FIFTY-FOURTH

Annual Report

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1967

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, May 22, 1968

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-Fourth Annual Report of the Board of Governors of the Federal Reserve System. This report covers operations for the year 1967.

Yours respectfully,

WM. McC. MARTIN, JR., *Chairman.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Contents

Part I—REVIEW OF 1967

PAGE

MONETARY POLICY, BANK RESERVES, AND INTEREST RATES 3
- Monetary ease and rapid expansion of bank credit: first quarter of 1967 7
- Monetary developments in the spring and summer 9
- Moves toward restraint: fourth quarter of 1967 11
- Operations in foreign currencies 14
- Foreign credit restraint program 17

DIGEST OF PRINCIPAL POLICY ACTIONS 22

DEMANDS, RESOURCE USE, AND PRICES 24
- Demands 24
  - Inventories 25
  - Final sales 27
- Labor market 31
- Wages and costs 33
- Prices 35

U.S. BALANCE OF PAYMENTS 37
- Transactions in goods and services 39
- Unilateral transfers 41
- Flows of U.S. capital 41
- Inflows of foreign capital 43
- Errors and omissions 45

FINANCIAL FLOWS IN 1967 46
- Borrowers and lenders 47
  - Federal Government 47
  - Nonfinancial businesses 50
  - State and local governments 53
  - Consumers 54
  - Rest of the world 56
- Financial intermediation 57
  - Commercial banks 58
  - Nonbank financial institutions 64

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Part II—RECORDS, OPERATIONS, AND ORGANIZATION

	PAGE
RECORD OF POLICY ACTIONS—BOARD OF GOVERNORS	72
RECORD OF POLICY ACTIONS—FEDERAL OPEN MARKET COMMITTEE	85
OPERATIONS OF THE SYSTEM OPEN MARKET ACCOUNT	207
Review of Open Market Operations in Domestic Securities	208
Review of Open Market Operations in Foreign Currencies	276
SPECIAL STUDIES BY THE FEDERAL RESERVE SYSTEM	309
Reappraisal of the Federal Reserve discount mechanism	309
U.S. Government securities market study	309
Foreign operations of member banks	309
Effects of monetary policy on economic activity	310
INTERNATIONAL LIQUIDITY	311
Rational control of reserve-asset supply	312
Universalist approach	313
Nature of the facility: absence of currency "backing"	313
Attractiveness of SDR's	314
Creation of SDR's	314
Use of SDR's	315
Activation	317
BANK SUPERVISION BY THE FEDERAL RESERVE SYSTEM	318
Examination of Federal Reserve Banks	318
Examination of member banks	318
Federal Reserve membership	320
Bank mergers	321
Bank holding companies	322
Foreign branches of member banks	323
Acceptance powers of member banks	325
Foreign banking and financing corporations	325
Bank Examination Schools and other training activities	326
LEGISLATION ENACTED	327
Real estate loans by national banks	327
Loans to executive officers	327
Antitrust exemptions for voluntary agreements or programs	327
Interest on deposits; reserves of member banks; open market operations	327
Acquisition of stock of small business investment companies	327

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

PAGE

LEGISLATION ENACTED—Cont.
- Lottery ticket sales by State member banks 328
- Salaries of members of Federal Reserve Board 328
- Tax status of bank holding company distributions 328

LEGISLATIVE RECOMMENDATIONS 329
- Lending authority of Federal Reserve Banks 329
- "Par clearance" 329
- Reserve requirements 330
- Margin requirements for securities transactions 331
- Purchase of obligations of foreign governments by Federal Reserve Banks 332
- Loans to bank examiners 332

LITIGATION 333
- *Investment Company Institute et al.* v. *Camp* 333
- *Baker Watts & Co. et al.* v. *Saxon* 335
- *Detroit Bank & Trust Co. et al.* v. *Saxon and Board of Governors of the Federal Reserve System* 335

RESERVE BANK OPERATIONS 336
- Earnings and expenses 336
- Holdings of loans and securities 337
- Volume of operations 338
- Fiscal agency function: Premature disclosure of information 338
- Loan guarantees for defense production 338
- Foreign and international accounts 339
- Bank premises 340

PUBLIC INFORMATION, ORGANIZATION, AND PROCEDURE 341
- Public information 341
- Delegation of authority 341
- Formal hearings 341
- Organization and procedure 342

BOARD OF GOVERNORS 343
- Building annex 343
- Income and expenses 343

TABLES:
1. Detailed Statement of Condition of All Federal Reserve Banks Combined, Dec. 31, 1967 348
2. Statement of Condition of Each Federal Reserve Bank, Dec. 31, 1967 and 1966 350
3. Federal Reserve Holdings of U.S. Government Securities, Dec. 31, 1965-67 354
4. Federal Reserve Bank Holdings of Special Short-Term Treasury Certificates Purchased Directly from the United States, 1953-67 355

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

PAGE

TABLES—Cont.

5. Open Market Transactions of the Federal Reserve System During 1967 — 356
6. Bank Premises of Federal Reserve Banks and Branches, Dec. 31, 1967 — 357
7. Earnings and Expenses of Federal Reserve Banks During 1967 — 358
8. Earnings and Expenses of Federal Reserve Banks, 1914-67 — 360
9. Number and Salaries of Officers and Employees of Federal Reserve Banks, Dec. 31, 1967 — 362
10. Volume of Operations in Principal Departments of Federal Reserve Banks, 1964-67 — 362
11. Maximum Interest Rates Payable on Time and Savings Deposits — 363
12. Margin Requirements—Effective Date of Change — 363
13. Federal Reserve Bank Discount Rates, Dec. 31, 1967 — 364
14. Member Bank Reserve Requirements — 364
15. Fees and Rates Under Regulation V on Loans Guaranteed Pursuant to Defense Production Act of 1950, Dec. 31, 1967 — 365
16. Member Bank Reserves, Federal Reserve Bank Credit, and Related Items, End of Year 1918-67 and End of Month 1967 — 366
17. Principal Assets and Liabilities, and Number of Commercial and Mutual Savings Banks, by Class of Bank, Dec. 30, 1967, and Dec. 31, 1966 — 368
18. Member Bank Income, Expenses, and Dividends, by Class of Bank, 1967 and 1966 — 369
19. Changes in Number of Banking Offices in the United States During 1967 — 370
20. Number of Par and Nonpar Banking Offices, Dec. 31, 1967 — 372
21. Description of Each Merger, Consolidation, Acquisition of Assets or Assumption of Liabilities Approved by the Board of Governors During 1967 — 374

MAP OF FEDERAL RESERVE SYSTEM—DISTRICTS — 395

FEDERAL RESERVE DIRECTORIES AND MEETINGS — 396
- Board of Governors of the Federal Reserve System — 396
- Federal Open Market Committee — 398
- Federal Advisory Council — 399
- Federal Reserve Banks and Branches — 400

INDEX — 422

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

PART I

Review of 1967

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MONETARY POLICY, BANK RESERVES, AND INTEREST RATES

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

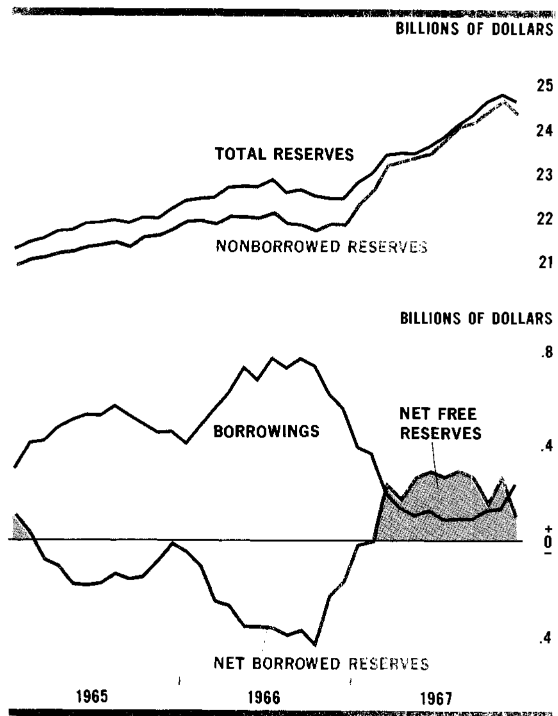
Monetary policy moved vigorously to ease domestic credit conditions further in the first few months of 1967 through complementary changes in open market policy, reserve requirements, and the discount rate. The measures taken contributed to a relatively rapid growth in bank reserves that extended through most of the year. As a result, banks were able to improve liquidity positions that had been eroded during the previous year's monetary restraint.

