday.

NOTE.—Under authority of Section 14(b) of the Federal Reserve Act. On Nov. 9, 1953, the F.R. Banks sold directly to the Treasury $500 million of Treasury notes; this is the only use that has been made under the same authority to sell U.S. Govt. securities directly to the United States.

Interest rate ¼ per cent through Dec. 3, 1957, and ¼ per cent below prevailing discount rate of F.R. Bank of New York thereafter. Rate on purchases in 1958 was 2 per cent. For data for prior years beginning with 1942, see previous ANNUAL REPORTS. No holdings on dates not shown.

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5. OPEN MARKET TRANSACTIONS OF THE FEDERAL RESERVE SYSTEM DURING 1964

(In millions of dollars)

Month	Outright transactions in U.S. Govt. securities by maturity								
	Total			Treasury bills			Others within 1 year		
	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Exch. or maturity shifts
January	95	670	255	95	670	255	....	....	....
February	989	458	115	989	458	115	....	....	−3,411
March	699	18	239	677	18	239	....	....	....
April	588	714	367	538	714	367	....	....	15
May	1,332	136	85	1,259	136	85	....	....	−2,164
June	937	....	371	900	....	371	....	....	....
July	1,264	610	447	1,264	610	447	....	....	....
August	574	413	....	145	413	....	....	....	2,030
September	620	534	....	388	534	....	....	....	....
October	1,347	888	....	1,275	888	....	....	....	....
November	1,197	131	....	1,197	131	....	....	....	−28
December	813	866	215	706	866	215	5	....	....
Total	10,454	5,437	2,093	9,433	5,437	2,093	5	....	−3,558

Month	1–5 years			5–10 years			Over 10 years		
	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts
January	....	....	....	....	....	....	....	....	....
February	....	....	3,481	....	....	−70	....	....	....
March	11	....	....	9	....	....	3	....	....
April	13	....	−15	30	....	....	8	....	....
May	43	....	2,164	27	....	....	4	....	....
June	20	....	307	11	....	−307	5	....	....
July	....	....	....	....	....	....	....	....	....
August	187	....	−2,030	202	....	....	41	....	....
September	108	....	....	89	....	....	34	....	....
October	33	....	102	29	....	−102	11	....	....
November	....	....	28	....	....	35	....	....	−35
December	52	....	335	45	....	−335	5	....	....
Total	465	....	4,372	440	....	−779	111	....	−35

Month	Repurchase agreements (U.S. Govt. securities)		Net change in U.S. Govt. securities	Bankers' acceptances		Net change in U.S. Govt. securities and acceptances
	Gross purchases	Gross sales		Net outright	Net repurchases	
January	429	440	−840	−2	−92	−934
February	127	127	416	−4	....	412
March	497	338	601	−4	64	662
April	172	280	−601	−7	−25	−663
May	682	734	1,060	−7	−39	1,014
June	625	625	566	....	36	602
July	1,070	1,021	257	−7	−21	229
August	684	733	113	−4	−16	93
September	812	712	186	2	61	249
October	682	782	359	....	−18	341
November	1,313	1,313	1,065	6	−23	1,048
December	2,194	1,657	269	15	15	300
Total	9,286	8,760	3,451	−11	−57	3,383

NOTE.—Sales, redemptions, and negative figures reduce System holdings; all other figures increase such holdings.

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6. BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES DECEMBER 31, 1964

(In dollars)

F.R. Bank or branch	Cost				Net book value
	Land	Buildings (including vaults)[1]	Fixed machinery and equipment	Total	
Boston	**1,628,132**	**5,929,169**	**2,966,116**	**10,523,417**	**2,981,378**
New York	**5,215,656**	**12,453,741**	**4,886,521**	**22,555,918**	**4,075,445**
Annex	592,679	1,451,569	673,458	2,717,706	583,813
Buffalo	406,069	2,555,197	1,565,400	4,526,666	3,144,168
Philadelphia	**1,884,357**	**4,839,506**	**2,154,452**	**8,878,315**	**2,741,471**
Cleveland	**1,295,490**	**6,570,481**	**3,571,958**	**11,437,929**	**1,252,414**
Cincinnati	400,891	1,167,098	1,587,495	3,155,484	739,749
Pittsburgh	1,656,418	2,979,091	2,525,243	7,160,752	3,938,733
Richmond	**469,944**	**4,164,663**	**2,483,977**	**7,118,584**	**1,880,539**
Annex	152,883	131,722	....	284,605	259,757
Baltimore	250,487	2,009,381	1,068,445	3,328,313	1,516,808
Charlotte	347,071	1,069,026	625,121	2,041,218	1,227,616
Atlanta	**957,855**	**7,633,132**	**1,703,338**	**10,294,325**	**9,437,538**
Birmingham	410,775	1,982,184	948,236	3,341,195	2,414,067
Jacksonville	164,004	1,706,794	712,577	2,583,375	1,465,329
Annex	107,925	76,236	15,842	200,003	198,190
Nashville	592,342	1,474,678	1,016,213	3,083,233	2,298,079
New Orleans	1,123,527	2,123,463	265,700	3,512,690	2,533,612
Chicago	**6,275,490**	**17,388,614**	**9,546,235**	**33,210,339**	**18,773,975**
Detroit	1,147,734	2,846,025	1,312,436	5,306,195	2,757,344
St. Louis	**1,675,780**	**3,171,719**	**2,285,317**	**7,132,816**	**1,726,211**
Little Rock	241,105	391,611	206,575	839,291	411,463
Louisville	700,075	2,859,819	1,041,202	4,601,096	3,576,742
Memphis	128,542	287,644	198,834	615,020	187,164
Minneapolis	**600,521**	**4,689,718**	**2,688,921**	**7,979,160**	**3,535,739**
Helena	15,709	126,401	62,977	205,087	61,891
Kansas City	**624,579**	**3,578,453**	**1,336,649**	**5,539,681**	**1,180,760**
Denver	592,271	461,823	91,693	1,145,787	659,359
Oklahoma City	592,435	1,511,600	834,845	2,938,880	2,587,149
Omaha	445,663	1,491,117	729,614	2,666,394	1,911,233
Dallas	**713,302**	**4,809,042**	**3,570,804**	**9,093,148**	**6,245,079**
El Paso	262,477	787,728	393,301	1,443,506	1,057,914
Houston	695,615	1,408,574	714,187	2,818,376	2,160,638
San Antonio	448,596	1,400,390	570,847	2,419,833	1,739,351
San Francisco	**473,235**	**3,783,530**	**1,458,028**	**5,714,793**	**809,642**
Annex	247,201	124,000	30,000	401,201	356,321
Los Angeles	777,614	4,103,844	1,592,708	6,474,166	3,102,536
Portland	207,380	1,678,512	649,432	2,535,324	1,427,099
Salt Lake City	480,222	1,878,238	707,575	3,066,035	2,416,101
Seattle	274,772	1,896,541	661,987	2,833,300	1,641,376
Total	35,276,823	120,992,074	59,454,259	215,723,156	101,013,793

OTHER REAL ESTATE ACQUIRED FOR BANKING-HOUSE PURPOSES

F.R. Bank or branch	Land	Buildings (including vaults)[1]	Fixed machinery and equipment	Total	Net book value
Richmond	**177,296**	....	....	**177,296**	**177,296**
Atlanta	**93,931**	**137,100**	**103,867**	**334,898**	**233,216**
Little Rock	614,447	7,506	....	621,953	621,953
Kansas City	**[2]625,872**	....	....	**625,872**	**625,872**
Denver	1,767,048	....	....	1,767,048	1,767,048
Total	3,278,594	144,606	103,867	3,527,067	3,425,385

[1] May include expenditures in construction account pending allocation to appropriate accounts.
[2] Includes cost of building on property.

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7. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1964

(In dollars)

Item	Total	Boston	New York	Phila-delphia	Cleve-land	Rich-mond	Atlanta	Chicago	St. Louis	Minne-apolis	Kansas City	Dallas	San Francisco
CURRENT EARNINGS													
Discounts and advances	10,492,106	360,806	2,224,336	222,709	320,766	542,502	1,019,213	2,774,280	213,693	246,575	651,853	965,397	949,9
Acceptances	2,787,002	....	2,787,002	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities	1,323,740,280	68,290,447	328,581,792	71,094,952	109,727,178	90,899,834	72,724,513	223,502,248	51,628,616	26,265,227	52,835,082	51,185,796	177,004,5
Foreign currencies	6,335,565	299,441	1,694,108	357,112	566,039	317,401	349,191	901,823	216,596	143,482	274,174	363,107	853,0
All other	392,351	16,628	69,830	20,129	28,419	21,022	53,278	48,541	14,204	18,040	38,985	24,917	38,3
Total	1,343,747,303	68,967,322	335,357,068	71,694,902	110,642,402	91,780,759	74,146,196	227,226,892	52,073,109	26,673,324	53,800,094	52,539,217	178,846,0
CURRENT EXPENSES													
Salaries:													
Officers	7,741,458	443,244	1,377,964	561,609	609,734	631,044	671,255	759,860	599,690	421,101	520,861	495,045	650,0
Employees	100,462,115	6,241,097	24,402,326	4,838,993	8,193,102	6,837,859	6,268,300	14,624,242	5,541,584	3,149,897	5,652,764	4,314,333	10,397,6
Retirement and other benefits	17,241,058	1,117,949	3,872,719	845,399	1,439,106	1,160,105	1,097,656	2,537,710	957,026	536,883	1,026,394	735,399	1,914,7
Fees—Directors and others	537,416	21,648	55,672	27,094	71,141	32,811	91,869	36,226	31,714	38,533	41,496	37,621	51,5
Traveling expenses	2,192,701	132,861	376,526	105,696	164,260	158,504	181,119	275,527	134,851	122,755	141,440	127,341	271,8
Postage and expressage	21,946,430	1,521,050	2,825,449	1,062,669	1,826,191	2,079,353	2,049,656	2,956,445	1,239,252	855,968	1,490,462	1,230,572	2,809,3
Telephone and telegraph	1,838,794	96,030	407,852	83,753	129,182	127,528	204,899	205,624	95,555	63,932	108,455	127,103	188,8
Printing and supplies	8,354,552	584,835	1,690,936	523,262	585,643	669,390	616,253	1,250,940	491,994	270,193	533,158	367,546	770,4
Insurance	349,642	28,836	45,595	14,449	35,461	32,004	34,598	30,706	28,384	15,780	20,264	24,518	39,0
Taxes on real estate	5,197,323	595,859	908,116	160,811	475,756	201,289	317,073	943,730	190,076	366,515	257,540	263,918	516,6
Depreciation (building)	5,717,251	182,557	420,704	270,528	641,253	223,893	667,625	1,261,548	301,519	344,037	290,623	689,718	423,2
Light, heat, power, and water	1,950,024	128,511	268,092	89,779	174,000	164,781	165,905	300,734	145,957	90,812	150,413	127,819	143,2
Repairs and alterations	1,400,945	51,858	396,457	105,431	180,967	118,624	71,052	158,358	53,388	57,504	74,401	50,938	81,9
Rent	135,555	16,432	6,684	5,909	26,083	11,438	8,067	50,757	1,577	1,301	3,792	1,019	2,4
Furniture and equipment:													
Purchases	2,907,041	180,636	779,368	176,448	298,913	148,795	424,331	351,942	90,897	84,746	91,988	83,693	195,2
Rentals	10,217,625	823,793	1,386,398	454,277	871,320	812,644	629,108	1,890,204	480,461	379,567	783,305	552,222	1,154,3
All other	3,291,616	133,104	910,040	121,773	448,974	110,398	160,671	574,887	126,740	135,532	179,220	273,983	116,2
Inter-Bank expenses	....	55,373	−791,929	64,026	104,645	−6,898	69,068	162,593	41,292	27,195	53,044	67,176	154,4
Subtotal	191,481,550	12,355,673	39,338,969	9,511,906	16,275,731	13,513,562	13,728,505	28,372,033	10,551,957	6,962,251	11,419,620	9,569,964	19,881,3
F.R. currency	17,229,671	893,393	3,036,988	890,940	1,146,556	1,469,253	1,628,086	3,117,641	887,233	321,642	618,990	802,430	2,416,5
Assessment for expenses of Board of Governors	8,655,200	411,900	2,300,200	482,600	783,900	429,500	488,500	1,224,500	298,700	201,300	379,200	498,300	1,156,6
Total	217,366,421	13,660,966	44,676,157	10,885,446	18,206,187	15,412,315	15,845,091	32,714,174	11,737,890	7,485,193	12,417,810	10,870,694	23,454,4

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Less reimbursement for certain fiscal agency and other expenses	19,970,533	1,101,360	3,720,533	934,376	1,756,606	1,114,146	1,413,854	3,691,605	1,249,704	609,703	1,493,658	828,499	2,056,48
Net expenses	197,395,889	12,559,606	40,955,624	9,951,070	16,449,581	14,298,169	14,431,237	29,022,569	10,488,186	6,875,490	10,924,152	10,042,195	21,398,0
PROFIT AND LOSS													
Current net earnings	1,146,351,415	56,407,716	294,401,444	61,743,832	94,192,820	77,482,590	59,714,959	198,204,324	41,584,924	19,797,833	42,875,942	42,497,022	157,448,0
Additions to current net earnings:													
Profits on sales of U.S. Govt. securities (net)	615,705	32,238	150,704	33,281	51,271	42,610	33,498	103,881	23,977	12,280	24,913	24,030	83,0
All other	361,036	34,509	76,053	31,562	40,114	11,306	9,053	61,005	8,346	20,433	18,822	16,458	33,37
Total additions	976,743	66,747	226,757	64,844	91,385	53,916	42,551	164,887	32,323	32,713	43,735	40,488	116,39
Deductions from current net earnings	250,796	5,281	6,308	551	3,991	2,319	55,621	2,706	5,119	2,425	147,821	10,588	8,06
Net addition to or deduction from (−) current net earnings	725,947	61,466	220,449	64,293	87,394	51,598	−13,070	162,180	27,204	30,288	−104,086	29,900	108,33
Net earnings before payments to U.S. Treasury	1,147,077,362	56,469,182	294,621,893	61,808,124	94,280,214	77,534,188	59,701,888	198,366,504	41,612,128	19,828,121	42,771,856	42,526,923	157,556,34
Dividends paid	30,781,548	1,452,361	8,137,656	1,716,176	2,762,835	1,528,499	1,774,674	4,373,219	1,054,136	711,321	1,362,588	1,797,729	4,110,35
Payments to U.S. Treasury (interest on F.R. notes)	1,582,118,614	77,398,421	412,485,188	86,224,099	134,215,180	99,005,588	82,807,715	259,234,935	56,862,492	29,991,401	61,360,918	66,913,343	215,619,33
Transferred to surplus	−465,822,800	−22,381,600	−126,000,950	−26,132,150	−42,697,800	−22,999,900	−24,880,500	−65,241,650	−16,304,500	−10,874,600	−19,951,650	−26,184,150	−62,173,35
Surplus, January 1	989,715,700	47,233,000	263,214,800	55,246,300	89,788,700	49,139,300	55,626,400	139,844,500	34,247,500	23,034,100	43,252,200	56,769,800	132,319,1
Surplus, December 31	523,892,900	24,851,400	137,213,850	29,114,150	47,090,900	26,139,400	30,745,900	74,602,850	17,943,000	12,159,500	23,300,550	30,585,650	70,145,75

NOTE.—Details may not add to totals because of rounding.

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8. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, 1914–64

(In dollars)

Period or Bank	Current earnings	Current expenses	Net earnings before payments to U.S. Treasury[1]	Dividends paid	Payments to U.S. Treasury			Transferred to surplus (Sec. 13b)	Transferred to surplus (Sec. 7)
					Franchise tax	Under Sec. 13b	Interest on F.R. notes		
All F.R. Banks, by years:									
1914–15	2,173,252	2,320,586	−141,459	217,463	...	...	...	...	...
1916	5,217,998	2,273,999	2,750,998	1,742,774	...	...	...	...	...
1917	16,128,339	5,159,727	9,582,067	6,804,186	1,134,234	...	...	...	1,134,234
1918	67,584,417	10,959,533	52,716,310	5,540,684	...	...	...	...	48,334,341
1919	102,380,583	19,339,633	78,367,504	5,011,832	2,703,894	...	...	...	70,651,778
1920	181,296,711	28,258,030	149,294,774	5,654,018	60,724,742	...	...	...	82,916,014
1921	122,865,866	34,463,845	82,087,225	6,119,673	59,974,466	...	...	...	15,993,086
1922	50,498,699	29,559,049	16,497,736	6,307,035	10,850,605	...	...	...	−659,904
1923	50,708,566	29,764,173	12,711,286	6,552,717	3,613,056	...	...	...	2,545,513
1924	38,340,449	28,431,126	3,718,180	6,682,496	113,646	...	...	...	−3,077,962
1925	41,800,706	27,528,163	9,449,066	6,915,958	59,300	...	...	...	2,473,808
1926	47,599,595	27,350,182	16,611,745	7,329,169	818,150	...	...	...	8,464,426
1927	43,024,484	27,518,443	13,048,249	7,754,539	249,591	...	...	...	5,044,119
1928	64,052,860	26,904,810	32,122,021	8,458,463	2,584,659	...	...	...	21,078,899
1929	70,955,496	29,691,113	36,402,741	9,583,913	4,283,231	...	...	...	22,535,597
1930	36,424,044	28,342,726	7,988,182	10,268,598	17,308	...	...	...	−2,297,724
1931	29,701,279	27,040,664	2,972,066	10,029,760	...	...	...	...	−7,057,694
1932	50,018,817	26,291,381	22,314,244	9,282,244	2,011,418	...	...	...	11,020,582
1933	49,487,318	29,222,837	7,957,407	8,874,262	...	...	...	...	−916,855
1934	48,902,813	29,241,396	15,231,409	8,781,661	...	...	...	−60,323	6,510,071
1935	42,751,959	31,577,443	9,437,758	8,504,974	...	297,667	...	27,695	607,422
1936	37,900,639	29,874,023	8,512,433	7,829,581	...	227,448	...	102,880	352,524
1937	41,233,135	28,800,614	10,801,247	7,940,966	...	176,625	...	67,304	2,616,352
1938	36,261,428	28,911,608	9,581,954	8,019,137	...	119,524	...	−419,140	1,862,433
1939	38,500,665	28,646,855	12,243,365	8,110,462	...	24,579	...	−425,653	4,533,977
1940	43,537,805	29,165,477	25,860,025	8,214,971	...	82,152	...	−54,456	17,617,358
1941	41,380,095	32,963,150	9,137,581	8,429,936	...	141,465	...	−4,333	570,513
1942	52,662,704	38,624,044	12,470,451	8,669,076	...	197,672	...	49,602	3,554,101
1943	69,305,715	43,545,564	49,528,433	8,911,342	...	244,726	...	135,003	40,237,362
1944	104,391,829	49,175,921	58,437,788	9,500,126	...	326,717	...	201,150	48,409,795
1945	142,209,546	48,717,271	92,662,268	10,182,851	...	247,659	...	262,133	81,969,625
1946	150,385,033	57,235,107	92,523,935	10,962,160	...	67,054	...	27,708	81,467,013
1947	158,655,566	65,392,975	95,235,592	11,523,047	...	35,605	75,223,818	86,772	8,366,350
1948	304,160,818	72,710,188	197,132,683	11,919,809	...	...	166,690,356	...	18,522,518
1949	316,536,930	77,477,676	226,936,980	12,329,373	...	...	193,145,837	...	21,461,770

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1950	275,838,994	80,571,771	231,561,340	13,082,992	......	......	196,628,858	......	21,849,490
1951	394,656,072	95,469,086	297,059,097	13,864,750	......	......	254,873,588	......	28,320,759
1952	456,060,260	104,694,091	352,950,157	14,681,788	......	......	291,934,634	......	46,333,735
1953	513,037,237	113,515,020	398,463,224	15,558,377	......	......	342,567,985	......	40,336,862
1954	438,486,040	109,732,931	328,619,468	16,442,236	......	......	276,289,457	......	35,887,775
1955	412,487,931	110,060,023	302,162,452	17,711,937	......	......	251,740,721	......	32,709,794
1956	595,649,092	121,182,496	474,443,160	18,904,897	......	......	401,555,581	......	53,982,682
1957	763,347,530	131,814,003	624,392,613	20,080,527	......	......	542,708,405	......	61,603,682
1958	742,068,150	137,721,655	604,470,670	21,197,452	......	......	524,058,650	......	59,214,569
1959	886,226,116	144,702,706	839,770,663	22,721,687	......	......	910,649,768	......	−93,600,791
1960	1,103,385,257	153,882,275	963,377,684	23,948,225	......	......	896,816,359	......	42,613,100
1961	941,648,170	161,274,575	783,855,223	25,569,541	......	......	687,393,382	......	70,892,300
1962	1,048,508,335	176,136,134	872,316,422	27,412,241	......	......	799,365,981	......	45,538,200
1963	1,151,120,060	187,273,357	964,461,538	28,912,019	......	......	879,685,219	......	55,864,300
1964	1,343,747,303	197,395,889	1,147,077,362	30,781,548	......	......	1,582,118,614	......	−465,822,800
Total 1914–64	13,765,302,706	3,157,905,344	10,667,165,326	589,829,473	149,138,300	2,188,893	9,273,447,215	−3,657	[2]652,565,102
Aggregate for each F.R. Bank, 1914–64:									
Boston	788,977,184	220,506,328	573,852,674	34,903,893	7,111,395	280,843	496,474,903	135,411	34,946,225
New York	3,490,540,012	687,165,880	2,823,448,966	185,630,308	68,006,262	369,116	2,395,406,272	−433,413	174,470,421
Philadelphia	841,020,627	198,217,768	650,556,099	44,104,273	5,558,901	722,406	556,435,487	290,661	43,444,372
Cleveland	1,202,532,260	284,302,279	921,977,738	57,118,351	4,842,447	82,930	799,619,224	−9,906	60,324,693
Richmond	859,353,952	213,705,006	649,872,985	26,012,361	6,200,189	172,493	585,540,248	−71,517	32,019,208
Atlanta	730,585,184	189,381,967	541,241,207	25,501,291	8,950,561	79,264	470,692,159	5,491	36,012,440
Chicago	2,240,617,793	446,403,574	1,798,960,383	75,080,016	25,313,526	151,045	1,608,472,510	11,682	89,931,604
St. Louis	591,620,616	172,114,716	420,392,472	20,267,657	2,755,629	7,464	374,325,609	−26,515	23,062,628
Minneapolis	341,705,338	109,213,930	234,971,607	13,758,433	5,202,900	55,615	199,853,076	64,874	16,036,713
Kansas City	609,892,553	169,577,015	442,379,154	22,065,386	6,939,100	64,213	385,878,628	−8,674	27,440,500
Dallas	554,442,532	148,020,512	408,753,138	26,173,204	560,049	102,083	346,999,336	55,337	34,863,128
San Francisco	1,514,014,656	319,296,369	1,200,758,897	59,214,298	7,697,341	101,421	1,053,749,760	−17,089	80,013,167
Total	13,765,302,706	3,157,905,344	10,667,165,326	589,829,473	149,138,300	2,188,893	9,273,447,215	−3,657	652,565,102

[1] Current earnings less current expenses, plus or minus adjustment for profit and loss items.

[2] The $652,565,102 transferred to surplus was reduced by direct charges of $500,000 for charge-off on bank premises (1927), $139,299,557 for contributions to capital of the Federal Deposit Insurance Corporation (1934), and $3,657 net upon elimination of Sec. 13b surplus (1958), and was increased by $11,131,013 transferred from reserves for contingencies (1945), leaving a balance of $523,892,900 on Dec. 31, 1964.

NOTE.—Details may not add to totals because of rounding.

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9. NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS, DECEMBER 31, 1964

Federal Reserve Bank (including branches)	President	Other officers		Employees [1]		Total	
	Annual salary	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
Boston	$ 35,000	24	$ 395,000	1,258	$ 5,863,427	1,283	$ 6,293,427
New York	70,000	65	1,299,250	4,064	24,034,648	4,130	25,403,898
Philadelphia	40,000	31	513,000	913	4,590,797	945	5,143,797
Cleveland	40,000	36	556,000	1,451	7,749,144	1,488	8,345,144
Richmond	40,000	37	582,000	1,401	6,678,819	1,439	7,300,819
Atlanta	40,000	43	622,200	1,297	5,937,149	1,341	6,599,349
Chicago	55,000	43	704,750	2,794	13,728,381	2,838	14,488,131
St. Louis	35,000	35	556,500	1,127	5,239,171	1,163	5,830,671
Minneapolis	40,000	25	363,250	633	2,992,281	659	3,395,531
Kansas City	37,500	32	470,100	1,193	5,334,471	1,226	5,842,071
Dallas	40,000	30	440,450	955	4,229,075	986	4,709,525
San Francisco	40,000	42	613,000	1,927	9,540,320	1,970	10,193,320
Total	$512,500	443	$7,115,500	19,013	$95,917,683	19,468	$103,545,683

[1] Includes 813 part-time employees.

10. VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL RESERVE BANKS, 1961-64

(Number in thousands; amounts in thousands of dollars)

Operation	1964	1963	1962	1961
NUMBER OF PIECES HANDLED[1]				
Discounts and advances	10	9	7	7
Currency received and counted	5,026,311	4,831,516	4,734,419	4,618,346
Coin received and counted	4,561,704	8,704,412	10,213,309	10,276,927
Checks handled:				
U.S. Govt. checks	467,288	454,576	443,271	430,829
Postal money orders	234,094	243,999	247,400	259,209
All other [2]	4,318,708	4,069,111	3,873,341	3,630,936
Collection items handled:				
U.S. Govt. coupons paid	15,042	15,430	15,879	16,431
All other	27,271	26,839	25,327	23,144
Issues, redemptions, and exchanges of U.S. Govt. securities	212,267	204,213	198,123	192,366
Transfers of funds	4,010	3,603	3,318	3,038
AMOUNTS HANDLED				
Discounts and advances	46,551,402	44,894,170	19,685,050	14,657,545
Currency received and counted	34,548,507	32,350,089	31,621,061	30,670,620
Coin received and counted	559,588	1,007,532	1,140,009	1,133,470
Checks handled:				
U.S. Govt. checks	134,585,725	131,795,729	125,431,359	115,009,063
Postal money orders	4,578,853	4,707,908	4,701,516	4,860,182
All other [2]	1,475,038,258	1,363,949,957	1,283,430,670	1,198,461,186
Collection items handled:				
U.S. Govt. coupons paid	5,371,153	5,213,610	4,755,819	4,717,259
All other	7,851,274	7,143,665	6,940,394	6,553,424
Issues, redemptions, and exchanges of U.S. Govt. securities	738,062,697	683,736,756	639,755,488	560,263,435
Transfers of funds	3,953,186,948	3,442,100,310	3,168,359,313	2,706,716,007

[1] Packaged items handled as a single item are counted as one piece.
[2] Exclusive of checks drawn on the F.R. Banks.

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11. FEDERAL RESERVE BANK DISCOUNT RATES DECEMBER 31, 1964

(Per cent per annum)

Federal Reserve Bank	Discounts for and advances to member banks		Advances to all others under last par. Sec. 13 [3]
	Advances and discounts under Secs. 13 and 13a [1]	Advances under Sec. 10(b) [2]	
Boston	4	4½	5½
New York	4	4½	5
Philadelphia	4	4½	5
Cleveland	4	4½	5½
Richmond	4	4½	5
Atlanta	4	4½	6
Chicago	4	4½	5
St. Louis	4	4½	5
Minneapolis	4	4½	5
Kansas City	4	4½	5
Dallas	4	4½	5
San Francisco	4	4½	5

[1] Advances secured by U.S. Govt. securities and discounts of and advances secured by eligible paper. Rates shown also apply to advances secured by securities of Federal intermediate credit banks maturing within 6 months. Maximum maturity: 90 days except that discounts of certain bankers' acceptances and of agricultural paper may have maturities not over 6 months and 9 months, respectively, and advances secured by FICB securities are limited to 15 days.

[2] Advances secured to the satisfaction of the F.R. Bank. Maximum maturity: 4 months.

[3] Advances to individuals, partnerships, or corporations other than member banks secured by U.S. Govt. direct securities. Maximum maturity: 90 days.

12. MAXIMUM INTEREST RATES PAYABLE ON TIME AND SAVINGS DEPOSITS

(Per cent per annum)

Type of deposit	Effective date						
	Nov. 1, 1933	Feb. 1, 1935	Jan. 1, 1936	Jan. 1, 1957	Jan. 1, 1962	July 17, 1963	Nov. 24, 1964
Savings deposits held for—							
1 year or more	3	2½	2½	3	4	4	4
Less than 1 year					3½	3½	4
Postal savings deposits held for—							
1 year or more	3	2½	2½	3	4	4	4
Less than 1 year					3½	3½	4
Other time deposits payable in—[1]							
1 year or more	3	2½	2½	3	4	4	4½
6 months–1 year					3½		
90 days–6 months	3	2½	2	2½	2½		
Less than 90 days	3	2½	1	1	1	1	4

[1] For exceptions with respect to foreign time deposits, see 1962 ANNUAL REPORT, p. 129.

NOTE.—Maximum rates that may be paid by member banks as established by the Board of Governors under provisions of Regulation Q. Under this Regulation the rate payable by a member bank may not in any event exceed the maximum rate payable by State banks or trust companies on like deposits under the laws of the State in which the member bank is located. Effective Feb. 1, 1936, maximum rates that may be paid by insured nonmember commercial banks, as established by the FDIC, have been the same as those in effect for member banks.

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13. MARGIN REQUIREMENTS

(Per cent of market value)

Regulation	Effective date						
	July 5, 1945	Jan. 21, 1946	Feb. 1, 1947	Mar. 30, 1949	Jan. 17, 1951	Feb. 20, 1953	Jan. 4, 1955
Regulation T:							
For extension of credit by brokers and dealers on listed securities	75	100	75	50	75	50	60
For short sales	75	100	75	50	75	50	60
Regulation U:							
For loans by banks on stocks	75	100	75	50	75	50	60
	Effective date						
	Apr. 23, 1955	Jan. 16, 1958	Aug. 5, 1958	Oct. 16, 1958	July 28, 1960	July 10, 1962	Nov. 6, 1963
Regulation T:							
For extension of credit by brokers and dealers on listed securities	70	50	70	90	70	50	70
For short sales	70	50	70	90	70	50	70
Regulation U:							
For loans by banks on stocks	70	50	70	90	70	50	70

NOTE.—Regulations T and U, prescribed in accordance with Securities Exchange Act of 1934, limit the amount of credit that may be extended on a security by prescribing a maximum loan value, which is a specified percentage of its market value at the time of extension; margin requirements are the difference between the market value (100%) and the maximum loan value. Changes on Feb. 20, 1953, and Jan. 4, 1955, were effective after close of business on these dates.

For earlier data, see *Banking and Monetary Statistics*, 1943, Table 145, p. 504.

14. FEES AND RATES UNDER REGULATION V ON LOANS GUARANTEED PURSUANT TO DEFENSE PRODUCTION ACT OF 1950, DECEMBER 31, 1964

Fees Payable to Guaranteeing Agency by Financing Institution on Guaranteed Portion of Loan

Percentage of loan guaranteed	Guarantee fee (percentage of interest payable by borrower)	Percentage of any commitment fee charged borrower
70 or less	10	10
75	15	15
80	20	20
85	25	25
90	30	30
95	35	35
Over 95	40–50	40–50

Maximum Rates Financing Institution May Charge Borrower

Interest rate	6 per cent per annum
Commitment rate	½ per cent per annum

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15. MEMBER BANK RESERVE REQUIREMENTS

(Per cent of deposits)

Effective date	Net demand deposits [1]			Time deposits	
	Central reserve city banks [2]	Reserve city banks	Country banks	Central reserve and reserve city banks [2]	Country banks
1917—June 21	13	10	7	3	3
1936—Aug. 16	19½	15	10½	4½	4½
1937—Mar. 1	22¾	17½	12¼	5¼	5¼
May 1	26	20	14	6	6
1938—Apr. 16	22¾	17½	12	5	5
1941—Nov. 1	26	20	14	6	6
1942—Aug. 20	24				
Sept. 14	22				
Oct. 3	20				
1948—Feb. 27	22				
June 11	24				
Sept. 16			16		7½
24	26	22		7½	
1949—May 1			15		7
5	24	21		7	
June 30		20		6	
July 1			14		6
Aug. 1			13		
11	23½	19½		5	
16			12		5
18	23	19			
25	22½	18½			
Sept. 1	22	18			
1951—Jan. 11	23	19		6	
16			13		6
25	24	20			
Feb. 1			14		
1953—July 1			13		
9	22	19			
1954—June 16					5
24	21			5	
July 29	20	18			
Aug. 1			12		
1958—Feb. 27	19½	17½			
Mar. 1			11½		
20	19	17			
Apr. 1			11		
17	18½				
24	18	16½			
1960—Sept. 1	17½				
Nov. 24			12		
Dec. 1	16½				
1962—Oct. 25				4	
Nov. 1					4
In effect Jan. 1, 1965		16½	12	4	4
Present legal requirements:					
Minimum		10	7	3	3
Maximum		22	14	6	6

[1] Demand deposits subject to reserve requirements which, beginning with Aug. 23, 1935, have been total demand deposits minus cash items in process of collection and demand balances due from domestic banks (also minus war loan and Series E bond accounts during the period Apr. 13, 1943–June 30, 1947).

[2] Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

NOTE.—All required reserves were held on deposit with Federal Reserve Banks, June 21, 1917, until late 1959. Since then, member banks have also been allowed to count vault cash as reserves, as follows: Country banks—in excess of 4 and 2½ per cent of net demand deposits effective Dec. 1, 1959, and Aug. 25, 1960, respectively. Central reserve city and reserve city banks—in excess of 2 and 1 per cent effective Dec. 3, 1959, and Sept. 1, 1960, respectively. Effective Nov. 24, 1960, all vault cash.