Pressures on nonbank financial intermediaries also eased considerably, until late in the year. For most of the year, the combination of reduced interest rates in short- and intermediate-term markets, the structure and level of ceiling rates permitted on time and savings accounts at banks and nonbank savings in-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

stitutions, and the increased propensity of individuals to save out of current income produced a sharp rise in inflows of savings to these institutions.

In large part because of the improved position of banks and other financial institutions, credit to businesses and consumers became more readily available than in 1966. Funds available to homebuilders increased sharply, encouraging a recovery in construction outlays. At the same time demands for credit began to

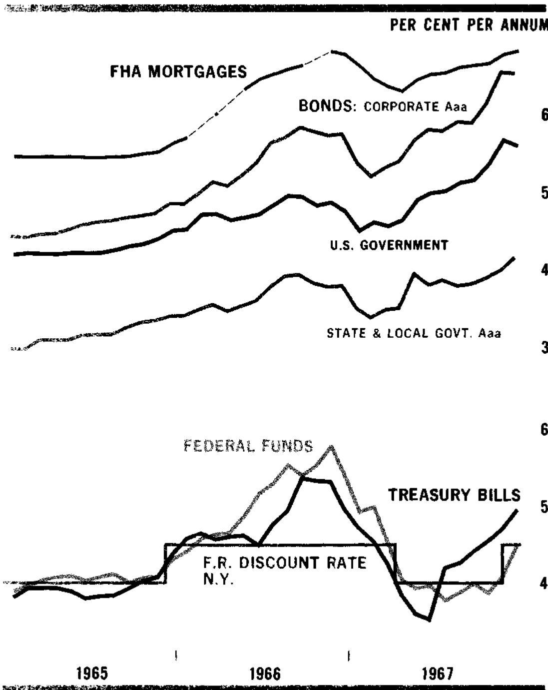


Total and nonborrowed reserves: seasonally adjusted monthly averages of daily figures for all member banks, adjusted to eliminate effects of changes in reserve requirement ratios. Series reflects current percentage requirements effective March 16, 1967. Borrowings and net borrowed and net free reserves: monthly averages of daily figures, not seasonally adjusted, for all member banks.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

build up. A drive by corporations to restore liquidity and to lengthen debt was reflected in increasing long-term market interest rates after midwinter. And short-term rates turned up in early summer despite rapid expansion in bank credit and the money supply, as large Federal demands for credit were added to the continued, very heavy demands of corporations during the second half of the year.

2 **Long- and short-term INTEREST RATES rise substantially in last half of '67**



Monthly averages of daily figures except for mortgages (based on quotations for 1 day each month). Yields: FHA-insured mortgages, weighted averages of private secondary market prices of certain new-house mortgages converted to annual yield; State and local Aaa—tax-equivalent, from Moody's Investors Service, adjusted to a tax-equivalent basis assuming a 36 per cent individual income tax rate; corporate Aaa new issues, calculated from bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to an Aaa basis; U.S. Govt. bonds, market yields adjusted to constant maturity (20 years) by U.S. Treasury; U.S. Treasury bills, market yields on 3-month issues.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

During 1967, measures of fiscal restraint, including a tax increase, were proposed by the administration. As the year progressed, the need for such restraint was enhanced as increases in Federal expenditures, recovery in construction, and resumption of accumulation in business inventories led to an acceleration of economic expansion in the third quarter, accompanied by more intense and widespread price and cost pressures. However, there was no legislative action to raise taxes during the year. Meanwhile, the enlargement of the U.S. balance of payments deficit and the devaluation of the pound sterling around mid-November underscored the need to restrain the advance in costs and prices in order to achieve international as well as domestic economic objectives.

Against this background of acceleration in domestic economic expansion and of continued strains on our balance of payments—and in light of the change in the international value of the pound—the Federal Reserve in mid-November raised the discount rate back to 4½ per cent from 4 per cent, to which it had been lowered in April. And open market operations were adjusted in the direction of restraint. In late December the Board of Governors of the Federal Reserve System also announced an increase of ½ percentage point, effective in mid-January 1968, in reserves that member banks are required to maintain against demand deposits in excess of $5 million. The action raised reserve requirements on such deposits to 17 per cent at reserve city banks and 12½ per cent at other member banks.

Interest rates in long-term markets showed little reaction to these moves. Partly because many borrowers had previously obtained funds in long-term markets so as to guard against potential credit restraint in the absence of a tax increase, most bond yields had already risen to levels well above their 1966 peaks. Interest rates on mortgages, however, did not reach the previous year's peak until the last month of 1967.

Shorter-term market rates of interest did rise somewhat further in the last few weeks of the year, and yields on time and

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

savings accounts of commercial banks and other financial intermediaries became less attractive to individuals and businesses, given the existing ceiling rates on such accounts. As a result, the net expansion of credit from financial institutions slowed.

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

In the course of 1967, total bank reserves rose by about 10 per cent, bank credit by 11 per cent, time and savings deposits at banks by 16 per cent, and the money supply by 6.5 per cent —all much more rapid rates of growth than in 1966. The rates of growth in these monetary variables slowed in the latter part of 1967, after banks and nonbank institutions—and to a degree the public generally—had rebuilt their liquidity.

MONETARY EASE AND RAPID EXPANSION OF BANK CREDIT: FIRST QUARTER OF 1967

In increasing the degree of monetary ease, Federal Reserve open market operations contributed to a quite rapid growth, 25 per cent at an annual rate, in nonborrowed reserves during the first quarter. This rate of growth, following a contraction during the last half of 1966, permitted member banks to reduce their borrowings at the Federal Reserve to near minimal levels, en-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

abled banks to begin restoring their liquidity positions, and supported a rapid expansion in bank credit, as it again became possible for banks to compete effectively for time and savings deposits. Reserves were also released to banks in March when the Board reduced reserve requirements against savings deposits and the first $5 million of other time deposits from 4 to 3 per cent.

Member bank borrowings at Federal Reserve Banks declined from an average of $557 million during December 1966 to a little less than $200 million in March 1967. Largely because of the decline, the net reserve position of banks—the difference between their excess reserves and their borrowings—moved from a net borrowed reserve average of $165 million in the last month of 1966 to a net free reserve average of around $235 million in March. With the supply of reserves to the banking system increased and with individual banks in more comfortable reserve positions, the Federal funds rate—the price at which banks with excess reserves lend reserves to other banks—declined sharply from around 5.50 per cent at the end of 1966 to about 4 per cent by early April.