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16. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918–64 AND END OF MONTH 1964

(In millions of dollars)

Period	Factors supplying reserve funds									Factors absorbing reserve funds									
	F.R. Bank credit outstanding							Gold stock[2]	Treasury currency outstanding[3]	Currency in circulation	Treasury cash holdings[4]	Deposits other than member bank reserves, with F.R. Banks			Other F.R. accounts[5]	Member bank reserves			
	U.S. Govt. securities			Discounts and advances	Float	All other[1]	Total					Treasury	Foreign	Other		With F.R. Banks	Currency and coin[6]	Required[7]	Excess[7]
	Total	Bought outright	Repurchase agreements																
1918	239	239	....	1,766	199	294	2,498	2,873	1,795	4,951	288	51	96	25	118	1,636	....	1,585	51
1919	300	300	....	2,215	201	575	3,292	2,707	1,707	5,091	385	31	73	28	208	1,890	....	1,822	68
1920	287	287	....	2,687	119	262	3,355	2,639	1,709	5,325	218	57	5	18	298	1,781	....	....	......
1921	234	234	....	1,144	40	146	1,563	3,373	1,842	4,403	214	96	12	15	285	1,753	....	1,654	99
1922	436	436	....	618	78	273	1,405	3,642	1,958	4,530	225	11	3	26	276	1,934	....	....	......
1923	134	80	54	723	27	355	1,238	3,957	2,009	4,757	213	38	4	19	275	1,898	....	1,884	14
1924	540	536	4	320	52	390	1,302	4,212	2,025	4,760	211	51	19	20	258	2,220	....	2,161	59
1925	375	367	8	643	63	378	1,459	4,112	1,977	4,817	203	16	8	21	272	2,212	....	2,256	−44
1926	315	312	3	637	45	384	1,381	4,205	1,991	4,808	201	17	46	19	293	2,194	....	2,250	−56
1927	617	560	57	582	63	393	1,655	4,092	2,006	4,716	208	18	5	21	301	2,487	....	2,424	63
1928	228	197	31	1,056	24	500	1,809	3,854	2,012	4,686	202	23	6	21	348	2,389	....	2,430	−41
1929	511	488	23	632	34	405	1,583	3,997	2,022	4,578	216	29	6	24	393	2,355	....	2,428	−73
1930	729	686	43	251	21	372	1,373	4,306	2,027	4,603	211	19	6	22	375	2,471	....	2,375	96
1931	817	775	42	638	20	378	1,853	4,173	2,035	5,360	222	54	79	31	354	1,961	....	1,994	−33
1932	1,855	1,851	4	235	14	41	2,145	4,226	2,204	5,388	272	8	19	24	355	2,509	....	1,933	576
1933	2,437	2,435	2	98	15	137	2,688	4,036	2,303	5,519	284	3	4	128	360	2,729	....	1,870	859
1934	2,430	2,430	....	7	5	21	2,463	8,238	2,511	5,536	3,029	121	20	169	241	4,096	....	2,282	1,814
1935	2,431	2,430	1	5	12	38	2,486	10,125	2,476	5,882	2,566	544	29	226	253	5,587	....	2,743	2,844
1936	2,430	2,430	....	3	39	28	2,500	11,258	2,532	6,543	2,376	244	99	160	261	6,606	....	4,622	1,984
1937	2,564	2,564	....	10	19	19	2,612	12,760	2,637	6,550	3,619	142	172	235	263	7,027	....	5,815	1,212
1938	2,564	2,564	....	4	17	16	2,601	14,512	2,798	6,856	2,706	923	199	242	260	8,724	....	5,519	3,205
1939	2,484	2,484	....	7	91	11	2,593	17,644	2,963	7,598	2,409	634	397	256	251	11,653	....	6,444	5,209
1940	2,184	2,184	....	3	80	8	2,274	21,995	3,087	8,732	2,213	368	1,133	599	284	14,026	....	7,411	6,615
1941	2,254	2,254	....	3	94	10	2,361	22,737	3,247	11,160	2,215	867	774	586	291	12,450	....	9,365	3,085
1942	6,189	6,189	....	6	471	14	6,679	22,726	3,648	15,410	2,193	799	793	485	256	13,117	....	11,129	1,988
1943	11,543	11,543	....	5	681	10	12,239	21,938	4,094	20,449	2,303	579	1,360	356	339	12,886	....	11,650	1,236
1944	18,846	18,846	....	80	815	4	19,745	20,619	4,131	25,307	2,375	440	1,204	394	402	14,373	....	12,748	1,625

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1945	24,262	24,262	....	249	578	2	25,091	20,065	4,339	28,515	2,287	977	862	446	495	15,915	....	14,457	1,458
1946	23,350	23,350	....	163	580	1	24,093	20,529	4,562	28,952	2,272	393	508	314	607	16,139	....	15,577	562
1947	22,559	22,559	....	85	535	1	23,181	22,754	4,562	28,868	1,336	870	392	569	563	17,899	....	16,400	1,499
1948	23,333	23,333	....	223	541	1	24,097	24,244	4,589	28,224	1,325	1,123	642	547	590	20,479	....	19,277	1,202
1949	18,885	18,885	....	78	534	2	19,499	24,427	4,598	27,600	1,312	821	767	750	706	16,568	....	15,550	1,018
1950	20,778	20,725	53	67	1,368	3	22,216	22,706	4,636	27,741	1,293	668	895	565	714	17,681	....	16,509	1,172
1951	23,801	23,605	196	19	1,184	5	25,009	22,695	4,709	29,206	1,270	247	526	363	746	20,056	....	19,667	389
1952	24,697	24,034	663	156	967	4	25,825	23,187	4,812	30,433	1,270	389	550	455	777	19,950	....	20,520	−570
1953	25,916	25,318	598	28	935	2	26,880	22,030	4,894	30,781	761	346	423	493	839	20,160	....	19,397	763
1954	24,932	24,888	44	143	808	1	25,885	21,713	4,985	30,509	796	563	490	441	907	18,876	....	18,618	258
1955	24,785	24,391	394	108	1,585	29	26,507	21,690	5,008	31,158	767	394	402	554	925	19,005	....	18,903	102
1956	24,915	24,610	305	50	1,665	70	26,699	21,949	5,066	31,790	775	441	322	426	901	19,059	....	19,089	−30
1957	24,238	23,719	519	55	1,424	66	25,784	22,781	5,146	31,834	761	481	356	246	998	19,034	....	19,091	−57
1958	26,347	26,252	95	64	1,296	49	27,755	20,534	5,234	32,193	683	358	272	391	1,122	18,504	....	18,574	−70
1959	26,648	26,607	41	458	1,590	75	28,771	19,456	5,311	32,591	391	504	345	694	841	18,174	310	18,619	−135
1960	27,384	26,984	400	33	1,847	74	29,338	17,767	5,398	32,869	377	485	217	533	941	17,081	2,544	18,988	637
1961	28,881	28,722	159	130	2,300	51	31,362	16,889	5,585	33,918	422	465	279	320	1,044	17,387	2,823	20,114	96
1962	30,820	30,478	342	38	2,903	110	33,871	15,978	5,567	35,338	380	597	247	393	1,007	17,454	3,262	20,071	645
1963	33,593	33,582	11	63	2,600	162	36,418	15,513	5,578	37,692	361	880	171	291	1,065	17,049	4,099	20,677	471
1964—																			
Jan.	32,752	32,752	....	364	1,459	68	34,643	15,512	5,585	36,247	416	791	136	210	957	16,983	3,482	19,842	623
Feb.	33,169	33,169	....	570	1,471	64	35,274	15,462	5,583	36,312	433	1,024	155	207	1,044	17,146	2,836	19,615	367
Mar.	33,770	33,611	159	130	1,289	125	35,314	15,461	5,583	36,799	376	831	167	200	926	17,060	3,533	20,088	505
Apr.	33,169	33,117	52	116	1,741	93	35,119	15,462	5,579	36,885	413	925	166	193	951	16,629	3,638	19,827	440
May	34,229	34,229	....	226	1,564	47	36,066	15,463	5,583	37,208	416	997	161	184	1,254	16,890	2,806	19,817	−121
June	34,794	34,794	....	79	1,633	83	36,589	15,461	5,578	37,734	391	939	156	182	1,255	16,973	3,527	20,501	−1
July	35,051	35,002	49	239	1,451	56	36,797	15,462	5,570	37,835	422	785	135	198	1,129	17,327	3,555	20,179	703
Aug.	35,164	35,164	....	185	1,556	36	36,941	15,460	5,572	38,014	405	939	163	208	1,186	17,055	3,115	20,015	155
Sept.	35,350	35,250	100	95	1,567	99	37,111	15,463	5,553	38,166	434	933	148	194	1,130	17,121	3,851	20,849	123
Oct.	35,709	35,709	....	415	1,695	81	37,900	15,462	5,505	38,373	475	687	120	194	1,135	17,883	3,075	20,720	238
Nov.	36,774	36,774	....	210	2,255	63	39,302	15,386	5,414	39,248	543	974	256	209	787	18,084	p3,228	p20,920	p392
Dec.	37,044	36,506	538	186	2,606	94	39,930	p15,388	p5,404	p39,572	p658	820	229	321	1,036	18,086	p4,278	p21,738	p626

p Preliminary.

[1] Principally acceptances and industrial loans; authority for industrial loans expired Aug. 21, 1959.

[2] Before Jan. 30, 1934, included gold held by F.R. Banks and in circulation.

[3] The stock of currency, other than gold, for which the Treasury is primarily responsible—silver bullion at monetary value and standard silver dollars, subsidiary silver and minor coin, and United States notes; also, F.R. Bank notes and national bank notes for the retirement of which lawful money has been deposited with the Treasurer of the United States. Includes currency of these kinds held in the Treasury and the F.R. Banks as well as that in circulation.

[4] Gold other than that held against gold certificates and gold certificate credits, including the reserve against United States notes and Treasury notes of 1890, monetary silver other than that held against silver certificates and Treasury notes of 1890, and the following coin and paper currency held in the Treasury: subsidiary silver and minor coin, United States notes, F.R. notes, F.R. Bank notes, and national bank notes.

[5] The total of F.R. Bank capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends, less the sum of bank premises and other assets.

[6] Part allowed as reserves Dec. 1, 1959–Nov. 23, 1960; all allowed thereafter.

[7] These figures are estimated through 1958. Before 1929 available only on call dates (in 1920 and 1922, the call dates were Dec. 29).

NOTE.—For description of figures and discussion of their significance, see "Member Bank Reserves and Related Items," Section 10 of *Supplement to Banking and Monetary Statistics*, Jan. 1962.

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17. PRINCIPAL ASSETS AND LIABILITIES, AND NUMBER OF COMMERCIAL AND MUTUAL SAVINGS BANKS, BY CLASS OF BANK DECEMBER 31, 1964, AND DECEMBER 20, 1963

(In millions of dollars)

Item	All banks	Commercial banks							Mutual savings banks		
		Total	Member banks			Nonmember banks			Total	Insured	Noninsured
			Total	National	State	Total	Insured	Noninsured			
December 31, 1964 [1]											
Loans and investments, total	328,310	275,980	228,340	n.a.	n.a.	47,640	n.a.	n.a.	52,330	n.a.	n.a.
Loans	216,600	175,550	148,140	n.a.	n.a.	27,410	n.a.	n.a.	41,050	n.a.	n.a.
Investments	111,710	100,430	80,200	n.a.	n.a.	20,230	n.a.	n.a.	11,280	n.a.	n.a.
U.S. Govt. securities	67,780	62,000	48,260	n.a.	n.a.	13,740	n.a.	n.a.	5,780	n.a.	n.a.
Other securities	43,930	38,430	31,940	n.a.	n.a.	6,490	n.a.	n.a.	5,500	n.a.	n.a.
Cash assets	58,560	57,550	50,740	n.a.	n.a.	6,810	n.a.	n.a.	1,010	n.a.	n.a.
Deposits, total	349,720	300,880	251,340	n.a.	n.a.	49,540	n.a.	n.a.	48,840	n.a.	n.a.
Interbank	18,270	18,270	17,260	n.a.	n.a.	1,010	n.a.	n.a.	....	n.a.	n.a.
Other demand	157,090	156,760	130,870	n.a.	n.a.	25,890	n.a.	n.a.	330	n.a.	n.a.
Other time	174,360	125,850	103,210	n.a.	n.a.	22,640	n.a.	n.a.	48,510	n.a.	n.a.
Total capital accounts	32,010	27,610	22,760	n.a.	n.a.	4,850	n.a.	n.a.	4,400	n.a.	n.a.
Number of banks	14,266	13,761	6,225	4,773	1,452	7,536	7,262	274	505	327	178
December 20, 1963											
Loans and investments, total	302,251	254,162	210,127	137,447	72,680	44,035	42,464	1,571	48,089	41,664	6,425
Loans	192,686	156,006	131,712	84,845	46,866	24,295	23,550	745	36,679	32,300	4,380
Investments	109,565	98,155	78,415	52,602	25,814	19,740	18,915	825	11,410	9,365	2,046
U.S. Govt. securities	69,068	63,196	49,342	33,384	15,958	13,854	13,391	463	5,872	4,324	1,548
Other securities	40,497	34,959	29,073	19,218	9,855	5,885	5,523	362	5,539	5,041	498
Cash assets	51,536	50,711	44,395	28,635	15,760	6,316	5,942	374	826	722	104
Deposits, total	319,636	275,120	229,376	150,823	78,553	45,743	44,280	1,463	44,516	38,657	5,859
Interbank	15,795	15,793	14,900	9,009	5,891	893	620	273	1	1	....
Other demand	148,568	148,263	123,547	80,527	43,020	24,716	23,867	849	305	297	8
Other time	155,274	111,064	90,929	61,288	29,642	20,134	19,793	341	44,210	38,359	5,851
Total capital accounts	29,882	25,677	21,054	13,548	7,506	4,623	4,234	389	4,205	3,572	633
Number of banks	14,079	13,570	6,112	4,615	1,497	7,458	7,173	285	509	330	179

n.a. Not available.
[1] Estimated.

NOTE.—All banks in the United States.

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18. MEMBER BANK INCOME, EXPENSES, AND DIVIDENDS BY CLASS OF BANK, 1964 AND 1963

Item	Total		Reserve city banks: New York City		Reserve city banks: City of Chicago		Reserve city banks: Other		Country banks	
	1964	1963	1964	1963	1964	1963	1964	1963	1964	1963
	In millions of dollars									
Revenue	**12,058**	**11,169**	**2,017**	**1,757**	**505**	**457**	**4,531**	**4,291**	**5,005**	**4,665**
On U.S. Govt. securities	1,695	1,726	214	218	64	68	556	590	861	850
On other securities	890	773	171	139	48	42	304	262	367	330
On loans	7,881	7,200	1,300	1,106	324	288	3,058	2,859	3,199	2,947
All other	1,592	1,471	332	293	69	59	613	581	578	537
Expenses	**8,652**	**7,931**	**1,345**	**1,134**	**340**	**300**	**3,243**	**3,029**	**3,724**	**3,467**
Salaries and wages	2,768	2,661	421	394	93	89	1,031	1,019	1,223	1,159
Interest on deposits	3,278	2,858	515	367	156	127	1,264	1,121	1,343	1,242
All other	2,607	2,413	410	373	91	85	948	889	1,158	1,066
Net current earnings before income taxes	**3,405**	**3,239**	**671**	**623**	**165**	**156**	**1,288**	**1,262**	**1,281**	**1,198**
Recoveries and profits [1]	......	315	......	44	......	18	......	113	......	141
Losses and charge-offs [2]	......	453	......	64	......	23	......	166	......	200
Net increase (or decrease, +) in valuation reserves	......	191	......	+4	......	19	......	83	......	94
Net income before related taxes	**2,861**	**2,910**	**581**	**607**	**118**	**132**	**1,095**	**1,127**	**1,067**	**1,044**
Taxes on net income	**971**	**1,079**	**199**	**205**	**37**	**47**	**399**	**464**	**336**	**362**
Net income	**1,890**	**1,831**	**382**	**402**	**81**	**85**	**696**	**663**	**731**	**681**
Cash dividends declared [3]	**933**	**878**	**213**	**196**	**41**	**35**	**374**	**354**	**305**	**293**
	In per cent									
Ratios:										
Net current earnings before income taxes to—										
Average total capital accounts	15.6	16.0	15.7	15.8	16.2	16.1	16.0	17.0	15.0	15.1
Average total assets	1.26	1.29	1.37	1.37	1.35	1.36	1.26	1.32	1.20	1.21
Net income to—										
Average total capital accounts	8.6	9.0	9.0	10.2	7.9	8.8	8.6	8.9	8.6	8.6
Average total assets	.70	.73	.78	.88	.66	.75	.68	.69	.69	.69
Average return on—										
U.S. Govt. securities	3.54	3.38	3.63	3.27	3.67	3.32	3.47	3.38	3.57	3.42
Loans	5.71	5.87	5.18	5.00	5.04	5.09	5.63	5.91	6.12	6.32

[1] Includes recoveries credited to valuation reserves.
[2] Includes losses charged to valuation reserves.
[3] Includes interest on capital notes and debentures.

NOTE.—Data for 1964 are partly estimated; final figures will be published in the May 1965 F.R. *Bulletin*.

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19. CHANGES IN NUMBER OF BANKING OFFICES IN THE UNITED STATES DURING 1964 [1]

Type of office and change	All banks	Commercial banks (incl. stock savings banks and nondeposit trust companies)					Mutual savings banks	
		Total	Member		Nonmember			
			National [1]	State [2]	Insured	Noninsured [2]	Insured	Noninsured
Banks, Dec. 31, 1963	14,078	13,569	4,615	1,493	7,177	284	330	179
Changes during 1964								
New banks [3]	337	336	200	3	120	13	....	1
Suspensions	−8	−8	−1	....	−6	−1	....	....
Consolidations and absorptions:								
Banks converted into branches	−124	−120	−63	−14	−43	....	−2	−2
Other	−14	−13	−3	−3	−7	....	−1	....
Voluntary liquidations [4]	−2	−2	−1	....	....	−1	....	....
Other change [5]	−1	−1	....	....	....	−1	....	....
Interclass changes:								
Nonmember to State member	....	....	....	4	−4	....	....	....
State member to nonmember	....	....	....	−19	19	....	....	....
National to State	....	....	−6	1	5	....	....	....
State to national	....	....	32	−13	−19	....	....	....
Noninsured to insured	....	....	....	....	20	−20	....	....
Net change	188	192	158	−41	85	−10	−3	−1
Number of banks Dec. 31, 1964	14,266	13,761	4,773	1,452	7,262	274	327	178
Branches and additional offices, Dec. 31, 1963	13,844	13,220	7,204	3,166	2,800	50	502	122
Changes during 1964								
De novo [6]	1,072	1,025	585	176	261	3	44	3
Banks converted	124	121	84	16	21	....	2	1
Discontinued	−46	−46	−22	−15	−9	....	....	....
Other change	1	1	....	....	1	....	....	....
Interclass changes—net [7]	....	....	89	−68	−18	−3	1	−1
Net change	1,151	1,101	736	109	256	....	47	3
Number of branches and additional offices, Dec. 31, 1964	14,995	14,321	7,940	3,275	3,056	50	549	125
Banking facilities, Dec. 31, 1963 [8]	278	278	216	27	35	....	....	....
Changes during 1964								
Established	4	4	3	....	1	....	....	....
Discontinued [6]	−2	−2	−2	....	....	....	....	....
Interclass changes:								
State member to nonmember	....	....	....	−1	1	....	....	....
National to nonmember	....	....	−1	....	1	....	....	....
Net change	2	2	....	−1	3	....	....	....
Number of banking facilities, Dec. 31, 1964	280	280	216	26	38	....	....	....

[1] Includes a national bank (2 branches) in the Virgin Islands; other banks or branches located in the possessions are excluded.
[2] State member bank figures include and noninsured bank figures exclude 1 noninsured trust company without deposits.
[3] Exclusive of new banks organized to succeed operating banks.
[4] Exclusive of liquidations incident to the succession, conversion, or absorption of banks.
[5] Ceased banking operations.
[6] Includes one national facility reclassified as a branch.
[7] For details see Feb. 1965 F.R. *Bulletin*, p. 324.
[8] Provided at military and other Govt. establishments through arrangements made by the Treasury.

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20. NUMBER OF PAR AND NONPAR BANKING OFFICES DECEMBER 31, 1964

F.R. district, State, or other area	Total		Par						Nonpar (Nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
DISTRICT										
Boston	382	1,040	382	1,040	250	824	132	216	......	....
New York	530	2,529	530	2,529	419	2,228	111	301	......	....
Philadelphia	554	963	554	963	421	754	133	209	......	....
Cleveland	852	1,353	852	1,353	506	1,156	346	197	......	....
Richmond	854	1,892	759	1,786	418	1,190	341	596	95	106
Atlanta	1,520	798	1,006	725	502	584	504	141	514	73
Chicago	2,523	1,519	2,523	1,519	1,016	986	1,507	533	......	....
St. Louis	1,493	526	1,237	458	481	296	756	162	256	68
Minneapolis	1,352	180	745	126	494	71	251	55	607	54
Kansas City	1,889	186	1,887	186	830	130	1,057	56	2	....
Dallas	1,267	219	1,196	209	672	130	524	79	71	10
San Francisco	459	3,519	457	3,519	215	3,126	242	393	2	....
Total	**13,675**	**14,724**	**12,128**	**14,413**	**6,224**	**11,475**	**5,904**	**2,938**	**1,547**	**311**
STATE										
Alabama	252	142	176	136	103	120	73	16	76	6
Alaska	12	51	10	51	5	43	5	8	2	....
Arizona	15	239	15	239	5	189	10	50	......	....
Arkansas	245	90	149	69	83	62	66	7	96	21
California	194	2,269	194	2,269	106	2,091	88	178	......	....
Colorado	209	8	209	8	132	6	77	2	......	....
Connecticut	63	286	63	286	34	229	29	57	......	....
Delaware	20	64	20	64	7	34	13	30	......	....
District of Columbia	15	84	15	84	12	76	3	8	......	....
Florida	418	17	382	17	196	12	186	5	36	....
Georgia	431	169	166	157	71	139	95	18	265	12
Hawaii	7	114	7	114	2	41	5	73	......	....
Idaho	24	120	24	120	15	111	9	9	......	....
Illinois	1,027	5	1,027	5	525	5	502	....	......	....
Indiana	430	441	430	441	218	298	212	143	......	....
Iowa	674	221	674	221	165	40	509	181	......	....
Kansas	594	50	594	50	211	34	383	16	......	....
Kentucky	348	213	348	213	96	143	252	70	......	....
Louisiana	209	236	111	205	57	154	54	51	98	31
Maine	43	161	43	161	28	115	15	46	......	....
Maryland	121	369	121	369	56	229	65	140	......	....
Massachusetts	158	525	158	525	110	431	48	94	......	....
Michigan	361	805	361	805	222	663	139	142	......	....
Minnesota	719	9	314	8	221	6	93	2	405	1
Mississippi	196	191	68	123	38	66	30	57	128	68
Missouri	640	55	593	55	175	29	418	26	47	....
Montana	128	3	128	3	92	3	36	....	......	....
Nebraska	428	27	428	27	138	18	290	9	......	....
Nevada	8	58	8	58	6	50	2	8	......	....
New Hampshire	72	20	72	20	51	18	21	2	......	....
New Jersey	233	627	233	627	194	559	39	68	......	....
New Mexico	63	84	63	84	41	53	22	31	......	....
New York	352	1,808	352	1,808	289	1,715	63	193	......	....
North Carolina	147	711	96	614	35	344	61	270	51	97
North Dakota	163	44	65	19	44	9	21	10	98	25
Ohio	547	871	547	871	351	753	196	118	......	....
Oklahoma	416	36	414	36	246	31	168	5	2	....
Oregon	50	249	50	249	14	211	36	38	......	....
Pennsylvania	586	1,147	586	1,147	435	938	151	209	......	....
Rhode Island	10	112	10	112	5	78	5	34	......	....

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20. NUMBER OF PAR AND NONPAR BANKING OFFICES DECEMBER 31, 1964—Continued

F.R. district, State, or other area	Total		Par						Nonpar (Nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
STATE—Cont.										
South Carolina	133	242	89	233	30	168	59	65	44	9
South Dakota	173	72	69	44	58	36	11	8	104	28
Tennessee	293	295	226	282	83	205	143	77	67	13
Texas	1,128	50	1,100	50	614	24	486	26	28	....
Utah	55	103	55	103	25	83	30	20	......	....
Vermont	48	49	48	49	28	26	20	23	......	....
Virginia	277	486	277	486	184	373	93	113	......	....
Washington	97	378	97	378	38	355	59	23	......	....
West Virginia	184	....	184	....	112	....	72	....	......	....
Wisconsin	577	170	577	170	165	37	412	133	......	....
Wyoming	68	1	68	1	52	1	16	....	......	....
OTHER AREA										
Puerto Rico[2]	11	140	11	140	......	15	11	125	......	....
Virgin Islands[2]	3	7	3	7	1	6	2	1	......	....

[1] Includes 5 N.Y.C. branches of 2 insured nonmember Puerto Rican banks.

[2] Puerto Rico and the Virgin Islands assigned to the N.Y. District for check clearing and collection purposes. All member branches in Puerto Rico and all except 2 in the Virgin Islands are branches of N.Y.C. banks. Certain branches of Canadian banks (2 in Puerto Rico and 2 in Virgin Islands) are included above as nonmember banks; and nonmember branches in Puerto Rico include 6 other branches of Canadian banks.

NOTE.—Comprises all commercial banking offices on which checks are drawn, including 280 banking facilities. Number of banks and branches differs from that in Table 19 because this table includes banks in Puerto Rico and the Virgin Islands but excludes banks and trust companies on which no checks are drawn.

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21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1964[1]

Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 1—**Rhode Island Hospital Trust Company,** Providence, R.I.	393.2	23	24
to acquire the assets of **Wickford Savings Bank,** Wickford, R.I.	4.9	1	

SUMMARY REPORT BY ATTORNEY GENERAL (12-17-63)

Rhode Island Hospital Trust, with 22 branches in the State of Rhode Island and with assets in excess of $300 million, proposes to acquire Wickford Savings Bank, with assets of $4.9 million.

Approval of the proposed transaction would eliminate the only independent bank in the Wickford–North Kingstown area and would encourage increased concentration in banking, which appears to be developing to a marked degree in the State. However, in view of the relative small size of the Savings Bank and the lack of substantial competition that would be eliminated by the transaction, its effect on competition would not be significantly adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-10-64)

Wickford is an unincorporated community with a population of about 3,000, located 20 miles south of the city of Providence in the Town of North Kingstown (population about 19,000) on the western shore of Narragansett Bay. The proposed transaction would affect only the banking needs and convenience in the Wickford–North Kingstown area, which is the service area of Wickford Savings Bank. This area is presently served by the State's largest commercial bank and by 1 other mutual savings bank. This proposal, which would supplant the sole office of a small mutual savings bank with a branch of the second largest commercial bank in the State, would provide a convenient alternative source of commercial banking services in Wickford without adversely affecting competition in the area.

Name of bank, and type of transaction	Resources	In operation	To be operated
No. 2—**Chemical Bank New York Trust Company,** New York, N.Y.	5,240.5	117	[3] 119
to acquire the assets and assume the liabilities of **The Bensonhurst National Bank of Brooklyn in New York,** Brooklyn, N.Y.	39.1	2	

SUMMARY REPORT BY ATTORNEY GENERAL (11-13-63)

Chemical Bank proposes to acquire the assets and assume the liabilities of Bensonhurst Bank, which operates 2 offices and has total resources of $39.1 million.

For notes see p. 263.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

Bensonhurst Bank is 1 of 4 banks with head offices in Brooklyn. These banks together operate a total of 13 offices. In addition, 7 Manhattan banks operate 104 offices; 1 Queens bank and 1 Nassau bank operate 1 office each. Chemical operates 9 offices and has deposits of $88.9 million in Brooklyn. The 4 largest New York City banks—Chase, First National City, Manufacturers, and Chemical—now operate 69.5 per cent of the offices in the borough. The acquisition would increase their share to 71 per cent.

The proposed acquisition raises questions as to its potential anticompetitive effects. Chemical's prior acquisitions of Corn Exchange Bank and New York Trust Company were major factors in the trend toward concentration of commercial banking in the New York City area and had most serious adverse competitive effects.

Moreover, Chemical simultaneously seeks to acquire First National Bank of Mount Vernon. The two proposals by Chemical would further contribute to the concentration in commercial banking in the area. The probable competitive effect of the proposal would be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-17-64)

Chemical Bank, the fourth largest bank in New York City, proposes to acquire the assets and assume the deposit liabilities of Bensonhurst Bank, which is next to the smallest of the 4 commercial banks operating entirely in Brooklyn, which range in size from $22.6 million to $113 million. Bensonhurst Bank has been operated virtually as a "one-man bank" under the dominance of its president who is past normal retirement age. This executive has concentrated lending in a specialized field that requires close and skilled supervision; moreover, a substantial portion of the bank's deposits are attributable to this specialization or to relationships of the president and some of the bank's customers. Such a situation contains significant potential problems that would emerge quickly in the event this managing officer retired as he has indicated he wishes to do. The prospects of developing a successor from the bank's staff are not favorable, and efforts to recruit and retain successor executive personnel have been unsatisfactory.

The effect of the proposed acquisition would be limited almost entirely to the Borough of Brooklyn, in which are located Bensonhurst and Flatbush, the communities served by the 2 offices of Bensonhurst Bank. The borough, the most populous of New York City's 5 boroughs, is served by about 121 offices of 15 commercial banks, 64 offices of savings banks, and numerous offices of other financial institutions. The Bensonhurst and Flatbush sections are densely populated, with more than 415,000 inhabitants. Within a radius of about 4 blocks of each of the 2 offices of Bensonhurst Bank, there are several offices of major New York City

For notes see p. 263.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

commercial and savings banks. Chemical's nearest office to an office of Bensonhurst Bank is nine-tenths of a mile from the latter's main office.

Effectuation of the proposed transaction would facilitate passage through a period of probable uncertainty in prospect for Bensonhurst Bank, and would broaden the range of banking services that have been available to the customers of that bank. The effect on existing competition in the communities concerned will be minimal, and no significant increase in concentration of banking resources in those communities would result.

No. 3—**Chemical Bank New York Trust Company,** New York, N.Y.	5,240.5	117	[3] 121
to merge with			
The First National Bank of Mount Vernon, Mount Vernon, N.Y.	55.1	4	

SUMMARY REPORT BY ATTORNEY GENERAL (11-13-63)

Chemical Bank, the nation's fifth largest bank, with total resources exceeding $5 billion and operating 117 offices in New York City, Nassau, and Westchester Counties, proposes to acquire by merger First National of Mount Vernon, with total resources of $55 million and operating 4 offices in the southern part of Westchester County, just north of the New York City line.

Mount Vernon is protected by the "home office" protection law of New York from the entry of other banks by de novo branching. This merger would remove that protection and open the area to entry by New York City and other Westchester County banks. First National City Bank, twice the size of Chemical, has already requested the Comptroller of the Currency for authority to open 3 offices in Mount Vernon if this merger is approved. The drastic change this would effect in the competitive picture in the area is difficult to overstate.

The acquisitions of the major New York City banks since 1950 have led to an increase in concentration in commercial banking in the metropolitan New York area. Chemical's acquisitions of the Corn Exchange Bank and the New York Trust Company have contributed substantially to this trend. These acquisitions had most serious adverse competitive effects.

Chemical Bank initiated this proposal in 1960 and has been conducting conversations looking toward the proposed merger since that time.

In view of the continued increase in concentration in commercial banking brought about by mergers and acquisitions of the larger banks in the area, the probable competitive effect of the proposal would be adverse.

For notes see p. 263.

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21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1964[1]—Continued

Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-17-64)

The effect of the proposed merger would be felt in that portion of the southern tip of Westchester County that is served by First National and that is comprised of the City of Mount Vernon and the adjoining villages of Pelham, North Pelham, and Pelham Manor, which together have a total population of about 89,400. First National, which enjoys the protection in Mount Vernon of the "home office" feature of New York State law, has not kept pace with the changing character of the community and has failed to compete aggressively. Its range of banking services has been limited in a number of important respects, and it has failed to place branches in desirable locations that it might well have served. Management of First National is competent; however, the two principal executives are now over 70 years of age. No preparation has been made for management succession, and there are no probable replacements in the present organization.

Consummation of the proposal will avert the very real possibility of a serious management succession problem at First National, and provide a second source of a full range of banking services to a community whose members have had to go outside its boundaries for a genuine alternative to the principal bank now established there. In addition, the merger will remove home office protection from the city of Mount Vernon, permitting the entry of additional banks to create a healthy competitive climate and alternative sources of banking services.

Name of bank	Resources	In operation	To be operated
No. 4—**Bordentown Banking Company,** Bordentown, N.J.	12.2	2	3
to merge with			
The First National Bank and Trust Company of Roebling, Roebling, N.J.	7.0	1	

SUMMARY REPORT BY ATTORNEY GENERAL (12-12-63)

The merging banks are located approximately 4 miles apart, in communities with less than 5,000 population. Bordentown Bank has 2 offices and $12 million in assets, while First National has 1 office and $7 million in assets. Trenton, the State capital, is located 5 miles north of Bordentown and has a number of banks substantially larger than the merging banks.

The proposed merger will not seriously alter the existing competitive structure of banking in the relevant area. It will not materially increase concentration nor will it place the resulting bank in a position of commanding competitive strength vis-a-vis competing institutions. While the merger will eliminate some competition between the 2 banks, we believe that the anticompetitive effects of the merger are not substantial.

For notes see p. 263.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (2-25-64)

These 2 relatively small banks are located about 4 miles apart in the extreme northern section of Burlington County, one of the most rapidly growing counties of New Jersey. While some competition exists between the 2 banks, consummation of the proposed merger would not have significantly adverse competitive effects. Bordentown Bank lacks full-time executive leadership, and Roebling Bank has a management succession problem. Consummation of the proposed merger, which would permit utilization of the combined managerial potential of the 2 banks, should result in a more balanced management structure. It would also provide a broader range of banking services in the combined service area.

Name of bank	Resources	In operation	To be operated
No. 5—**Girard Trust Bank,** Philadelphia, Pa.	853.1	41	42
to merge with			
The First National Bank of Riegelsville, Riegelsville, Pa.	7.0	1	

SUMMARY REPORT BY ATTORNEY GENERAL (12-23-63)

Girard Trust, the third largest bank in Philadelphia, with assets of $853.1 million, has participated in 6 mergers, commencing with its merger with Corn Exchange Bank in 1951. Of the 41 offices of Girard Trust presently in operation, 32 were acquired through merger. Of its 20 offices located outside the city of Philadelphia, 18 were acquired in this manner.

Riegelsville Bank, whose only office is located in Riegelsville in Bucks County, has not previously participated in any mergers. Its office is located over 40 miles from the nearest office of Girard Trust, which presently has no offices in Bucks County.

In view of the distance between the merging banks, the competition directly eliminated by the merger probably would not be substantial. Nor does it appear that the merger, which would increase the size of Girard Trust by less than 1 per cent, would significantly affect other Philadelphia banks. The merger would, however, significantly upset the competitive balance among banks in Riegelsville Bank's service area. In this respect, the competitive effect of the proposed merger probably would be adverse. On balance, we do not believe the effect on competition would be significantly adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (3-13-64)

The sole office of Riegelsville Bank, situated about 44 miles from Philadelphia in the extreme northeastern section of Bucks County, is the only banking office in Riegelsville. This small community, with a population of

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

about 1,000, serves a predominantly agricultural area in which some 5,000 or more persons reside. The nearest offices of these 2 banks are about 40 miles apart, and virtually no competition exists between them. The minor increase in the deposit size of Girard Trust would not alter its competitive standing in the areas it presently serves nor result in any competitive advantages adverse to other banks in the Riegelsville area. Consummation of the proposed merger would make available to individuals and industry in the Riegelsville area the broad range of services provided by a large Philadelphia bank.

Name of bank, and type of transaction	Resources	In operation	To be operated
No. 6—**Hyannis Trust Company**, Hyannis, Mass. *to consolidate with*	15.5	3	5
Cape Cod Trust Company, Harwichport, Mass., and change its title to Cape Cod Bank and Trust Company.	10.0	2	

SUMMARY REPORT BY ATTORNEY GENERAL (1-3-64)

Hyannis Trust, with assets of $15.5 million, proposes to consolidate with the Cape Cod Trust, with assets of $10 million, under the title Cape Cod Bank and Trust Company.

Competition presently exists and is expected to increase in the service areas of both the acquiring and the acquired bank, and the proposal would eliminate a degree of this competition between the merging banks. This merger would eliminate a very significant independent bank, fourth-ranking in the area; enhance the position of Hyannis Trust, the largest banking institution in Barnstable County; and encourage a trend toward concentration of banking in the area. The competitive effect of the proposed consolidation would thus be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (3-25-64)

The main office and a seasonal branch of Hyannis Trust are located at Hyannis (population 13,500), about 70 miles southeast of Boston in the popular resort area of Cape Cod. Its other branch is 6 miles southwest of Hyannis at Osterville. The main office of Cape Cod Trust is at Harwichport, 13 miles east of Hyannis, and its sole branch is 15 miles further to the northeast at Orleans. Both Harwichport and Orleans are served by mutual savings banks and cooperative banks, and offices of other commercial banks are reasonably accessible to residents of the communities. The service area of Cape Cod Trust does not significantly overlap that of Hyannis Trust.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

The substantially increased loan limits of the resulting bank would provide an alternative source of credit for the larger Cape Cod businesses, which now rely upon mutual savings banks or commercial banks outside Cape Cod for needed funds to finance the expanding local economy. Moreover, the larger resulting bank would be able to offer expanded services, some of which are not now available locally. No significant existing or foreseeable competition would be eliminated. The resulting bank would be able to compete more effectively with the large local mutual savings and cooperative banks, and also with outside commercial banks already serving the Cape Cod area, without adversely altering the general competitive situation of financial institutions in the area.