As banks repaid borrowings from the Federal Reserve, the accompanying rise in banks' free reserves absorbed part of the increase in nonborrowed reserves, but the reserve expansion was still sufficient to support an annual rate of growth of more than 14 per cent in banks' total loans and investments during the first quarter. About two-thirds of the rise in outstanding bank credit was in holdings of U.S. Government securities, including Federal agency debt, and of State and local government issues, as banks rebuilt portfolios that had been reduced as a result of monetary restraint in the latter part of the previous year.

Banks obtained most of their funds for investment through a sharp expansion in time and savings deposits. These deposits grew at an annual rate of 19 per cent in the first quarter, about three times the pace of the last half of 1966. A marked decline in interest rates in the short-term market—typified by a drop in the 3-month Treasury bill rate over the first 3 months of the year

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

from around 4.80 per cent to near 4 per cent—enabled banks to compete effectively for time and savings deposits.

During the first quarter of 1967 banks restored their holdings of large negotiable time certificates of deposit (CD's), which had declined markedly during the late summer and fall of 1966 when short-term interest rates moved to and above the 5½ per cent ceiling rate on such deposits. Meanwhile, banks with branches operating abroad in the Euro-dollar market effected a net reduction in the funds they obtained abroad through their foreign branches. Such borrowings in the Euro-dollar market had risen sharply in the last half of 1966 when banks' ability to compete for time deposit funds domestically was constrained by high interest rates in the market relative to the Regulation Q ceiling.

Net inflows of funds to other savings institutions—savings and loan associations and mutual savings banks—were also at exceptionally high rates early in 1967 following depressed rates of growth in 1966. Since these institutions are key lenders in mortgage markets, there was a consequent decline in interest rates on mortgages.

The increased availability of funds at banks and other financial institutions helped to reduce pressures in long-term markets generally. In the early weeks of 1967 long-term markets were also influenced by expectations of a further easing in monetary policy. As a result yields on U.S. Government, corporate, and municipal bonds declined very sharply at that time, and banks reduced their prime rate on business loans. However, market yields rose somewhat after midwinter, amid indications that corporations were likely to generate strong demands for long-term credit in security markets as they sought to improve their financial positions by lengthening their debt structure and restoring their credit lines at banks.

MONETARY DEVELOPMENTS IN THE SPRING AND SUMMER

After the winter, money market conditions, as typified by yields on day-to-day money, showed little change until late in the year.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The discount rate was reduced from 4½ per cent to 4 per cent in early April, and Federal funds traded at rates around that level throughout the spring and summer. The 3-month Treasury bill rate, however, fluctuated rather widely. It declined further in the spring to an average of around 3.50 per cent in June. An unusually large Treasury cash surplus during the first half of the year led to a substantial, though temporary, reduction in outstanding Treasury bills in consequence of maturities of tax-anticipation bills in March, April, and June. Also, downward pressures on short-term rates were generated as the Federal home loan banks both purchased large amounts of bills and repaid their outstanding short-term debt with the proceeds of loan repayments from member savings and loan associations. After June, however, bill rates began to rise as the market focused on the unusually large Federal cash deficit in prospect for the second half of 1967. By the end of summer the 3-month Treasury bill rate had risen to around 4.50 per cent, while the Treasury was in process of raising a large amount of cash in short-term markets.

The large needs of the Federal Government for cash after midyear, in conjunction with uncertainties about whether the tax increases recommended by the administration would become effective, also led to further increases in longer-term interest rates. Borrowing by corporations in bond markets rose to a record volume, and demands of State and local governments remained very large, as many borrowers attempted to obtain funds to hedge against the possibility that credit markets would become very tight, especially if there were no action on taxes. By late August the yields on new high-grade corporate bonds and long-term U.S. Government bonds had risen to highs—of around 6 per cent and 5.15 per cent, respectively—that were just above their 1966 peaks.

The rise in interest rates was accompanied by a considerably less rapid growth in reserves of banks during the second and third quarters of the year as compared with the first quarter.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Nonborrowed reserves expanded at an annual rate of about 8 per cent. Borrowings from the Federal Reserve, which were already near minimal levels, declined slightly further to a daily average level of somewhat less than $100 million during the summer.

In providing reserves during the winter, the Federal Reserve had made security purchases for the System Open Market Account almost entirely in the Treasury bill area. But during the spring and summer—with pressures in bond markets increasing—the System bought a moderate amount of Treasury coupon issues with more than 1 year to maturity. However, it accomplished the bulk of its net-reserve-supplying operations through transactions in Treasury bills.

Growth in outstanding bank credit generally moderated during the six spring and summer months. But growth was quite rapid in July and August, when banks bought sizable amounts of U.S. Government securities in a period of large cash financings by the Treasury.

Banks continued to acquire time and savings deposits at a substantial rate over the 6-month period—though the pace was somewhat slower than it had been early in the year, when banks had been rebuilding such deposits after the losses suffered the year before. Private demand deposits and the money supply continued to rise strongly during the spring and summer as businesses and consumers made further efforts to restore their liquidity positions, given the drains on liquidity in the previous year and the uncertainties about the nature and extent of any future monetary restraint.

MOVES TOWARD RESTRAINT: FOURTH QUARTER OF 1967

Monetary policy became less expansive in the fourth quarter of the year in view of developments in the domestic economy and of developments affecting the international position of the dollar. In the light of the action of the British Government to reduce the parity of the pound sterling and of other measures of monetary

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and fiscal restraint in Britain, the Federal Reserve discount rate was raised from 4 to 4½ per cent in the second half of November so as to contribute to the availability of reserves to the banking system on terms and conditions that would foster sustainable economic growth domestically and a sound international position for the dollar. Open market operations became less expansive, and an increase of ½ percentage point in the reserve requirement against demand deposits in excess of $5 million was announced in late December. These moves in the direction of monetary restraint were taken in an effort to resist the domestic inflationary pressures that developed as economic activity was expanding vigorously following the pause in growth during the first half of the year.

As a result of these changes in monetary policy, member banks came under pressure to increase their borrowings from the Federal Reserve and to reduce free reserves, and short-term interest rates rose further in the last few weeks of the year. The Federal funds rate rose above the new discount rate, and the 3-month bill rate rose to about 5 per cent.

The general rise in short- and intermediate-term market rates of interest since summer had made it more and more difficult for banks and other savings institutions to attract consumer and corporate funds, in the light of the existing ceilings on rates that could be offered by such institutions. During the fourth quarter net inflows of time and savings deposits to banks declined to an annual rate of 11 per cent from 15 per cent in the third quarter. The slowdown was particularly marked in December when there was a moderate net decline, in part seasonal, of outstanding negotiable CD's and when growth in consumer-type time and savings deposits slowed further.

Not only did banks have less scope for expanding time and savings deposits in late 1967, but also the cost of the funds they obtained through branches in the Euro-dollar market rose further as a result of the increase in the British discount rate and of un-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

certainties in connection with the devaluation of sterling in mid-November. Banks' liabilities to their overseas branches, which had shown a steady rise since late spring, reached a peak of $4.9 billion in mid-November. After that these liabilities declined, although again partly for seasonal reasons.

With funds from time deposits and Euro-dollar borrowings less readily available and more costly, and with growth in reserves constrained, bank credit in the last quarter of the year expanded at a reduced annual rate, about 6 per cent, and the money supply showed relatively little growth after early November. Banks also raised their prime loan rate back to the 6 per cent level, which had prevailed from August 1966 to January 1967.