Name of bank, and type of transaction	Resources (in millions of dollars)	In operation	To be operated
No. 7—**County Trust Company,** Tenafly, N.J.	63.3	4	7
to merge with			
The First National Bank of Park Ridge, Park Ridge, N.J.	12.6	3	

SUMMARY REPORT BY ATTORNEY GENERAL (3-9-64)

County Trust, a bank with 4 offices and $58 million in deposits, proposes to merge with First National, a bank with 3 offices and $12 million in deposits. The head offices of the merging banks are located 11 miles apart, and their closest branches are approximately 6 miles apart. First National is the smallest of the 7 commercial banks competing within its service area, while County Trust ranks fourth in size among the 9 commercial banks competing within its service area.

Because of the distance between the offices of the merging banks, it is likely that a degree of competition will be eliminated by the merger. The merger will not seriously alter the existing banking structure in the relevant market area. On balance, we therefore conclude that the proposed acquisition will have some anticompetitive effects.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (5-6-64)

The proposal would unite County Trust, the sixth largest of the 29 commercial banks in Bergen County (population about 780,000), with one of the county's relatively small banks, which serves a rapidly expanding area in which some 27,000 persons reside. The main offices of the 2 banks are about 11 miles apart, and their nearest branches are separated by approximately 7 miles. Natural barriers and offices of other banks in the intervening area, including offices of the largest and third largest banks in the county, limit competition between the 2 banks.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 8—**Farmers Bank of Clinch Valley,** Tazewell, Va. *to merge with*	10.3	2	4
Bank of Graham, Bluefield, Va., and change its title to Bank of Tazewell County.	6.0	2	

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

First National's relatively small lending limit restricts its ability to finance the economic development of its service area. The credit needs of real estate developers, business, and institutional customers involve financing in excess of the capacity of the bank. Upon effectuation of the proposal, the banking needs of the area would be better served, not only by the resulting bank's loan limit of about $500,000, but also by other broader banking services that it would offer, which are needed in this expanding residential and industrial area.

SUMMARY REPORT BY ATTORNEY GENERAL (4-24-64)

Direct competition between the banks participating in the proposed merger does not appear to be substantial. Farmers Bank, with deposits of $9 million, is presently somewhat larger than Tazewell National Bank, the only other bank in Tazewell, and its increased size resulting from the merger will to a degree enhance its competitive position vis-a-vis Tazewell National.

Graham Bank, with deposits of $5.5 million, is presently fourth in size of the 5 banks located in Bluefield, Virginia, and Bluefield, West Virginia, these towns being only 2 miles apart. After the merger the resulting bank will be third in size.

The competitive impact of its increased size would not appear to be significant because the banking structure in the area will not be materially altered nor should the smaller institutions be placed at a serious competitive disadvantage. It is our view that the effect of the proposed merger will not be substantially adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (6-16-64)

Both Farmers Bank and Graham Bank are located in Tazewell County, in the extreme southwestern part of Virginia. Tazewell, with a population of about 4,500, serves an agricultural area in which some 12,000 persons reside. Bluefield, Virginia, which is contiguous to Bluefield, West Virginia (population 19,500), is located 18 miles northeast of Tazewell and has a population of about 4,200. The area between the main offices of the 2 banks

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

is mountainous, rural, and sparsely settled. The Bluefield area is experiencing considerable commercial, industrial, and residential growth.

Farmers Bank's principal competitor is the only other bank in Tazewell, a slightly smaller institution. Graham Bank's principal competitors are 3 banks in Bluefield, West Virginia, with deposits of approximately $34 million, $23 million, and $7.5 million, respectively. The merger would eliminate only a minor amount of competition that exists between Farmers Bank and Graham Bank, would stimulate competition between the resulting bank and the 2 largest area banks, and should not have adverse competitive effects on other banks. It would also supply management depth that is lacking at both banks and create an institution that could more adequately serve Tazewell County than the 2 banks as separate entities.

Name of bank	Resources	In operation	To be operated
No. 9—**State and Savings Bank,** Monticello, Ind.	8.9	1	2
to merge with			
The Monon Bank, Monon, Ind.	2.9	1	

SUMMARY REPORT BY ATTORNEY GENERAL (5-8-64)

The participating banks are located 11 miles apart in the towns of Monon and Monticello. While competition between State Bank and Monon Bank is not of great significance, the former is the largest of 6 banks in White County and would extend its dominance were the proposed merger consummated. State Bank holds 32 per cent of the IPC[4] deposits in the county and 31 per cent of the loans. The Monon Bank has 11 per cent of the deposits and 8 per cent of the loans. The resulting bank would have 43 per cent of the deposits and 39 per cent of the loans, as compared with 15 per cent of the deposits and 14 per cent of the loans for the largest of 4 other competitor banks in the county.

In view of these factors the effect of the proposed acquisition on competition appears to be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (7-21-64)

Monticello (population about 4,000) and Monon (population about 1,400) are located about 14 miles apart in an agricultural area of the north-central part of Indiana. Monticello is the seat of White County, which has a population of approximately 19,700. The county's economy is basically agricultural but some light industry, located principally in Monticello, provides employment for a sizable number of persons. The prospect for new industrial activity in the Monticello area is promising, and an increase in the banking resources available in Monticello should stimulate this expansion.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

The economy of Monon is supported largely by agriculture. Monon Bank, with a lending limit of only $15,000, is not now in a position to meet adequately the credit needs of many farm operations, a situation that can only be accentuated by the persistent trend toward larger farming units. The proposed merger would provide farmers a convenient source of adequate credit to meet their expanding needs. In addition, a somewhat broader range of banking services would be more readily accessible to all residents of the Monon area. While the proposal will result in the elimination of the slight competition that exists between the 2 institutions and increase somewhat the concentration of banking resources in the communities served, these results are more than offset by the positive benefits that would inure to those communities.

No. 10—**Provident Tradesmens Bank and Trust Company,** Philadelphia, Pa.	607.4	26	31
to merge with			
Second National Bank of Philadelphia, Philadelphia, Pa.	47.5	5	

SUMMARY REPORT BY ATTORNEY GENERAL (4-27-64)

Provident, the fifth largest bank in Philadelphia, with total resources of $607.4 million and operating 26 offices in the 4-county area, proposes to acquire by merger Second National, with total resources of $47.5 million and operating 5 offices, all of which are located in the Northeast section of Philadelphia.

The merger would increase Provident's share of total IPC[4] deposits among competing banks in the 4-county area from 9.6 to 10.5 per cent. After the merger the 6 largest banks in the area would hold 81.8 per cent of total IPC deposits of all competing banks.

While the merger would not change Provident's relative standing it would increase the already high degree of concentration in commercial banking in the Philadelphia area, which was condemned by the Supreme Court in *United States* v. *Philadelphia National Bank.*

The proposed merger may thus adversely affect competition in commercial banking in the Philadelphia area to a substantial degree.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (8-7-64)

This proposal involves the acquisition by Provident, the fifth largest bank in Philadelphia, of the substantially smaller Second National, which holds

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

slightly less than 1 per cent of the IPC deposits and operates 5 of the 341 banking offices serving the 4 counties (Philadelphia, Delaware, Montgomery, and Bucks) that make up the Philadelphia metropolitan area. The service area of Second National consists of about one-third of the city of Philadelphia and is that section of the city known locally as Northeast Philadelphia. Although Philadephia experienced an over-all population decline from 1950 to 1960, the population of Northeast Philadelphia increased by 38.9 per cent during this period. Portions of Northeast Philadelphia are experiencing the greatest residential expansion of any area of the city and contain large concentrations of unimproved land that are available for industrial and residential growth.

Provident's main office is located in downtown Philadelphia, approximately 7 miles southwest of the main office of Second National. Although 2 of Provident's offices are located fairly near 2 offices of Second National, there are also intervening offices of competing banks located in the same vicinity. Second National's 5 offices represent about 10 per cent of the banking offices operated by the 11 banks serving Northeast Philadelphia, and its total deposits account for about 11.2 per cent of the deposits held by all commercial banking offices serving this section of the city. If the proposed merger is consummated, the resulting bank will have 14 per cent of the offices and 14.6 per cent of the total deposits of all commercial banks serving Northeast Philadelphia. As compared with other banks having offices in Northeast Philadelphia, the resulting bank would be first in the area only in consumer loans, which is the present ranking of Second National; third in total loans; fourth in total deposits; and fifth in commercial loans. The loans and deposits of the resulting bank would trail by substantial margins those of both The First Pennsylvania Banking and Trust Company and Girard Trust Bank in Northeast Philadelphia. The 5 largest banks in the Philadelphia 4-county area hold 75.9 per cent of the total deposits and 78.3 per cent of the total loans. The merger would increase these figures by 0.9 per cent and 0.7 per cent, respectively.

The proposed merger would not result in the elimination of any significant existing or potential competition between the 2 banks involved, nor in any undue concentration in banking resources. The resulting bank would retain its position as the fifth largest bank in the Philadelphia area, and the increase in total deposits and loans held by the area's 5 largest banks would be less than 1 per cent. The merger would provide expanded and more efficient banking services for Northeast Philadelphia and would incidentally resolve the management and earnings problems of Second National.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 11—**State Bank of Albany,** Albany, N.Y.	441.4	24	26
to merge with			
The First National Bank of Cairo, Cairo, N.Y.	6.0	2	

SUMMARY REPORT BY ATTORNEY GENERAL (7-2-64)

State Bank is 1 of 2 large banks in Albany and in the surrounding upstate New York State area. Cairo National is a small bank in the foothills of the Catskill Mountains, about 35 miles southwest of Albany. The proposed merger would eliminate some competition between the 2 institutions. More important, it would be the eighth merger for State Bank since 1955. It would be one of a long series of mergers and acquisitions by which 2 large Albany banks are taking over more and more of the smaller banks in the general area. As such, it would have seriously adverse competitive effects.

SUMMARY SUPPLEMENTAL REPORT BY ATTORNEY GENERAL (8-27-64)

Additional data submitted by the applicant bank confirm that the proposed merger would eliminate some competition between the 2 institutions, and, more important, that it would be another in a long series of mergers and acquisitions by which 2 large Albany banks are taking over more and more of the smaller banks in the general area. We therefore adhere to our original opinion that the proposed merger would have adverse competitive effects.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (10-15-64)

Cairo National, the only bank in Cairo (population about 1,900), is located in the Catskill Mountains of Greene County, New York, approximately 40 miles southwest of Albany. Its service area, which contains no other banking office, is dependent for the most part upon the summer tourist trade; the normal population of the service area is about 7,500, but rises to around 40,000 during the summer months. While Cairo National offers the range of banking services commonly provided by small local banks, there are certain banking services that it does not offer and that must presently be sought from banks outside its service area. In addition, there is evidence that Cairo National's relatively low lending limit renders it unable to serve adequately the credit needs of some businesses in the area.

State Bank is the largest bank in New York State's Fourth Banking District. Its nearest offices to Cairo are some 15, 19, and 29 miles distant, respectively, located on the opposite side of the Hudson River and accessible to residents of Cairo National's service area only by use of a toll bridge. National Commercial Bank and Trust Company of Albany, the second largest bank in the District in terms of total deposits, operates a branch in Greene County at Athens, about 13 miles from Cairo. Four other

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

commercial banks, each essentially local in character, operate a total of 5 offices in Greene County, which are situated within a range of about 10 to 21 miles from Cairo.

There were 43 commercial banks in New York's Fourth Banking District at the end of 1963. Of the 167 commercial banking offices in the District, State Bank and National Commercial operated 24 and 38, respectively. On the basis of commercial bank IPC[4] deposits, State Bank held 20.4 per cent and National Commercial held about 21 per cent.

Consummation of the merger with Cairo National would increase State Bank's present 25 per cent share of the District's total commercial bank deposits by less than one-half of 1 per cent. It does not appear that other banks would be exposed to adverse competitive effects as a result of the merger or that any significant existing or potential competition would be eliminated. The merger would solve Cairo National's management succession problem, and the branches that would be established at the locations of Cairo National's offices would provide a greater variety of banking services and be fully able to cope with the inverse fluctuations in deposits and loan demand that are characteristic of the area's banking business.

No. 12—**Wheeling Dollar Savings & Trust Co.,** Wheeling, W. Va.	55.3	1	1
to acquire the assets and assume the liabilities of			
South Wheeling Bank and Trust Company, Wheeling, W. Va.	7.6	1	

SUMMARY REPORT BY ATTORNEY GENERAL (9-10-64)

Wheeling Dollar, the acquiring bank, is by far the largest commercial bank in Wheeling. It has total deposits of $45.3 million, representing about 39 per cent of the total deposits in Wheeling's 6 banks and about 25 per cent of the deposits in the area composed of Wheeling and 4 nearby communities. South Wheeling Bank, with deposits of $6.5 million, ranks fifth in Wheeling and ninth among the area's 13 banks. Its deposits represent about 6.6 per cent of total deposits in Wheeling and 4.3 per cent of deposits in the area. The applicants are 2 of 4 banks in downtown Wheeling and are in direct competition with each other.

Concentration in the Wheeling area is already high in comparison with other metropolitan areas in which branch banking is not permitted by State law. The 2 largest Wheeling banks now have 67.1 per cent of the deposits in the area and the 3 largest, 80.7 per cent.

As a result of the proposed acquisition, Wheeling Dollar would increase its present leading share of Wheeling's deposits from 39 to 45 per cent, substantial direct competition between 2 of Wheeling's 4 downtown banks

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

would be eliminated, concentration in the city's 3 largest banks would be increased from 80.7 per cent to 87.3 per cent, and, in compliance with State law, the only bank office now operating in south Wheeling would be closed.

We concluded that the proposed acquisition may have a substantial adverse effect upon competition and may unduly increase concentration in Wheeling and the surrounding area.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (11-25-64)

Wheeling Dollar and South Wheeling Bank are located 5 blocks apart in Wheeling. The city of Wheeling (population 190,000) has suffered economic reverses, and the impact is reflected more clearly in declining business activity in south Wheeling, the natural service area of South Wheeling Bank, than in downtown Wheeling, the location of Wheeling Dollar. As a result of the declining economy in south Wheeling, South Wheeling Bank has become dependent to a considerable extent on business that its executive officer, through a wide personal following, has been able to attract from outside the area. As a consequence, South Wheeling Bank is unusually dependent on this single individual for a large volume of deposits and for earnings. This proposal arises from the smaller bank's recognition of the impracticality of continuing business in this location and under the present circumstances of dependence on a single individual.

Although consummation of the proposed transaction would result in the elimination of a banking office through the closing of an independent commercial bank, it would not materially affect the banking needs and convenience of the community concerned, and it is not probable that the consequences for banking competition in the relevant area would be adverse. Wheeling Dollar, without the benefit of an additional banking office, would find it necessary to contend with other banks for the business now held by South Wheeling Bank. Further, consummation of the proposed transaction would afford an orderly solution for the potential earnings problem of South Wheeling Bank, which is occasioned by its location and its extraordinary dependence upon the continued availability of the services of its present chief executive officer.

No. 13—**Worthen Bank & Trust Company,** Little Rock, Ark.	106.4	5	7
to merge with			
Bank of Arkansas, Little Rock, Ark.	6.9	2	

SUMMARY REPORT BY ATTORNEY GENERAL (10-5-64)

The proposed merger would have significantly adverse effects upon competition in the Little Rock, Arkansas, area. Of the 6 banks competing in Little Rock, Worthen and Union National hold 62.1 per cent of IPC[4]

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY ATTORNEY GENERAL—Cont.

deposits and loans and discounts. Worthen is the largest in both of these categories. This high concentration and Worthen's relative share would be augmented by this merger. Strong pressure would be put upon the remaining banks to unite, resulting in further anticompetitive effects. Competition between Worthen and Bank of Arkansas would be eliminated, and the latter bank permanently foreclosed as an independent source of banking services in the Little Rock area. This elimination of competition and foreclosure of Bank of Arkansas comes at a time when the city of Little Rock and the State of Arkansas are striving to establish a soundly diversified industrial and economic base. Finally, as this is the first application from the State of Arkansas under amended Section 18(c), approval of a merger by the State's largest bank in IPC deposits and loans and discounts would establish a bad competitive precedent in Arkansas.

The proposed merger appears to have significantly adverse effects upon competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-7-64)

Worthen and Bank of Arkansas are both located in Little Rock, the State capital. Little Rock, with a population of about 126,000, has enjoyed considerable industrial development in recent years. There are 6 commercial banks in Little Rock and 2 in North Little Rock, which is situated directly across the Arkansas River from Little Rock.

Worthen, with its head office in downtown Little Rock and 4 branches within the city, offers a wide range of banking services. Bank of Arkansas' main office and 1 branch are located in the southwestern section of Little Rock and offer services normally given by banks of its size. The head office of Bank of Arkansas is located in a sector of Little Rock that is not conducive to growth and, thus, there is some uncertainty with respect to the bank's future earnings prospects. Bank of Arkansas has experienced a high rate of turnover in management personnel, and a recently proposed expansion of operations was approved provided that management of the bank was suitably supplemented.

Consummation of the proposed merger will eliminate the existing and potential competition between Worthen and Bank of Arkansas and increase slightly the concentration of banking resources in the relevant area. However, the merger will resolve the problem of Bank of Arkansas' future earnings prospects due to its location and will supply needed management strength and depth for the scope of operations presently conducted by Bank of Arkansas. These latter factors more than offset the competitive considerations.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 14—**Wells Fargo Bank,** San Francisco, Calif.	3,545.0	184	187
to merge with			
Bank of Amador County, Jackson, Calif.	12.5	3	

SUMMARY REPORT BY ATTORNEY GENERAL (11-18-64)

Application has been made by Wells Fargo, the third largest bank in the State of California, with assets of $3.5 billion and 183 branch offices in 30 counties, to merge with the Amador Bank, with assets of $12.5 million and 3 offices in Amador County.

Commercial banking in California today is marked by a particularly heavy concentration of banking resources in a small number of extremely large banks. At the present time the 3 largest banks in California, including Well Fargo, control 66 per cent of the total IPC[4] deposits and 57.9 per cent of the banking offices in the State, and the 8 largest control 92.2 per cent of the total IPC deposits and 79.2 per cent of the banking offices in the State.

A significant amount of this bank concentration—and Wells Fargo's share in it—has been accomplished through mergers and acquisitions. In the past 10 years Wells Fargo has acquired $754 million in deposits, $425.8 million in loans, and 35 banking offices through 7 acquisitions and mergers. Since 1946 it has obtained a total of 41 offices through 15 acquisitions.

The only commercial banking facilities presently located in Amador County are 3 offices of Amador Bank and 3 offices of Bank of America. The proposed merger would thus remove the only independent bank in the area and leave to those in need of banking services there a choice between only 2 large branch-bank systems headquartered and controlled from elsewhere in the State.

While Wells Fargo does not at present have branch offices in Amador County, that area is currently experiencing significant economic and population growth and is clearly tied in economically and otherwise with the adjacent Sacramento and San Joaquin County areas, which are important parts of Wells Fargo's service area. Consequently, combination of the 2 banks will eliminate not only the existing competition between them but their potential competitive force as well.

Furthermore, it will add to and intensify the already overly concentrated California banking market. In addition, because it will obliterate another independent bank, it will reduce the possibility of eventual deconcentration.

On the basis of the above, it is our opinion that the proposed merger would have substantially adverse competitive effects.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-16-64)

Wells Fargo, California's third largest bank in terms of deposits, operates offices in 31 counties of northern and central California. Amador Bank is headquartered in Jackson (population about 1,900), the county seat of

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

Amador County (population about 10,000), approximately 140 miles northeast of San Francisco. The bank's 2 branches are located at Sutter Creek (population 1,200) and Plymouth (population 500), which, respectively, are situated 5 miles and 13 miles northwest of Jackson. Wells Fargo does not operate offices in Amador County, and its nearest branch to an office of Amador Bank is in Placerville, 17 miles north of Amador Bank's Plymouth office. The only other bank serving Amador County is Bank of America, which has offices at Jackson and Sutter Creek, and at Ione, 10 miles east of Jackson.

Amador Bank's service to the community has been limited by an unaggressive management that has not adapted to a changing environment. Moreover, its 2 principal officers and two-thirds of its board of directors are past normal retirement age and have indicated their desire to retire. The bank's staff includes no qualified replacements for either of the 2 officers, and attempts to recruit managerial talent have not been successful. By substituting offices of Wells Fargo for those of a relatively small, locally headquartered bank that has failed to offer services commensurate with the development of its community, effectuation of the proposal would bring to Amador County the benefit of an alternative source of full banking services. It would also solve a management succession problem at Amador Bank. No more than a negligible amount of present or potential competition would be eliminated, and the increase in banking concentration would be minute.

Name of bank	Resources	In operation	To be operated
No. 15—**The Summit Trust Company,** Summit, N.J. *to merge with*	67.7	3	
The Elizabethport Banking Company, Elizabeth, N.J., and change its title to Summit and Elizabeth Trust Company.	44.5	3	6

SUMMARY REPORT BY ATTORNEY GENERAL (11-13-64)

The proposed merger will eliminate 2 vigorous, independent banks that have proved their ability to prosper and grow despite competition from larger banks in Union County, New Jersey. The result will be to add significantly to the concentration of banking resources in Union County and to establish a wide gulf between 3 large banks and the many smaller ones. This may adversely affect the ability of the smaller independent banks to compete.

The proposed merger will also contribute to the pronounced merger trend already apparent among New Jersey banks.

The effect on competition would be seriously adverse.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-17-64)

The participating banks are located in Union County, New Jersey (population 504,000), which lies in the northeastern section of the State and is part of the New York City metropolitan area. The service area of Summit Trust, located in the northwestern corner of the county, consists in the main of high-grade, single-family residences, with some pockets of industrial development. The city of Elizabeth, by contrast, is densely settled, with considerable heavy industry. While both banks provide a general range of banking services, Summit Trust has tended to specialize in single-family residential mortgages, collateral loans, and trust services, while Elizabethport Company has a sizable volume of commercial loans and a substantial time-sales department.

The head offices of the 2 banks are about 12 miles apart, and the nearest distance between offices of these banks is 8 miles. There is no direct public transportation between Summit and Elizabeth, and there are numerous offices of commercial banks and savings and loan associations located between them. The 2 largest banks in Union County, National State Bank and Union County Trust Company, which have their headquarters in Elizabeth, also compete in the Summit community.

The proposed merger would increase to 4 the number of banks in the top rank in Union County, an adequate number of medium- and smaller-sized banks would remain, and little or no direct competition would be eliminated. Additional services and lending skills would be provided in a community, Summit, which is rapidly reaching a point where it will need them, and banking convenience in the Elizabeth community would be improved.

No. 16—**The County Trust Company,** White Plains, N.Y.	705.8	49	52
to merge with			
The Peoples Bank of Rockland County, New City, N.Y.	16.0	3	

SUMMARY REPORT BY ATTORNEY GENERAL (9-22-64)

Under the proposed merger, County Trust, already a dominant institution in Westchester and Putnam Counties, will extend that position of dominance to Rockland County. In our opinion, County Trust would possess significant advantages over existing competitors in Rockland County, and its expansion into that county may tend to discourage new entrants. The competitive effects of the proposed merger will thus be adverse.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (12-28-64)

Peoples Bank is the second smallest of 7 commercial banks operating in Rockland County (population 162,000), and serves an area in the east-

For notes see opposite page.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY BOARD OF GOVERNORS—Cont.

central section of the county, separated on the east from Westchester County by the Hudson River. Although Rockland County is principally a rapidly growing residential area (population has increased about 80 per cent since 1950), there are now about 140 industrial plants in the county, which employ a total of approximately 15,000 persons. Nearly half of these concerns are in, or adjacent to, the area served by Peoples Bank. While it presently follows a rather restrictive lending policy, Peoples Bank does not appear to be capable of meeting adequately the growing demand for loans, especially for real estate financing, in its service area.

The offices of the proponent banks nearest each other are about 12 miles apart, located on opposite sides of the Hudson River and separated by offices of other banks. There appears to be no significant competition between the 2 banks.

Although County Trust holds a considerable portion of the banking resources in Westchester County, it does not appear that its entrance into Rockland County, through the acquisition of Peoples Bank, would have adverse consequences for banking competition. Indeed, it is probable that banking competition would be enhanced. Moreover, County Trust would be better able to provide the community now served by Peoples Bank with those banking services required by the area's vigorous development and necessary for its continued economic progress.

[1] During 1964 the Board disapproved 2 mergers, etc. However, under Section 18(c) of the Federal Deposit Insurance Act, only those transactions approved by the Board must be described in its ANNUAL REPORT to Congress.

[2] Except where specifically stated, the merger, etc., was effected under the charter of the first-named bank.

[3] Concurrent approval by the Board of applications by Chemical Bank New York Trust Company, New York, N.Y., relating to The Bensonhurst National Bank of Brooklyn in New York, Brooklyn, N.Y., and The First National Bank of Mount Vernon, Mount Vernon, N.Y., increased the number of Chemical's authorized domestic branches from 117 to 123.

[4] The abbreviation "IPC" designates deposits of individuals, partnerships, and corporations.

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Federal Reserve Directories and Meetings

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(December 31, 1964)

	Term expires
WM. McC. MARTIN, JR., of New York, *Chairman*	January 31, 1970
C. CANBY BALDERSTON of Pennsylvania, *Vice Chairman*	January 31, 1966
A. L. MILLS, JR., of Oregon	January 31, 1972
J. L. ROBERTSON of Nebraska	January 31, 1978
CHAS. N. SHEPARDSON of Texas	January 31, 1968
GEORGE W. MITCHELL of Illinois	January 31, 1976
J. DEWEY DAANE of Virginia	January 31, 1974

RALPH A. YOUNG, *Adviser to the Board*
GUY E. NOYES, *Adviser to the Board*
CHARLES MOLONY, *Assistant to the Board*
ROBERT L. CARDON, *Legislative Counsel*
CLARKE L. FAUVER, *Assistant to the Board*

OFFICE OF THE SECRETARY
- MERRITT SHERMAN, *Secretary*
- KENNETH A. KENYON, *Assistant Secretary*
- ELIZABETH L. CARMICHAEL, *Assistant Secretary*
- ARTHUR L. BROIDA, *Assistant Secretary*
- KARL E. BAKKE, *Assistant Secretary*

LEGAL DIVISION
- HOWARD H. HACKLEY, *General Counsel*
- DAVID B. HEXTER, *Assistant General Counsel*
- THOMAS J. O'CONNELL, *Assistant General Counsel*
- JEROME W. SHAY, *Assistant General Counsel*
- WILSON L. HOOFF, *Assistant General Counsel*

DIVISION OF RESEARCH AND STATISTICS
- DANIEL H. BRILL, *Director*
- ROBERT C. HOLLAND, *Associate Director*
- ALBERT R. KOCH, *Associate Director*
- FRANK R. GARFIELD, *Adviser*
- J. CHARLES PARTEE, *Adviser*
- KENNETH B. WILLIAMS, *Adviser*
- LEWIS N. DEMBITZ, *Associate Adviser*
- ROBERT SOLOMON, *Associate Adviser*

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BOARD OF GOVERNORS—Cont.

DIVISION OF INTERNATIONAL FINANCE
RALPH A. YOUNG, *Director*
A. B. HERSEY, *Adviser*
ROBERT L. SAMMONS, *Adviser*
REED J. IRVINE, *Associate Adviser*
SAMUEL I. KATZ, *Associate Adviser*
JOHN E. REYNOLDS, *Associate Adviser*
RALPH C. WOOD, *Associate Adviser*

DIVISION OF BANK OPERATIONS
JOHN R. FARRELL, *Director*
GERALD M. CONKLING, *Assistant Director*
M. B. DANIELS, *Assistant Director*
JOHN N. KILEY, JR., *Assistant Director*

DIVISION OF EXAMINATIONS
FREDERIC SOLOMON, *Director*
GLENN M. GOODMAN, *Assistant Director*
BRENTON C. LEAVITT, *Assistant Director*
JAMES C. SMITH, *Assistant Director*
ANDREW N. THOMPSON, *Assistant Director*
LLOYD M. SCHAEFFER, *Chief Federal Reserve Examiner*

DIVISION OF PERSONNEL ADMINISTRATION
EDWIN J. JOHNSON, *Director*
H. FRANKLIN SPRECHER, JR., *Assistant Director*

DIVISION OF ADMINISTRATIVE SERVICES
JOSEPH E. KELLEHER, *Director*
HARRY E. KERN, *Assistant Director*

OFFICE OF THE CONTROLLER
JOHN KAKALEC, *Controller*
SAMPSON H. BASS, *Assistant Controller*

OFFICE OF DEFENSE PLANNING
INNIS D. HARRIS, *Coordinator*

DIVISION OF DATA PROCESSING
M. H. SCHWARTZ, *Director*
LEE W. LANGHAM, *Assistant Director*

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FEDERAL OPEN MARKET COMMITTEE

(December 31, 1964)

MEMBERS

WM. McC. MARTIN, JR., *Chairman* (Board of Governors)

ALFRED HAYES, *Vice Chairman* (Elected by Federal Reserve Bank of New York)

C. CANBY BALDERSTON (Board of Governors)

J. DEWEY DAANE (Board of Governors)

W. BRADDOCK HICKMAN (Elected by Federal Reserve Banks of Cleveland and Chicago)

A. L. MILLS, JR. (Board of Governors)

GEORGE W. MITCHELL (Board of Governors)

J. L. ROBERTSON (Board of Governors)

CHAS. N. SHEPARDSON (Board of Governors)

HARRY A. SHUFORD (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)

ELIOT J. SWAN (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)

EDWARD A. WAYNE (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)

OFFICERS

RALPH A. YOUNG, *Secretary*

MERRITT SHERMAN, *Assistant Secretary*

KENNETH A. KENYON, *Assistant Secretary*

ARTHUR L. BROIDA, *Assistant Secretary*

HOWARD H. HACKLEY, *General Counsel*

DAVID B. HEXTER, *Assistant General Counsel*

GUY E. NOYES, *Economist*

DANIEL H. BRILL, *Associate Economist*

GEORGE GARVY, *Associate Economist*

DAVID L. GROVE, *Associate Economist*

ROBERT C. HOLLAND, *Associate Economist*

HOMER JONES, *Associate Economist*

ALBERT R. KOCH, *Associate Economist*

MAURICE MANN, *Associate Economist*

BENJAMIN U. RATCHFORD *Associate Economist*

ROBERT W. STONE, *Manager, System Open Market Account*

CHARLES A. COOMBS, *Special Manager, System Open Market Account*

During 1964 the Federal Open Market Committee met approximately every three weeks as indicated in the Record of Policy Actions taken by the Committee (see pp. 52-126 of this Report).

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FEDERAL ADVISORY COUNCIL

(December 31, 1964)

MEMBERS

District No. 1—LAWRENCE H. MARTIN, President, The National Shawmut Bank of Boston, Boston, Massachusetts.

District No. 2—WILLIAM H. MOORE, Chairman of the Board, Bankers Trust Company, New York, New York.

District No. 3—WILLIAM L. DAY, Chairman, The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania.

District No. 4—L. A. STONER, President, The Ohio National Bank of Columbus, Columbus, Ohio.

District No. 5—JOHN F. WATLINGTON, JR., President, Wachovia Bank and Trust Company, Winston-Salem, North Carolina.

District No. 6—J. FINLEY MCRAE, Chairman of the Board, The Merchants National Bank, Mobile, Alabama.

District No. 7—EDWARD BYRON SMITH, Chairman of the Board, The Northern Trust Company, Chicago, Illinois.

District No. 8—JAMES P. HICKOK, Chairman of the Board, First National Bank in St. Louis, St. Louis, Missouri.

District No. 9—JOHN A. MOORHEAD, President, Northwestern National Bank of Minneapolis, Minneapolis, Minnesota.

District No. 10—M. L. BREIDENTHAL, Chairman of the Board, Security National Bank of Kansas City, Kansas City, Kansas.

District No. 11—JAMES W. ASTON, President, Republic National Bank of Dallas, Dallas, Texas.

District No. 12—RANSOM M. COOK, Chairman of the Board, Wells Fargo Bank, San Francisco, California.

OFFICERS

JOHN A. MOORHEAD, *President* JAMES W. ASTON, *Vice President*

HERBERT V. PROCHNOW, *Secretary*

WILLIAM J. KORSVIK, *Assistant Secretary*

EXECUTIVE COMMITTEE

JOHN A. MOORHEAD, *ex officio* JAMES W. ASTON, *ex officio*

LAWRENCE H. MARTIN J. FINLEY MCRAE

M. L. BREIDENTHAL

Meetings of the Federal Advisory Council were held on February 17-18, April 22-23, September 21-22, and November 16-17, 1964. The Board of Governors met with the Council on February 18, April 23, September 22, and November 17. The Council is required by law to meet in Washington at least four times each year and is authorized by the Federal Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

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FEDERAL RESERVE BANKS AND BRANCHES

(December 31, 1964)

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston	Erwin D. Canham	William Webster
New York	Philip D. Reed	James DeCamp Wise
Philadelphia	Walter E. Hoadley	David C. Bevan
Cleveland	Joseph B. Hall	Logan T. Johnston
Richmond	Edwin Hyde	William H. Grier
Atlanta	Jack Tarver	J. M. Cheatham
Chicago	Vacancy	James H. Hilton
St. Louis	Raymond Rebsamen	J. H. Longwell
Minneapolis	Atherton Bean	Judson Bemis
Kansas City	Homer A. Scott	Dolph Simons
Dallas	Robert O. Anderson	Carl J. Thomsen
San Francisco	F. B. Whitman	John D. Fredericks

CONFERENCE OF CHAIRMEN

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. Such a meeting, attended also by Deputy Chairmen of the Reserve Banks, was held in Washington on December 3-4, 1964.

Mr. Bean, Chairman of the Federal Reserve Bank of Minneapolis, who was elected Chairman of the Conference and of the Executive Committee in December 1963, served in that capacity until the close of the 1964 meeting. Mr. Canham, Chairman of the Federal Reserve Bank of Boston, and Mr. Briggs, Chairman of

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

the Federal Reserve Bank of Chicago (until his resignation September 21, 1964 as a Director of the Chicago Bank), served with Mr. Bean in 1964 as members of the Executive Committee; Mr. Briggs also served as Vice Chairman of the Conference until his resignation.

On December 4, 1964, Mr. Canham, Chairman of the Boston Bank, was elected Chairman of the Conference and of the Executive Committee to serve for the succeeding year; Mr. Anderson, Chairman of the Federal Reserve Bank of Dallas, was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. Rebsamen, Chairman of the Federal Reserve Bank of St. Louis, was elected as the other member of the Executive Committee.

DIRECTORS

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Federal Reserve Bank branches have either 5 or 7 directors, of whom a majority are appointed by the Board of Directors of the parent Federal Reserve Bank and the others are appointed by the Board of Governors of the Federal Reserve System.

DIRECTORS	District 1 — Boston	*Term expires Dec. 31*
Class A:		
William M. Lockwood	President, The Howard National Bank and Trust Company, Burlington, Vt.	1964
Ostrom Enders	Chairman, Hartford National Bank and Trust Company, Hartford, Conn.	1965
Darius M. Kelley	President, The Orange National Bank, Orange, Mass.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.