There was little reaction in long-term markets to the policy moves. In part, this was because some increase in monetary restraint had been expected and to some extent discounted in the market. As it began to appear less and less likely that a tax increase would be enacted, and with the volume of bond offerings showing no let-up until the last few weeks of the year, long-term interest rates had already risen sharply further by around mid-November. Yields on U.S. Government bonds (with 20-year maturity) rose to a peak of about 5.80 per cent toward mid-November and subsequently declined about 25 basis points by year-end. Yields on new high-grade corporate bonds showed little change from the 6.50 per cent level reached by mid-November. And average yields on State and local government securities, which banks had bought in large volume during the year, reached a peak of around 4.45 per cent in early December, about 20 basis points above their 1966 high.

Meanwhile mortgage yields continued to advance as the year drew to a close—representing in part the usual belated reaction to earlier advances in yields on market instruments. In addition, the slower net inflow of savings to thrift institutions that specialize in mortgages led to some reduced willingness on the part of these institutions to undertake mortgage commitments.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

OPERATIONS IN FOREIGN CURRENCIES

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

Early in 1967 international economic tensions appeared to be subsiding, although the underlying payments deficits of the United States and the United Kingdom and the surpluses of continental European countries, notably Germany and Italy, persisted. By the end of February the Federal Reserve had repaid the $280 million equivalent of its drawings of foreign currencies under reciprocal currency arrangements that had been outstanding at the end of 1966. The pound sterling was relatively strong early in 1967 as a result of some underlying improvement in the U.K. balance of payments, some revival of confidence, and an easing of monetary conditions elsewhere that facilitated a reflow of short-term capital into sterling. By the end of April the Bank of England had repaid all the short-term credits that it had obtained in 1966 from foreign central banks, including the Federal Reserve, and from the U.S. Treasury.

During the spring, however, foreign exchange markets again began to reflect concern about the disappointing trend of British trade figures. A deepening of the business recession in Germany and some slackening of economic activity in other European countries contributed to this trend and reinforced the payments surpluses of continental European countries.

The eruption of the crisis in the Middle East late in May and

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

The Bank for International Settlements (BIS) acted in early June to relieve pressures in the Euro-dollar market by placing in that market the funds drawn under its reciprocal currency arrangement with the Federal Reserve and the funds received from other central banks. The Gold Pool continued to operate to keep the price in the London market from rising above $35.20. In June and throughout the summer the Bank of England drew heavily on its credit facilities with the Federal Reserve and the U.S. Treasury and with other central banks and the BIS. Meanwhile, the Federal Reserve made extensive use of its swap lines to provide cover for the large amounts of dollars accruing to the Swiss National Bank and for the smaller gains of Belgium and the Netherlands. Beginning in September, it drew also on its facilities with Italy as that country's reserves increased much more than seasonally. German reserve gains remained small during this period, despite Germany's continuing large surplus on current and long-term capital transactions because monetary conditions in that country were easy and it was profitable for German commercial banks to add to their foreign assets.

Pressures on sterling mounted irregularly in October and early November as the figures for foreign trade and reserves continued to be disappointing—partly because of port strikes—and there were recurrent heavy flows of funds into continental currencies. On November 18 the British Government announced the devaluation of the pound by 14.3 per cent to $2.40.

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

fortify the new rate and achieve the needed internal and external economic adjustments.

Despite these and other evidences of international solidarity in support of the new parity for sterling and of existing parities for the currencies of other leading countries, widespread uncertainty prevailed in markets for a time—as might have been expected—about both the exchange rate structure in general and the price of gold in particular. Buying of gold in the London market rose to record levels, and additional funds were shifted into some continental European currencies. Accumulating evidence that the U.S. payments deficit had been worsening added to market uncertainties, despite official assurances that the dollar price of gold would not be changed.

A number of cooperative actions were taken jointly by the monetary authorities to calm the markets: The active members of the Gold Pool reaffirmed their policy of stabilizing the London market and sold very large amounts of gold there. The Federal Reserve made further drawings on its swap lines to provide cover for some of the dollar gains of European central banks. The BIS made use of its swap facilities with the Federal Reserve to obtain dollars and place them in the Euro-dollar market, where rates had soared. At the same time, the German Federal Bank provided swaps to its commercial banks on favorable terms—selling dollars spot and buying them forward—to encourage the banks to keep funds invested in the Euro-dollar market. And the central banks of Belgium, the Netherlands, and Switzerland bought dollars forward for the account of the U.S. Treasury and the Federal Reserve.

By the year-end the markets had become calmer. In November the Bank of England repaid $300 million of the $1,350 million drawn earlier under its reciprocal currency arrangement with the Federal Reserve. But there was little opportunity for the Federal Reserve to begin repaying its large drawings under reciprocal currency arrangements. At the year-end outstanding Federal Reserve drawings totaled $1,776 million. And it was widely

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

recognized that the next step must be the announcement of an effective program to halt and reverse the deterioration in the U.S. balance of payments.

The Federal Reserve's reciprocal currency arrangements with foreign central banks and the BIS were considerably enlarged during 1967. New facilities were established with the central banks of Denmark, Norway, and Mexico, and existing facilities with other central banks and the BIS were expanded. These actions brought the total swap network to $7,080 million at the end of 1967.

In addition, during 1967 the Federal Reserve continued to participate actively in international negotiations concerning a plan for the creation within the IMF of Special Drawing Rights (SDR's). The plan was adopted in outline form at the annual meeting of the IMF in September. (See pages 311-17.)

A detailed review of Federal Reserve operations in foreign currencies during 1967 is given beginning on page 276.

FOREIGN CREDIT RESTRAINT PROGRAM

During 1967 the Board continued to administer that portion of the President's balance of payments program that applied to banks and other financial institutions in accordance with guidelines issued in December 1966 and described in the ANNUAL REPORT for 1966.

Bank credit to foreigners moved seasonally during the year, with an inflow during the first quarter of 1967 partially offsetting an outflow in the fourth quarter of 1966. At the end of October 1967, the final reporting date before the announcement of a program for 1968, banks had increased their holdings of those foreign assets covered by the program by $115 million over the amount held on December 31, 1966. During the remaining 2 months of the year such holdings increased by an additional $254 million, bringing the total increase for the year to $369 million. On December 31, 1967, the banking system was $544 million

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

TABLE 1

FOREIGN CREDITS OF UNITED STATES BANKS

Item	1965 Dec. 31	1966 Dec. 31	1967			
			Mar. 31	June 30	Sept. 30	Dec. 31
Number of reporting banks...	161	148	149	148	148	151
	Millions of dollars					
Total foreign credits subject to ceiling................	9,652	9,496	9,278	9,475	9,618	9,865
Target ceiling to end of 1967	....	10,360	10,408	10,401	10,402	10,409
Net expansion of credit since December, 1964..........	+156	−3	−222	−18	+125	+370
Net leeway for further expansion of credit within target ceiling for 1967..........	....	864	1,130	926	784	544

NOTE.—Beginning with Dec. 31, 1966, data exclude banks with foreign credits of less than $500,000 on reporting date.

below the target ceiling established for that date by the guidelines issued in December 1966 (Table 1).

"Covered" foreign assets of nonbank financial institutions increased only $10 million during the first 9 months of 1967. Long-term credits to developed countries other than Canada and Japan increased, largely because of long-standing commitments to borrowers in these countries, but most of the increase was offset by reductions in liquid investments, short- and intermediate-term credits, and holdings of covered equities. Nevertheless, reporting institutions as a group were $58 million over their target ceiling as of September 30, 1967.

On November 16, 1967, revised guidelines for banks and nonbank financial institutions were announced by the Board of Governors for the period through 1968. The bank program retained the 1967 ceiling of 109 per cent of the end-of-1964 base for banks accounting for about 95 per cent of that ceiling. To give more equitable treatment to banks whose 1964 bases were relatively small, the guidelines provided that any reporting bank whose foreign assets were less than 2 per cent of its total assets as of December 31, 1966, might take the latter figure as its ceiling for 1968. This provision added about $650 million to the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

TABLE 2

FOREIGN ASSETS OF REPORTING NONBANK FINANCIAL INSTITUTIONS

(Amounts shown in millions of dollars)

Type of asset	Amount, Sept. 30, 1967	Change from Dec. 31, 1966	
		Amount	Per cent
SUBJECT TO GUIDELINE			
Deposits and money market instruments, all foreign countries	161	−34	−17.3
Short- and intermediate-term credits, all foreign countries [1]	424	−55	−11.5
Long-term investments, "other" developed countries: [2]			
Investment in foreign branches and subsidiaries	87	(3)	−0.5
Long-term bonds and credits	692	117	20.4
Stocks (except those acquired after Sept. 30, 1965, in U.S. markets from U.S. investors)	583	−18	−3.0
TOTAL holdings subject to guideline	1,947	10	0.5
Adjusted base-date holdings [4]	1,798	−103	−5.4
Target ceiling [5]	1,888	−108	−5.4
Leeway under ceiling (target less TOTAL above)	−58	−118	(6)
NOT SUBJECT TO GUIDELINE			
Bonds of international institutions, all maturities	1,060	34	3.3
Long-term investments in Canada, Japan, and the developing countries:			
Investment in foreign branches and subsidiaries	556	(3)	(7)
Long-term bonds and credits:			
Canada and Japan	7,843	278	3.7
Developing countries	502	36	7.7
Stocks:			
Canada and Japan	1,478	181	14.0
Developing countries	179	55	44.2
Stocks, "other" developed countries (if acquired after Sept. 30, 1965 in U.S. markets, from U.S. investors)	245	125	103.9
TOTAL holdings not subject to guideline	11,862	708	6.3

1 Bonds and credits with final maturities of 10 years or less at date of acquisition.
2 Developed countries other than Canada and Japan.
3 Less than $500,000.
4 Base-date holdings of assets subject to guideline, less equities included therein but sold to American investors during the quarter.
5 Adjusted base-date holdings multiplied by 105 per cent.
6 Not computed.
7 Less than one-half of 1 per cent.

aggregate ceiling for the banking system and affected about one-half of the 150 banks reporting under the program. The leeway available under the new program approximated $1.4 billion, but the banks again were asked to limit any expansion in holdings of foreign assets during the fourth quarter of 1967 and throughout 1968 to 20 per cent per quarter, cumulative, of the difference between the new ceiling and the amount of foreign assets held on October 31, 1967.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The new guidelines for nonbank financial institutions were substantially the same as those used during 1966, but there was a major change in the reporting requirement: only institutions holding $500,000 in covered foreign assets or $5 million in total foreign assets were asked to report. It was estimated that this provision would reduce the number of reporters from about 580 to 350 institutions.

In view of disturbed conditions in gold and foreign exchange markets after the British devaluation of sterling in November, and in view also of increasing evidence of further deterioration in the U.S. balance of payments, the President on January 1, 1968, announced a more restrictive program designed to improve the balance of payments, including mandatory controls on direct foreign investment. As part of the President's program, the Board on January 1 announced further revisions of the guidelines for banks and nonbank financial institutions, under its voluntary foreign credit restraint program, making them substantially more restrictive.

The major objective of the revised program was to produce a net capital inflow to banks and other financial institutions of at least $500 million during 1968. The program was designed to have a minimum effect on export credits or credits to meet the capital needs of developing countries; its major impact was focused on nonexport credits to developed countries of continental Western Europe.

Under the revised guidelines effective January 1, 1968, the ceilings of those banks that had remained at 109 per cent of the end-of-1964 base under the guidelines issued on November 16, 1967, were reduced to 103 per cent of that base. Banks whose ceilings had been set at 2 per cent of total assets as of December 31, 1966, were requested to reduce that ceiling to an amount equal to their 1967 ceiling plus one-third of the difference between that ceiling and 2 per cent of total assets. Banks were requested further to reduce their ceilings monthly by the amount of scheduled repayments of term loans outstanding on

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

December 31, 1967, to developed countries of continental Western Europe, and further, during the course of the year, by 40 per cent of the amount of short-term credits to those countries outstanding on December 31, 1967. On the basis of foreign assets held by banks on December 31, 1967, this reduction in the ceilings reduced the immediate aggregate leeway available in 1968 to $225 million. Further reductions in the ceilings during the year were expected to bring about an actual and substantial reflow.

The banks also were requested not to make any new loans with maturities in excess of 1 year during 1968 to developed countries of continental Western Europe and not to renew loans then outstanding to those countries. The only exceptions to this general prohibition were for bona fide export credits or for legally binding commitments.

The guidelines for nonbank financial institutions requested these institutions to reduce their holdings of liquid funds abroad during 1968 to zero or to the minimum absolutely necessary for working balances. The nonbank financial institutions also were requested during 1968 to reduce their holdings of covered assets by at least 5 per cent from the amount outstanding on December 31, 1967, and to make no new loans to the developed countries of continental Western Europe except to finance bona fide export credits, or to meet legally binding commitments. The liberalized reporting requirement was retained in the revised guidelines.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS IN 1967

Period or announcement date	*Action*	*Purpose*
January through April	Directed that System open market operations be conducted with a view to attaining easier conditions in the money market, with provision for modification of operations depending on the course of bank credit growth.	To foster money and credit conditions, including bank credit growth, conducive to combatting the effects of weakening tendencies in the economy, while recognizing the need for progress toward reasonable equilibrium in the country's balance of payments.
February 28	Reduced from 4 to 3 per cent reserve requirements on savings deposits, Christmas and vacation club accounts, and the first $5 million of other time deposits at each member bank, in two steps: from 4 to 3½ per cent, effective March 2; and from 3½ to 3 per cent, effective March 16.	To assist in meeting developing credit needs throughout the country in a manner consistent with the Federal Reserve's policy objective of assuring adequate credit availability to provide for orderly economic growth.
April 6	Reduced discount rates at 10 Reserve Banks from 4½ to 4 per cent, effective April 7. (Reductions at the two remaining Reserve Banks were effective April 10 and April 14.)	To bring the discount rate into better alignment with market interest rates and to assure adequate credit availability to provide for orderly economic growth.
May through late November	Directed that System open market operations be conducted with a view to maintaining prevailing conditions in the money market, with provision for modification of operations if bank credit expanded significantly more than expected.	To foster financial conditions, including bank credit growth, conducive to continuing economic expansion, while recognizing the need for reasonable price stability for both domestic and balance of payments purposes.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