District 1 — Boston — Cont.

		Term expires Dec. 31
Class B:		
James R. Carter	President, Nashua Corporation, Nashua, N. H.	1964
John R. Newell	President, Bath Iron Works Corp., Bath, Maine.	1965
William R. Robbins	Vice President for Finance, United Aircraft Corporation, East Hartford, Conn.	1966
Class C:		
Erwin D. Canham	Editor in Chief, The Christian Science Monitor, Boston, Mass.	1964
James McCormack	Vice President, Massachusetts Institute of Technology, Cambridge, Mass.	1965
William Webster	Chairman and Chief Executive Officer, New England Electric System, Boston, Mass.	1966

District 2 — New York

		Term expires Dec. 31
Class A:		
George Champion	Chairman of the Board, The Chase Manhattan Bank, New York, N.Y.	1964
Ralph H. Rue	Chairman, The Schenectady Trust Company, Schenectady, N.Y.	1965
Robert H. Fearon	President, The Oneida Valley National Bank of Oneida, N.Y.	1966
Class B:		
B. Earl Puckett	Formerly Chairman of the Board, Allied Stores Corporation, New York, N.Y.	1964
Kenneth H. Hannan	Executive Vice President, Union Carbide Corporation, New York, N.Y.	1965
Albert L. Nickerson	Chairman of the Board, Socony Mobil Oil Company, Inc., New York, N.Y.	1966
Class C:		
James DeCamp Wise	Formerly Chairman of the Board, Bigelow-Sanford, Inc., Frenchtown, N.J.	1964
Philip D. Reed	Formerly Chairman of the Board, General Electric Company, New York, N.Y.	1965
Everett N. Case	President, Alfred P. Sloan Foundation, New York, N.Y.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.

District 2 — New York — Cont.

Buffalo Branch

		Term expires Dec. 31
Appointed by Federal Reserve Bank:		
Anson F. Sherman	President, The Citizens Central Bank, Arcade, N.Y.	1964
Elmer B. Milliman	President, Central Trust Company, Rochester, N.Y.	1964
Arthur S. Hamlin	President, The Canandaigua National Bank and Trust Company, Canandaigua, N.Y.	1965
Charles W. Millard, Jr.	Chairman of the Board and President, Manufacturers and Traders Trust Company, Buffalo, N.Y.	1966
Appointed by Board of Governors:		
Whitworth Ferguson	President, Ferguson Electric Construction Co., Inc., Buffalo, N.Y.	1964
Maurice R. Forman	President, B. Forman Company, Inc., Rochester, N.Y.	1965
Thomas E. LaMont	Farmer, Albion, N.Y.	1966

District 3 — Philadelphia

Class A:		
Eugene T. Gramley	President, Milton Bank and Safe Deposit Company, Milton, Pa.	1964
Benjamin F. Sawin	Vice Chairman of the Board, Provident Tradesmens Bank and Trust Company, Philadelphia, Pa.	1965
Charles R. Sharbaugh	President, Cambria County National Bank of Carrolltown, Pa.	1966
Class B:		
Frank R. Palmer	Formerly Chairman of the Board, The Carpenter Steel Company, Reading, Pa.	1964
Ralph K. Gottshall	Chairman of the Board and President, Atlas Chemical Industries, Inc., Wilmington, Del.	1965
Leonard P. Pool	President, Air Products and Chemicals, Inc., Allentown, Pa.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.

District 3—Philadelphia—Cont.

		Term expires Dec. 31
Class C:		
Willis J. Winn	Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pa.	1964
David C. Bevan	Chairman, Finance Committee, The Pennsylvania Railroad Company, Philadelphia, Pa.	1965
Walter E. Hoadley	Vice President and Treasurer, Armstrong Cork Company, Lancaster, Pa.	1966

District 4 — Cleveland

Class A:		
C. N. Sutton	President, The Richland Trust Company, Mansfield, Ohio	1964
Frank E. Agnew, Jr.	Chairman of the Board and Chief Executive Officer, Pittsburgh National Bank, Pittsburgh, Pa.	1965
Richard R. Hollington	President, The Ohio Bank and Savings Company, Findlay, Ohio	1966
Class B:		
David A. Meeker	Chairman of the Board and Chief Executive Officer, The Hobart Manufacturing Company, Troy, Ohio	1964
Walter K. Bailey	Chairman of the Board, The Warner & Swasey Company, Cleveland, Ohio	1965
Edwin J. Thomas	Chairman of the Board and Chief Executive Officer, The Goodyear Tire & Rubber Company, Akron, Ohio	1966
Class C:		
Joseph B. Hall	Chairman of the Board, The Kroger Co., Cincinnati, Ohio	1964
Logan T. Johnston	President, Armco Steel Corporation, Middletown, Ohio	1965
Albert G. Clay	President, Clay Tobacco Company, Mt. Sterling, Ky.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont. **District 4 — Cleveland — Cont.** *Term expires Dec. 31*

Cincinnati Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
G. Carlton Hill	Chairman of the Board, The Fifth Third Union Trust Co., Cincinnati, Ohio	1964
John W. Woods, Jr.	President, The Third National Bank of Ashland, Ky.	1965
John W. Humphrey	President, The Philip Carey Manufacturing Company, Cincinnati, Ohio	1966
James Pugh	President, The Security Central National Bank of Portsmouth, Ohio	1966

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Barney A. Tucker	President, Burley Belt Fertilizer Company, Lexington, Ky.	1964
R. Stanley Laing	President, The National Cash Register Company, Dayton, Ohio	1965
Walter C. Langsam	President, University of Cincinnati, Cincinnati, Ohio	1966

Pittsburgh Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
James B. Grieves	President, The Union National Bank of Pittsburgh, Pa.	1964
Alfred H. Owens	President, The Citizens National Bank of New Castle, Pa.	1965
S. L. Drumm	President, West Penn Power Company, Greensburg, Pa.	1966
Joseph S. Armstrong	President, The Grove City National Bank, Grove City, Pa.	1966

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
William A. Steele	Chairman of the Board and President, Wheeling Steel Corporation, Wheeling, W. Va.	1964
F. L. Byrom	President, Koppers Company, Inc., Pittsburgh, Pa.	1965
G. L. Bach	Maurice Falk Professor of Economics and Social Science, Carnegie Institute of Technology, Pittsburgh, Pa.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.	**District 5 — Richmond**	*Term expires Dec. 31*
Class A:		
J. McKenny Willis, Jr.	Director, Maryland National Bank, Easton, Md.	1964
David K. Cushwa, Jr.	President, The Washington County National Savings Bank, Williamsport, Md.	1965
Robert T. Marsh, Jr.	Chairman of the Board, First and Merchants National Bank, Richmond, Va.	1966
Class B:		
Robert R. Coker	President, Coker's Pedigreed Seed Company, Hartsville, S.C.	1964
R. E. Salvati	Consultant, Island Creek Coal Company, Huntington, W.Va.	1965
Robert E. L. Johnson	Chairman of the Board, Woodward & Lothrop, Incorporated, Washington, D.C.	1966
Class C:		
Edwin Hyde	President, Miller & Rhoads, Inc., Richmond, Va.	1964
Wilson H. Elkins	President, University of Maryland, College Park, Md.	1965
William H. Grier	President, Rock Hill Printing & Finishing Company, Rock Hill, S.C.	1966

Baltimore Branch

Appointed by Federal Reserve Bank:		
Harvey E. Emmart	Senior Vice President, Maryland National Bank, Baltimore, Md.	1964
Martin Piribek	Executive Vice President, The First National Bank of Morgantown, W. Va.	1964
Joseph B. Browne	President, Union Trust Company of Maryland, Baltimore, Md.	1965
John P. Sippel	President, The Citizens National Bank of Laurel, Md.	1966
Appointed by Board of Governors:		
Leonard C. Crewe, Jr.	Chairman, Maryland Specialty Wire, Inc., Cockeysville, Md.	1964
E. Wayne Corrin	President, Hope Natural Gas Company, Clarksburg, W.Va.	1965
Harry B. Cummings	Vice President & General Manager, Metal Products Division, Koppers Company, Inc., Baltimore, Md.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.	District 5 — Richmond — Cont.	*Term expires Dec. 31*
	Charlotte Branch	
Appointed by Federal Reserve Bank:		
Joe H. Robinson	Director of Finance and Planning, Belk Stores, Inc., Charlotte, N.C.	1964
Wallace W. Brawley	President, The Commercial National Bank of Spartanburg, S.C.	1964
G. Harold Myrick	Executive Vice President and Trust Officer, The First National Bank of Lincolnton, N.C.	1965
W. W. McEachern	President, The South Carolina National Bank, Greenville, S.C.	1966
Appointed by Board of Governors:		
Clarence P. Street	President, McDevitt & Street Company, Charlotte, N.C.	1964
J. C. Cowan, Jr.	Vice Chairman of the Board, Burlington Industries, Inc., Greensboro, N.C.	1965
James A. Morris	Dean, School of Business Administration, University of South Carolina, Columbia, S.C.	1966

District 6 — Atlanta

Class A:		
D. C. Wadsworth, Sr.	President, The American National Bank, Gadsden, Ala.	1964
M. M. Kimbrel	Chairman of the Board, First National Bank, Thomson, Ga.	1965
George S. Craft	Chairman of the Board, Trust Company of Georgia, Atlanta, Ga.	1966
Class B:		
James H. Crow, Jr.	Vice President, The Chemstrand Corporation, Decatur, Ala.	1964
McGregor Smith	Chairman of the Board, Florida Power & Light Company, Miami, Fla.	1965
W. Maxey Jarman	Chairman, Genesco, Inc., Nashville, Tenn.	1966
Class C:		
Jack Tarver	President, Atlanta Newspapers, Inc., Atlanta, Ga.	1964
J. M. Cheatham	President, Dundee Mills, Incorporated, Griffin, Ga.	1965
John A. Hunter	President, Louisiana State University, Baton Rouge, La.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont. **District 6 — Atlanta — Cont.** *Term expires Dec. 31*

Birmingham Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
John H. Neill, Jr.	President, Union Bank & Trust Co., Montgomery, Ala.	1964
W. H. Mitchell	President, The First National Bank of Florence, Ala.	1964
A. Calvin Smith	President, First National Bank, Greenville, Ala.	1965
John A. Hand	President, The First National Bank of Birmingham, Ala.	1966

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
C. Caldwell Marks	Chairman of the Board, Owen-Richards Company, Inc., Birmingham, Ala.	1964
Eugene C. Gwaltney, Jr.	Vice President and General Manager, Russell Mills, Inc., Alexander City, Ala.	1965
Mays E. Montgomery	General Manager, Dixie Home Feeds Co., Athens, Ala.	1966

Jacksonville Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
J. T. Lane	Chairman of the Board, The Atlantic National Bank, Jacksonville, Fla.	1964
Harry Fagan	President, First National Bank in Fort Myers, Fla.	1964
Arthur W. Saarinen	President, Broward National Bank of Fort Lauderdale, Fla.	1965
William H. Dial	President, The First National Bank at Orlando, Fla.	1966

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Harry T. Vaughn	President, United States Sugar Corporation, Clewiston, Fla.	1964
Claude J. Yates	Vice President and General Manager, Southern Bell Telephone and Telegraph Company, Jacksonville, Fla.	1965
J. Ollie Edmunds	President, Stetson University, DeLand, Fla.	1966

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont. **District 6 — Atlanta — Cont.** *Term expires Dec. 31*

Nashville Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Travis Hitt	President, Farmers National Bank, Winchester, Tenn.	1964
Harry M. Nacey, Jr.	President, Hamilton National Bank, Knoxville, Tenn.	1964
R. S. Walling	President, First National Bank, McMinnville, Tenn.	1965
William F. Earthman, Jr.	President, Commerce Union Bank, Nashville, Tenn.	1966

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
V. S. Johnson, Jr.	Chairman of the Board and President, Aladdin Industries, Inc., Nashville, Tenn.	1964
Andrew D. Holt	President, University of Tennessee, Knoxville, Tenn.	1965
James E. Ward	President, Baird-Ward Printing Company, Nashville, Tenn.	1966

New Orleans Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Lewis Gottlieb	Chairman of the Board, City National Bank, Baton Rouge, La.	1964
John Oulliber	President, The National Bank of Commerce in New Orleans, La.	1964
J. R. McCravey, Jr.	Vice President, Bank of Forest, Miss.	1965
L. Y. Foote	President, First National Bank of Hattiesburg, Miss.	1966

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Kenneth R. Giddens	President, WKRG-TV, Inc., Mobile, Ala.	1964
J. O. Emmerich	Editor, Enterprise-Journal, McComb, Miss.	1965
George Benjamin Blair	General Manager, American Rice Growers Co-operative, Lake Charles, La.	1966

District 7 — Chicago

Class A:

Name	Position	Term expires Dec. 31
John H. Crocker	Chairman of the Board, The Citizens National Bank of Decatur, Ill.	1964
Harry W. Schaller	President, The Citizens First National Bank of Storm Lake, Iowa	1965
Kenneth V. Zwiener	Chairman of the Board, Harris Trust and Savings Bank, Chicago, Ill.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.	District 7 — Chicago — Cont.	*Term expires Dec. 31*
Class B:		
William E. Rutz	Director, Giddings & Lewis Machine Tool Company, Fond du Lac, Wis.	1964
William A. Hanley	Director, Eli Lilly and Company, Indianapolis, Ind.	1965
G. F. Langenohl	Treasurer and Assistant Secretary, Allis-Chalmers Manufacturing Company, Milwaukee, Wis.	1966
Class C:		
(Vacancy)		1964
James H. Hilton	President, Iowa State University of Science and Technology, Ames, Iowa	1965
John W. Sheldon	President, Chas. A. Stevens & Co., Chicago, Ill.	1966

Detroit Branch

Appointed by Federal Reserve Bank:		
Donald F. Valley	Chairman of the Board, National Bank of Detroit, Mich.	1964
C. Lincoln Linderholm	President, Central Bank, Grand Rapids, Mich.	1965
Franklin H. Moore	President, The Commercial and Savings Bank, St. Clair, Mich.	1966
John H. French, Jr.	President, City National Bank of Detroit, Mich.	1966
Appointed by Board of Governors:		
James William Miller	President, Western Michigan University, Kalamazoo, Mich.	1964
Guy S. Peppiatt	Chairman of the Board, Federal-Mogul-Bower Bearings, Inc., Detroit, Mich.	1965
Max P. Heavenrich, Jr.	President and General Manager, Heavenrich Bros. & Company, Saginaw, Mich.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.	**District 8 — St. Louis**	*Term expires Dec. 31*
Class A:		
Arthur Werre, Jr.	Executive Vice President, First National Bank of Steeleville, Ill.	1964
Harry F. Harrington	Chairman of the Board and President, The Boatmen's National Bank of Saint Louis, Mo.	1965
H. Lee Cooper	President, Ohio Valley National Bank of Henderson, Ky.	1966
Class B:		
Mark Townsend	Chairman of the Board, Townsend Lumber Company, Inc., Stuttgart, Ark.	1964
Harold O. McCutchan	Senior Executive Vice President, Mead Johnson & Company, Evansville, Ind.	1965
Roland W. Richards	Vice President and Secretary, Laclede Steel Company, St. Louis, Mo.	1966
Class C:		
J. H. Longwell	Director, Special Studies and Programs, College of Agriculture, University of Missouri, Columbia, Mo.	1964
Raymond Rebsamen	Chairman of the Board, Rebsamen & East, Inc., Little Rock, Ark.	1965
William King Self	President, Riverside Industries, Marks, Miss.	1966

Little Rock Branch

Appointed by Federal Reserve Bank:		
Ross E. Anderson	Chairman of the Board, The Commercial National Bank of Little Rock, Ark.	1964
H. C. Adams	Executive Vice President, The First National Bank of DeWitt, Ark.	1965
Cecil W. Cupp	President and Chairman, Arkansas Bank and Trust Company, Hot Springs, Ark.	1966
R. M. LaGrone, Jr.	President, The Citizens National Bank of Hope, Ark.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont. **District 8—St. Louis—Cont.** *Term expires Dec. 31*

Little Rock Branch—Cont.

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Waldo E. Tiller	President, Tiller Tie and Lumber Company, Inc., Little Rock, Ark.	1964
Carey V. Stabler	President, Little Rock University, Little Rock, Ark.	1965
Frederick P. Blanks	Planter, Parkdale, Ark.	1966

Louisville Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
John R. Stroud	Executive Vice President, The First National Bank of Mitchell, Ind.	1964
John H. Hardwick	President, The Louisville Trust Company, Louisville, Ky.	1965
Ray A. Barrett	President, The State Bank of Salem, Ind.	1966
Wm. G. Deatherage	President, Planters Bank & Trust Co., Hopkinsville, Ky.	1966

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Richard T. Smith	Farmer, Madisonville, Ky.	1964
C. Hunter Green	Vice President and General Manager, Southern Bell Telephone and Telegraph Company, Louisville, Ky.	1965
Lisle Baker, Jr.	Executive Vice President & General Manager, The Courier-Journal & Louisville Times Company, Louisville, Ky.	1966

Memphis Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Leon C. Castling	President, First National Bank at Marianna, Ark.	1964
Charles R. Caviness	President, National Bank of Commerce of Corinth, Miss.	1965
Allen Morgan	President, The First National Bank of Memphis, Tenn.	1966
Con T. Welch	President, Citizens Bank, Savannah, Tenn.	1966

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Frank Lee Wesson	President, Wesson Farms, Inc., Victoria, Ark.	1964
Sam Cooper	President, HumKo Products Division, National Dairy Products Corporation, Memphis, Tenn.	1965
Edward B. LeMaster	President, Edward LeMaster Company, Inc., Memphis, Tenn.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.