November 19	Increased discount rates at 10 Reserve Banks from 4 to 4½ per cent, effective November 20. (Increases at the two remaining Reserve Banks were effective November 21 and November 27.)	To assure the continuing orderly functioning of U.S. financial markets following the devaluation of the British pound, and to maintain the availability of reserves to the banking system on terms and conditions that would foster sustainable economic growth at home and a sound international position for the dollar.
Late November through December	Directed that System open market operations be conducted with a view first to facilitating orderly market adjustments to the increase in the discount rate; and then to attaining slightly firmer conditions in the money market, with provision for modification of operations depending on the course of bank credit growth.	To foster financial conditions conducive to resistance of inflationary pressures and progress toward reasonable equilibrium in the country's balance of payments.
December 27	Increased reserve requirements against demand deposits in excess of $5 million per bank from 16½ to 17 per cent for reserve city banks, effective January 11, 1968; and from 12 to 12½ per cent for other member banks, effective January 18, 1968.	To further the Federal Reserve's objectives of fostering financial conditions conducive to resistance of inflationary pressures and progress toward equilibrium in the U.S. balance of payments.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

DEMANDS, RESOURCE USE, AND PRICES

1967 marked the seventh consecutive year of expansion in output, employment, and incomes from the cyclical low in February 1961—the longest sustained run-up in U.S. history. But for the year as a whole the gain in real output was small and significantly less than the growth in potential. As a result, use of resources was less intense than in 1966, particularly for manufacturing capacity, and the rate of gain in productivity flagged markedly. Nevertheless, strong inflationary pressures appeared again after midyear as resumption of more rapid growth in the economy encouraged manufacturers and distributors to recoup increases in their unit labor and other costs.

The U.S. export surplus on transactions in goods and services with other countries was slightly smaller than in 1966. After a rise in the first quarter, merchandise exports were virtually stable through the summer and then fell off a little in the autumn. Imports, which had surged during 1966 in response to strong domestic demands, were at unusually high levels relative to our gross national product during 1967. Late in the year imports increased sharply.

At the outset of 1967 the economy was confronted with a sizable overhang of inventories, in part because private final demands had weakened in major areas in late 1966. These developments had induced expectations in some quarters of a recession in early 1967. But a recession did not occur. Real GNP showed no growth in the first quarter; then it resumed its advance, and in both the third and the fourth quarters it expanded at an annual rate of about 4.5 per cent. At the year-end, expansion in the economy was vigorous, the labor market was tightening, and prices were rising sharply at the industrial and consumer levels in response to both cost-push and demand-pull forces.

DEMANDS

GNP in 1967 totaled $785 billion, an increase of $42 billion, or about 5.5 per cent, from 1966. Prices as measured by the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

GNP deflator rose by 3.0 per cent, however—the largest advance in a decade—and GNP in constant dollars increased by only 2.5 per cent. This represented much the smallest advance since 1961.

Over-all developments in the first half of the year were dominated by a record reduction in inventory investment on the one hand and by substantial increases in total final sales on the other. The net result was almost no change in real GNP in the first quarter, as already noted, and then a modest rise in the spring. In the second half, real GNP advanced at a faster pace, and in the fourth quarter inventory investment accounted for a sizable portion of the growth in GNP. Final sales, however, increased less rapidly in the second half than they had earlier—and markedly less after allowance for price increases.

In the first half of the year the drastic reduction in inventory investment and relatively small declines in some other demand areas resulted in a decline of about 2.5 per cent in industrial production from its record level in December 1966. From June to December, however, it advanced by almost 4 per cent, with intervening declines in September and October caused by strikes. After major strikes had been settled, expansion was both rapid and widespread, and in December industrial production reached a new high, 1.5 per cent above a year earlier. For 1967 as a whole the Board's index averaged 158 per cent of the 1957–59 average. This too was an increase of only 1 per cent from the 1966 average and was in sharp contrast to the increase of 9 per cent in 1966.

Inventories. At the beginning of 1967, the over-all ratio of nonfarm business inventories to sales was at the highest level since the first half of 1961. But the situation was far from uniform among major industry groups. In manufacturing, stock/sales ratios were low in nondurable goods lines but high for durable goods, largely because of the build-up of work-in-process stocks associated with the preceding extended boom in business outlays for plant and equipment and with the rapid expansion

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

of defense output. Distributors' inventories too were low in nondurable goods lines and high in the durable goods.

Stocks of durable goods manufacturers rose persistently in 1967 but at a much slower pace than they had in 1966. Meanwhile, stocks of durable goods at distributors—particularly retailers—declined substantially in the first half of 1967. Weakness in sales of automobiles, television sets, and appliances in late 1966 had led to curtailments in output of these goods that were extended in the opening months of 1967, and stocks of these goods were drawn down. Stocks of nondurable goods continued to rise in early 1967 and then leveled off in the spring and summer; near the end of the year they rose again.

The result of these diverse situations was a very rapid reduction in the rate of nonfarm inventory accumulation in the first half of 1967—from an annual rate of $19 billion in the fourth quarter of 1966 to little change in over-all stocks in the second quarter. But in only one month—June—did total business inventory holdings, in terms of book value, decline absolutely. At midyear, the over-all stock/sales ratio was about the same as 6 months earlier.

In the second half of the year nonfarm inventory investment increased again despite the disruptive effects of strikes in the automobile and some other industries; and in the fourth quarter accumulation reached an annual rate of over $7.5 billion. The rate of accumulation was stepped up substantially for both durable and nondurable goods but, as usual, the more pronounced movements were in the durable sector. At distributors of durable goods, there was a shift from the sizable net liquidation of the second quarter to appreciable accumulation in the fourth quarter. Dealer stocks of autos rose in the last 2 months of 1967, but at the year-end they were still well below the excessive year-earlier level. Holdings of other consumer durable goods also rose late in the year. Inventory accumulation in industries manufacturing business and defense equipment was maintained at a high level through the last half of the year, despite earlier declines

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

in output of producers' durable goods and a slowing of the rate of expansion in defense production. Steel stocks were beginning to be built up late in the year as a hedge against a possible strike in the summer of 1968.

At the end of 1967, the stock/sales ratio for total nonfarm business was down slightly from the high rate of a year earlier—owing mainly to pronounced declines in the ratios for non-durable goods at both the manufacturing and retail levels, to new lows for the expansion period. For durable goods the ratio was little changed from a year earlier and well above the 1965 level, before the sharp defense build-up began.

Farm stocks increased slightly for the year, following a small decline in 1966.

Final sales. Final sales increased rapidly in the first half of 1967 and by progressively smaller amounts in the third and fourth quarters. Early in the year, when the downdrag from weakening inventory demands was heaviest, expansion in Government purchases was also at its maximum rate—accounting for more than one-half of the first-quarter rise in final sales. Thereafter, Government purchases expanded much more slowly.

Expenditures for defense bulged in the first quarter, but thereafter grew at the slowest rate since late 1965, even though the fourth quarter included a sizable increase in pay for the military as well as for Federal civilian defense workers and other employees. For the calendar year defense purchases totaled $72.5 billion, up $12 billion from 1966. Altogether, Federal expenditures on the national-income-accounts (NIA) basis—including both defense and other purchases, transfer payments, grants to State and local governments, and so forth—totaled $164 billion for the calendar year 1967, an increase of $21 billion from 1966.

A sharp rise in the Federal deficit (NIA basis) in the first half of the year reflected both the rise in expenditures and a failure of receipts to advance beyond the level reached in late 1966. Underlying the leveling off in receipts was the slowdown in economic activity, which resulted in a decline in corporate

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

profits and hence in corporate tax accruals. Another influence was the unusually high level of tax refunds resulting from the establishment of a graduated schedule for withholding taxes on individual incomes effective in May 1966. The Federal deficit continued large in the second half of the year, even though receipts rose appreciably.

Needs for all sorts of State and local government services have been mounting persistently, and purchases by this sector rose by $9 billion in 1967 compared with the previous record increase of $7.5 billion in 1966. In 1967, as in earlier years, much of the increase was for wages and salaries and reflected both increases in the number of teachers and other employees and higher rates of pay.

In the private sector total final purchases increased throughout the year, but at an uneven pace. A small decline in business expenditures on fixed capital had a dampening effect on expansion in over-all output during the first half of 1967, and the subsequent increase in these outlays was moderate. For the year as a whole the increase in such spending amounted to less than 3 per cent in current dollars; after adjustment for higher prices, there was virtually no increase in real investment. The only major industry grouping that showed a significant rise in spending for the year 1967 was public utilities. Spending by other major sectors of the economy, including manufacturing, was either little changed or down.

The modest rise in business spending for fixed capital in 1967 coincided with a marked slowing in the economy's growth rate and followed sharp increases in such outlays during the 1964–66 period, when the average yearly rise amounted to about 14 per cent. Additions to capacity were substantial during this period and, indeed, continued in 1967. Manufacturing capacity was estimated to have increased more than 6 per cent in 1967, compared with a rise of close to 7 per cent in 1966. But the rate of capacity utilization in manufacturing, which had averaged over 90 per cent in 1966, declined considerably during the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

first three quarters of 1967 before edging up late in the year, and for 1967 it averaged only 85 per cent.

Another factor adversely affecting businesses' decisions to invest in fixed capital was the sharp decline in corporate profits in the first quarter, when real GNP was unchanged and output of goods declined. Profits rose sharply in the fourth quarter to a new high, and for 1967 as a whole, corporate profits after taxes totaled $47.5 billion, down $1.5 billion, or 3.5 per cent, from 1966. With dividends rising further, undistributed profits were off even more than after-tax profits, and total internal funds—undistributed profits and depreciation allowances—declined for the first time since 1960. The investment tax credit and provisions for accelerated depreciation, which had been suspended in the early autumn of 1966, were reinstated in the spring.

In 1966 a steady decline in residential construction activity had been the major offset to expansion in other sectors. In 1967, in contrast, expansion in such activity operated to offset declines in some other areas. Residential construction advanced throughout the year as housing starts moved upward from the postwar low in October of 1966. The major factor in the recovery was the increased availability of mortgage funds. Also, with housing completions at reduced levels through most of 1967 and with rental and homeowner vacancy rates declining further through the year, demands for available units were maintained even though interest rates in the mortgage market turned upward again after May.

Housing starts in the fourth quarter of 1967 were at an annual rate of 1.44 million units, the highest quarterly rate in 2 years. For the year as a whole, starts totaled about 1.3 million units—compared with less than 1.2 million in 1966 and 1.6 million in 1963. Recovery in 1967 was fairly uniform by region; it was sharper for multifamily than for single-family units. Although there were more housing starts in 1967 than in 1966 and construction costs rose further, expenditures for homebuilding were about the same in both years, and the lowest since 1961.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

While consumer spending on goods and services rose substantially in 1967, it did not keep pace with after-tax incomes. As a result, the saving rate increased to 7 per cent of after-tax income; this compared with 6 per cent or less in each of the preceding 3 years and was the highest in over a decade. This pattern of consumer behavior has been ascribed to a number of possible causes, including the build-up of stocks of consumer durable and semidurable goods in the immediately preceding years, concern over developments in Vietnam and civil disorders in many cities during the summer, resistance to steadily rising consumer prices, less confidence in prospects for increases in family incomes, and recurring expectations of a surcharge on Federal personal income taxes.

For 1967 as a whole, consumers increased their spending by about 5.5 per cent, compared with 7.5 per cent in 1966. But the rise in the physical volume of purchases was less than 3 per cent. This was only half the average increase of the preceding 3 years and was the smallest advance since 1961.

Outlays for services maintained their uninterrupted advance. The increase in current dollars was about 7.5 per cent, a little more than in 1966, but in constant dollars it was less than 4 per cent.

Purchases of nondurable goods increased at a fairly brisk pace in the first half of the year and then much more slowly. For the whole year such spending was up less than 5 per cent in current dollars and less than half of that in constant dollars. For durable goods the increase for the year was 2.5 per cent in current dollars and only 1 per cent in constant dollars. For both durable and nondurable goods the increases were far less than in 1966.

One reason for the sluggishness of consumer outlays on durable goods late in 1967 was the limited availability of new automobiles because of work stoppages in the industry. But even after allowing for this, automobile sales in 1967 were less than had been widely expected. For the year as a whole new-car sales

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

totaled 8.3 million units. This number included imports, which increased sharply—in contrast to the decline for domestic cars—and accounted for an increased proportion of all sales. In 1966, 9 million autos had been sold, and in 1965 a record 9.3 million units. Sales of furniture and appliances edged up during 1967, with the modest nature of the rise attributable in part to the reduced rate of housing completions and turnover during much of the year.

Because of the slower pace of economic expansion, growth in total personal income was less in 1967 than in 1966—7 per cent compared with 8.5 per cent. For wages and salaries alone, the 1967 increase was 7.5 per cent compared with 10 per cent in 1966. Farm proprietors' incomes were down for the year, mainly because of sizable reductions in prices of farm products. Transfer payments increased twice as much as the previous record gain in 1966, but increases from late 1966 to late 1967 were far more moderate; much of the big step-up in the scale of such payments had occurred in the second half of 1966 when the medicare program was gaining momentum.

Personal income after taxes increased by 7 per cent in 1967, compared with close to 8 per cent in 1966. Consumer prices went up by about the same amount in both years, and in constant dollars the increase in income amounted to about 4.5 per cent in 1967 compared with 5 per cent in 1966.

LABOR MARKET

Demands for labor were much less expansive during most of 1967 than in 1966, primarily because of developments in the manufacturing sector. In the first half, gains in employment were curtailed by the softening in output of goods, and the manufacturing workweek was appreciably below the high level of 1966. During the summer and early autumn, strikes in the automobile industry and others curtailed growth in nonfarm employment. Late in the year, however, such employment increased sharply; the ending of major strikes was a contributing influence, but

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

gains were large and widespread. In addition, the workweek in manufacturing recovered much of its earlier loss. Altogether, nonfarm employment increased by 1.9 million persons in the year ending December 1967, compared with the extraordinary rise of 2.9 million during the preceding year. On balance, all of the increase in 1967 occurred in nonmanufacturing activities.

The unemployment rate showed little sensitivity to the slowed expansion of job opportunities through the summer. During the first quarter a decline in the civilian labor force helped to keep the rate from rising above the level of late 1966. Later, the rate edged up to a high for the year of 4.3 per cent in October, dropped rapidly after that, and in December was down to 3.7 per cent, the same as a year earlier. The average unemployment rate for the year—3.8 per cent—also was the same as in 1966.

In the first half of 1967 manufacturing employment declined by 240,000, mostly in durable goods industries. Strikes interrupted the revival in employment after midyear, but the number of workers in both durable and nondurable goods industries rose in November and December. In defense-related industries employment advanced by 70,000 workers during the year, but this was only one-fourth as much as during 1966. Altogether, for the year ending December 1967, manufacturing employment declined slightly in contrast to an increase of nearly 1 million persons over the preceding year.