District 9 — Minneapolis

		Term expires Dec. 31
Class A:		
Rollin O. Bishop	Consultant, The American National Bank of Saint Paul, Minn.	1964
Curtis B. Mateer	Executive Vice President, The Pierre National Bank, Pierre, S. Dak.	1965
Harold C. Refling	Executive Vice President, First National Bank in Bottineau, N. Dak.	1966
Class B:		
T. G. Harrison	Chairman of the Board, Super Valu Stores, Inc., Minneapolis, Minn.	1964
Hugh D. Galusha, Jr.	Lawyer and Certified Public Accountant, Helena, Mont.	1965
Ray C. Lange	President, Chippewa Canning Company, Inc., Chippewa Falls, Wis.	1966
Class C:		
John H. Warden	Chairman of the Board, Upper Peninsula Power Company, Houghton, Mich.	1964
Atherton Bean	President, International Milling Company, Minneapolis, Minn.	1965
Judson Bemis	President, Bemis Bro. Bag Co., Minneapolis, Minn.	1966

Helena Branch

Appointed by Federal Reserve Bank:		
Roy G. Monroe	Chairman of the Board, The First State Bank of Malta, Mont.	1964
Harald E. Olsson	President, Ronan State Bank, Ronan, Mont.	1964
B. Meyer Harris	President, The Yellowstone Bank, Laurel, Mont.	1965
Appointed by Board of Governors:		
C. G. McClave	President and General Manager, Montana Flour Mills Company, Great Falls, Mont.	1964
Edwin G. Koch	President, Montana School of Mines, Butte, Mont.	1965

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.	**District 10 — Kansas City**	*Term expires Dec. 31*
Class A:		
W. S. Kennedy	President and Chairman of the Board, The First National Bank of Junction City, Kans.	1964
Burton L. Lohmuller	President, The First National Bank of Centralia, Kans.	1965
Eugene H. Adams	President, The First National Bank of Denver, Colo.	1966
Class B:		
Robert A. Olson	President, Kansas City Power & Light Company, Kansas City, Mo.	1964
K. S. Adams	Chairman of the Board, Phillips Petroleum Company, Bartlesville, Okla.	1965
Fred W. Gilmore	President, Union Stock Yards Company of Omaha, Nebr.	1966
Class C:		
Dolph Simons	Editor and President, The Lawrence Daily Journal-World, Lawrence, Kans.	1964
Dean A. McGee	Chairman of the Board, Kerr-McGee Oil Industries, Inc., Oklahoma City, Okla.	1965
Homer A. Scott	Vice President and District Manager, Peter Kiewit Sons' Company, Sheridan, Wyo.	1966

Denver Branch

Appointed by Federal Reserve Bank:		
J. H. Bloedorn	President, The Farmers State Bank of Fort Morgan, Colo.	1964
J. P. Brandenburg	President, The First State Bank of Taos, N. Mex.	1964
Elwood M. Brooks	Chairman of the Board, The Central Bank & Trust Company of Denver, Colo.	1965
Appointed by Board of Governors:		
R. A. Burghart	Ingle Land and Cattle Company, Colorado Springs, Colo.	1964
Robert T. Person	President, Public Service Company of Colorado, Denver, Colo.	1965

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont. **District 10 — Kansas City — Cont.** *Term expires Dec. 31*

Oklahoma City Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
R. L. Kelsay	Chairman of the Board and President, The First National Bank in Hobart, Okla.	1964
Guy L. Berry, Jr.	President, The American National Bank and Trust Company, Sapulpa, Okla.	1964
Howard J. Bozarth	President, City National Bank and Trust Company of Oklahoma City, Okla.	1965

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Otto C. Barby	Attorney and rancher, Beaver, Okla.	1964
James E. Allison	Consultant, Warren Petroleum Corporation, Tulsa, Okla.	1965

Omaha Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
John F. Davis	President, First National Bank, Omaha, Nebr.	1964
R. E. Barton	President, The Wyoming National Bank of Casper, Wyo.	1965
Henry D. Kosman	Chairman of the Board and President, Scottsbluff National Bank, Scottsbluff, Nebr.	1965

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Clifford Morris Hardin	Chancellor, The University of Nebraska, Lincoln, Nebr.	1964
John T. Harris	Merchant and cattleman, McCook, Nebr.	1965

District 11 — Dallas

Class A:

Name	Position	Term expires Dec. 31
J. Edd McLaughlin	President, Security State Bank & Trust Company, Ralls, Tex.	1964
Ralph A. Porter	President, The State National Bank of Denison, Tex.	1965
Murray Kyger	Chairman of the Board, The First National Bank of Fort Worth, Tex.	1966

Class B:

Name	Position	Term expires Dec. 31
H. B. Zachry	President, H. B. Zachry Co., San Antonio, Tex.	1964
J. B. Perry, Jr.	President and General Manager, Perry Brothers, Inc., Lufkin, Tex.	1965
D. A. Hulcy	Chairman of the Board, Lone Star Gas Company, Dallas, Tex.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont. **District 11 — Dallas — Cont.**

Name	Position	Term expires Dec. 31
Class C:		
Carl J. Thomsen	Senior Vice President, Texas Instruments, Inc., Dallas, Tex.	1964
Robert O. Anderson	Owner, Lincoln County Livestock Company, Roswell, N. Mex.	1965
Max Levine	Chairman of the Board, Foley's, Houston, Tex.	1966

El Paso Branch

Name	Position	Term expires Dec. 31
Appointed by Federal Reserve Bank:		
Joseph F. Irvin	President, Southwest National Bank of El Paso, Tex.	1964
Chas. B. Perry	Chairman of the Board, First State Bank, Odessa, Tex.	1965
Dick Rogers	President, First National Bank in Alpine, Tex.	1966
Robert W. Heyer	Senior Vice Chairman and President, Southern Arizona Bank & Trust Co., Tucson, Ariz.	1966
Appointed by Board of Governors:		
Dysart E. Holcomb	Director of Research, El Paso Natural Gas Products Company, Odessa, Tex.	1964
Roger B. Corbett	President, New Mexico State University, University Park, N. Mex.	1965
C. Robert McNally, Jr.	Rancher, Roswell, N. Mex.	1966

Houston Branch

Name	Position	Term expires Dec. 31
Appointed by Federal Reserve Bank:		
J. W. McLean	President, Texas National Bank of Commerce of Houston, Tex.	1964
M. M. Galloway	President, First Capitol Bank, West Columbia, Tex.	1965
J. A. Elkins, Jr.	Chairman of the Board, First City National Bank of Houston, Tex.	1966
John E. Gray	President, First Security National Bank of Beaumont, Tex.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.

District 11 — Dallas — Cont.

Houston Branch—Cont.

		Term expires Dec. 31
Appointed by Board of Governors:		
Edgar H. Hudgins	Ranching—Partner in Hudgins Division of J. D. Hudgins, Hungerford, Tex.	1964
D. B. Campbell	Works Manager, Sabine River Works, E. I. du Pont de Nemours & Company, Orange, Tex.	1965
Lovett C. Peters	Vice President, Transportation and Supplies, Continental Oil Company, Houston, Tex.	1966

San Antonio Branch

Appointed by Federal Reserve Bank:		
Max A. Mandel	President, The Laredo National Bank, Laredo, Tex.	1964
Dwight D. Taylor	President, Pan American State Bank, Brownsville, Tex.	1965
Forrest M. Smith	President, National Bank of Commerce of San Antonio, Tex.	1966
J. R. Thornton	Chairman of the Board and President, State Bank and Trust Company, San Marcos, Tex.	1966
Appointed by Board of Governors:		
Harold D. Herndon	Independent Oil Operator, San Antonio, Tex.	1964
John R. Stockton	Professor of Business Statistics and Director of Bureau of Business Research, The University of Texas, Austin, Tex.	1965
G. C. Hagelstein	President and General Manager, Union Stock Yards San Antonio, Tex.	1966

District 12 — San Francisco

Class A:		
Charles F. Frankland	President, The Pacific National Bank of Seattle, Wash.	1964
M. Vilas Hubbard	Chairman of the Board and Chief Executive Officer, Citizens Commercial Trust and Savings Bank of Pasadena, Calif.	1965
Carroll F. Byrd	Chairman of the Board and President, The First National Bank of Willows, Calif.	1966

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont. **District 12 — San Francisco — Cont.**

		Term expires Dec. 31
Class B:		
Walter S. Johnson	Chairman of the Board, American Forest Products Corporation, San Francisco, Calif.	1964
Fred H. Merrill	President, Fireman's Fund American Insurance Companies, San Francisco, Calif.	1965
Joseph Rosenblatt	Honorary Chairman of the Board, The Eimco Corporation, Salt Lake City, Utah	1966
Class C:		
Frederic S. Hirschler	President, The Emporium Capwell Company, San Francisco, Calif.	1964
F. B. Whitman	President, The Western Pacific Railroad Company, San Francisco, Calif.	1965
John D. Fredericks	President, Pacific Clay Products, Los Angeles, Calif.	1966

Los Angeles Branch

Appointed by Federal Reserve Bank:		
Douglas Shively	President, Citizens State Bank of Santa Paula, Calif.	1964
Roy A. Britt	Vice Chairman of the Board and Chairman, Executive Committee, Crocker-Citizens National Bank, Los Angeles, Calif.	1964
Ralph V. Arnold	President and Chairman of the Board, First National Bank and Trust Company, Ontario, Calif.	1965
Appointed by Board of Governors:		
S. Alfred Halgren	Vice President and Director, Carnation Company, Los Angeles, Calif.	1964
Arthur G. Coons	President, Occidental College, Los Angeles, Calif.	1965

Portland Branch

Appointed by Federal Reserve Bank:		
D. S. Baker	President, The Baker-Boyer National Bank, Walla Walla, Wash.	1964
E. M. Flohr	President, The First National Bank of Wallace, Idaho	1964
E. J. Kolar	President, The United States National Bank of Portland, Oreg.	1965

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

DIRECTORS—Cont.	District 12—San Francisco—Cont.	*Term expires Dec. 31*
	Portland Branch—Cont.	
Appointed by Board of Governors:		
Raymond R. Reter	Reter Fruit Company, Medford, Oreg.	1964
Graham J. Barbey	President, Barbey Packing Corporation, Astoria, Oreg.	1965
	Salt Lake City Branch	
Appointed by Federal Reserve Bank:		
Alan B. Blood	Executive Vice President, Barnes Banking Company, Kaysville, Utah	1964
Reed E. Holt	President, Walker Bank & Trust Company, Salt Lake City, Utah	1964
V. R. Steffensen	President, First Security Bank of Idaho, N. A., Boise, Idaho	1965
Appointed by Board of Governors:		
Thomas B. Rowland	President and General Manager, Rowland's Inc., Pocatello, Idaho	1964
Howard W. Price	President, The Salt Lake Hardware Company, Salt Lake City, Utah	1965
	Seattle Branch	
Appointed by Federal Reserve Bank:		
Chas. H. Parks	Executive Vice President, Seattle-First National Bank, Spokane, Wash.	1964
M. F. Hastings	President, The First National Bank of Ferndale, Wash.	1964
Maxwell Carlson	President, The National Bank of Commerce of Seattle, Wash.	1965
Appointed by Board of Governors:		
Robert D. O'Brien	President, Pacific Car and Foundry Company, Seattle, Wash.	1964
William McGregor	Vice President, McGregor Land and Livestock Company, Hooper, Wash.	1965

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.
PRESIDENTS and VICE PRESIDENTS

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Boston	George H. Ellis E. O. Latham	D. Harry Angney Luther M. Hoyle, Jr. Charles E. Turner Parker B. Willis	Ansgar R. Berge Oscar A. Schlaikjer G. Gordon Watts
New York	Alfred Hayes William F. Treiber	Harold A. Bilby Charles A. Coombs Marcus A. Harris Walter H. Rozell, Jr. Robert W. Stone	John J. Clarke Howard D. Crosse Alan R. Holmes Horace L. Sanford Thomas O. Waage
Buffalo		Insley B. Smith	
Philadelphia	Karl R. Bopp Robert N. Hilkert	Hugh Barrie Norman G. Dash M. K. Goodwin Harry W. Roeder Richard G. Wilgus	Joseph R. Campbell David P. Eastburn David C. Melnicoff J. V. Vergari
Cleveland	W. Braddock Hickman Edward A. Fink	George E. Booth Elmer F. Fricek Harry W. Huning Maurice Mann Martin Morrison	Roger R. Clouse John J. Hoy Fred S. Kelly Clifford G. Miller
Cincinnati		Fred O. Kiel	
Pittsburgh		Clyde E. Harrell	
Richmond	Edward A. Wayne Aubrey N. Heflin	Robert P. Black W. S. Farmer John L. Nosker B. U. Ratchford	J. G. Dickerson, Jr. Upton S. Martin J. M. Nowlan R. E. Sanders, Jr.
Baltimore		D. F. Hagner	
Charlotte		E. F. MacDonald	

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

PRESIDENTS and VICE PRESIDENTS—Cont.

Federal Reserve Bank or branch	President / First Vice President	Vice Presidents	
Atlanta	Malcolm Bryan	J. E. McCorvey	L. B. Raisty
	Harold T. Patterson	Brown R. Rawlings	R. M. Stephenson
		Charles T. Taylor	
Birmingham		E. C. Rainey	
Jacksonville		T. A. Lanford	
Nashville		R. E. Moody, Jr.	
New Orleans		M. L. Shaw	
Chicago	C. J. Scanlon	E. T. Baughman	A. M. Gustavson
	Hugh J. Helmer	Paul C. Hodge	L. H. Jones
		C. T. Laibly	Richard A. Moffatt
		H. J. Newman	Leland M. Ross
		Harry S. Schultz	
Detroit		R. A. Swaney	
St. Louis	Harry A. Shuford	Marvin L. Bennett	Homer Jones
	Darryl R. Francis	Dale M. Lewis	Howard H. Weigel
		Joseph C. Wotawa	Orville O. Wyrick
Little Rock		Fred Burton	
Louisville		Donald L. Henry	
Memphis		E. Francis DeVos	
Minneapolis	Frederick L. Deming	Kyle K. Fossum	John J. Gillette
	M. H. Strothman, Jr.	C. W. Groth	M. B. Holmgren
		R. K. Grobel	Franklin L. Parsons
Helena		Clement A. Van Nice	
Kansas City	George H. Clay	Wilbur T. Billington	John T. Boysen
	Henry O. Koppang	Raymond J. Doll	J. R. Euans
		George D. Royer, Jr.	Clarence W. Tow
Denver		John W. Snider	
Oklahoma City		H. W. Pritz	
Omaha		George C. Rankin	

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FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1964—Cont.

PRESIDENTS and VICE PRESIDENTS—Cont.

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Dallas	Watrous H. Irons Philip E. Coldwell	Roy E. Bohne Ralph T. Green James A. Parker W. M. Pritchett	James L. Cauthen G. R. Murff T. W. Plant Thomas R. Sullivan
El Paso		Fredric W. Reed	
Houston		J. L. Cook	
San Antonio		Carl H. Moore	
San Francisco	Eliot J. Swan H. E. Hemmings	J. L. Barbonchielli E. H. Galvin A. B. Merritt	P. W. Cavan David L. Grove
Los Angeles		C. H. Watkins D. M. Davenport	
Portland		W. M. Brown	
Salt Lake City		A. L. Price	
Seattle		E. R. Barglebaugh	

CONFERENCE OF PRESIDENTS

The Presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors.

Mr. Hayes, President of the Federal Reserve Bank of New York, and Mr. Deming, President of the Federal Reserve Bank of Minneapolis, were elected Chairman of the Conference and Vice Chairman, respectively, in March 1964, and served in those capacities during 1964.

Mr. Thomas M. Timlen, Jr., of the Federal Reserve Bank of New York and Mr. John P. Olin of the Federal Reserve Bank of Minneapolis were appointed Secretary of the Conference and Assistant Secretary, respectively, in March 1964, and served during the remainder of the year.

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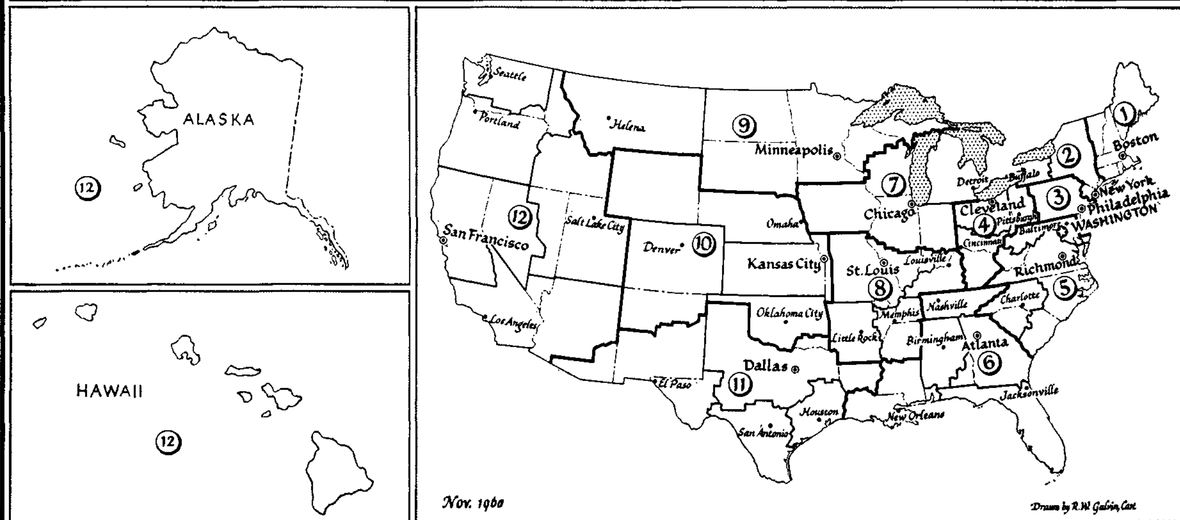

NOTE.—District and branch territories described in ANNUAL REPORT for 1953, p. 24; later changes in branch territories, in ANNUAL REPORT for 1954, p. 57, and in F.R. *Bulletin* for Jan. 1959, p. 17, Sept. 1959, p. 1141, and June 1964, p. 719.

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