In nonmanufacturing activities, employment increased by 1.9 million persons during 1967, virtually the same as in 1966. Sectors with strong growth trends—particularly State and local governments, trade, and finance and service activities—all maintained their upward sweep. Despite the revival in homebuilding activity, the number of workers employed in the construction industry changed little. Federal Government civilian employment —which had expanded by more than 200,000 in 1966, largely because of the military build-up in Vietnam—continued to rise rapidly to midyear; in the autumn, however, it turned down and by December was only 50,000 above a year earlier.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The civilian labor force increased by 1.75 million persons during 1967, somewhat more than the expected "normal" growth. But the Armed Forces expanded only slightly, compared with a rise of more than 500,000 men during 1966. As in 1966, adult women accounted for two-thirds of the growth in the civilian labor force. However, a striking development was that in 1967 the number of adult males in the civilian labor force showed the largest increase in more than a decade. This reflected the more moderate military manpower needs along with the fact that an increased number of those born during the post-World War II bulge in births had passed age 20.

While the over-all unemployment rate averaged the same in 1967 as in 1966, experience varied among major groups. For men 25 years of age and over, the rate averaged about 2 per cent —a level that reflects essentially only frictional unemployment— and was somewhat below the 1966 level. For adult females, for whom the unemployment rate is typically higher, the rate averaged 3.7 per cent compared with 3.3 per cent in 1966. For teenage workers as a group the rate averaged close to 13 per cent, little higher than in 1966. There was no significant improvement in the position of nonwhite workers in 1967, and in the fourth quarter their over-all unemployment rate—about 8 per cent—continued to be more than double that of white workers.

WAGES AND COSTS

Hourly wages in both manufacturing and nonmanufacturing activities rose more rapidly in the 12 months ending December 1967 than over the preceding year. In manufacturing, average hourly earnings of production workers increased by 5.1 per cent; over the preceding 2 years, the average increase had been 3.7 per cent. Average weekly earnings in constant dollars showed only a small increase, however, from late 1966 to late 1967, as a shorter workweek and higher consumer prices offset the sizable increase in hourly earnings. In nonmanufacturing industries,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

hourly earnings showed large increases in both the more organized industries—such as construction, railroads, and trucking—and the less well organized activities—such as trade and services.

Large increases in wages during 1967 reflected several influences: continued and prospective sharp increases in consumer prices; the direct and indirect effects of a statutory increase in minimum wages early in the year; and the negotiation of a number of new collective bargaining contracts in key industries. Contract settlements in 1967 provided increases in wages and other benefits averaging about 5.5 per cent a year, compared with 4.5 per cent in 1966.

Sharp increases in consumer prices over the past 2 years led to a shift of major emphasis in negotiations to wage rates instead of fringe benefits. This emphasis also reflected the large number of new—and younger—workers and their concern with current income rather than retirement and other deferred benefits. Furthermore, skilled workers achieved some restoration of wage differentials. Despite the rise in consumer prices, contracts negotiated during the year did not result in the introduction of many new cost-of-living escalator clauses. Indeed, in some instances—notably the automobile industry—prior escalator arrangements were restricted in the new contracts.

The rate of gain in productivity in manufacturing industries slowed sharply until late in the year because of the reduced level of output. As a result, output per manhour increased only 1 per cent in the year ending with the fourth quarter of 1967. Over the preceding year the increase had been 3 per cent, and from 1960 to 1965 gains had averaged almost 4 per cent. With hourly wage compensation continuing to increase, unit labor costs in manufacturing increased steeply until late in the year, and in the fourth quarter they were 4.7 per cent above a year earlier. During 1966 the increase had been less than 3 per cent, and from 1960 to 1965—when wage gains had been about in line with growth in productivity—unit labor costs and industrial prices had remained relatively stable. For the private nonfarm

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

economy as a whole—as in manufacturing—unit labor costs also rose rapidly during most of 1967.

PRICES

The easing of private final demands in late 1966 and the sharp reduction in business inventory investment during the first half of 1967 resulted in a marked slowing of the pace of price advance. Indeed, average industrial prices were unchanged at wholesale from February to July. Moreover, considerable improvement in actual and prospective supplies brought about a sizable drop in prices of foods and foodstuffs from the early autumn of 1966 to the spring of 1967. Reflecting these developments, the wholesale price index declined in late 1966 and early 1967, and the consumer price index rose much more slowly than it had during most of 1966.

The decline in prices of foods and foodstuffs was temporarily reversed in late spring and early summer, under the influence of unusually cold, wet weather. This development coincided with a pronounced pick-up in consumer spending, sharp recovery in residential construction activity, reports of business plans to resume expansion in fixed capital outlays, and spreading expectations that the economic pause of early 1967 would give way to renewed rapid expansion. In this improved setting, businesses initiated fairly widespread, and in some cases sizable, increases in prices, in an effort to compensate for the sharp rise in unit labor costs and the narrowing of profit margins beginning around mid-1966.

After mid-July wholesale prices of industrial commodities broke out of their pattern of stability and during the last 5 months of the year increased at an annual rate of more than 3 per cent. At retail, price increases were stepped up sooner, and the consumer price index for nonfood commodities rose at an annual rate of about 3.5 per cent from early spring to the end of the year. Moreover, retail food prices, which reached a low in April, rose moderately over the remainder of the year.

The rise in average prices of industrial commodities encom-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

passed a wide variety of materials and products. Prices of sensitive industrial materials, whose sharp decline from mid-1966 to mid-1967 had been a major influence on the slowing of the rise in the over-all industrial price index over that period, by December had recovered three-fifths of their earlier decline. But a large part of this recovery reflected very sharp increases for copper and cotton—domestic supplies of which were drastically limited. Prices of most building materials rose, beginning with the recovery in residential building activity in the spring, and in the latter part of the year increases were effected for steel mill products.

Among industrial products, 1967 was marked by substantial price increases for consumer durable goods at wholesale and retail following several years of relative stability. The increase for autos—at the introduction of 1968 models—was the largest since the late 1950's. Increases were also widespread for consumer nondurable goods, with apparel showing a particularly large gain, and with household furnishings and various other nondurable products increasing by sizable amounts. Toward the end of 1967, price increases for producers' equipment, which had slowed appreciably during the first half, accelerated again to the fast 1966 pace.

Despite the sharp rise for industrial commodities, the total wholesale price index at the year-end was only a little higher than at midyear as prices of farm products and foods declined again on balance. For the entire year 1967, the total wholesale index averaged only fractionally higher than in 1966.

The consumer price index in 1967 averaged 2.8 per cent above 1966—increasing about as much as it had from 1965 to 1966. Retail food prices increased much less than in 1966. But prices of other commodities showed a rise almost double that of the preceding year, and service costs rose somewhat more, on average, than in 1966. During the closing months of 1967 the consumer price index was rising at an annual rate of more than 3.5 per cent, as fast as during the period of rapid economic expansion in late 1965 and early 1966.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

U.S. BALANCE OF PAYMENTS

The imbalance in U.S. transactions with the rest of the world became larger in 1967, and conventional measures showed a very sharp increase in the balance of payments deficit on each of two methods of calculation. Over the past 3 years the competitive position of the United States in world trade may have suffered some impairment, for advances in domestic incomes and in aggregate demand were substantially greater than the growth in real domestic product and U.S. prices rose more rapidly than they had in earlier years. In 1967, however, any adverse effects on our goods and services export surplus stemming from unfavorable international cost relationships, as well as those clearly caused by temporary slackening of demand abroad, were offset until late in the year by a pause in the growth of U.S. import demand, paralleling the pause in expansion of GNP. If the year as a whole is compared with 1966, the increase in the external deficit can be ascribed primarily to enlargement of the net outflow of capital. In the fourth quarter, however, the current-account balance again deteriorated sharply.

Capital flows reacted to a variety of forces—some tending to improve the balance, others to worsen it. In some respects the pattern of flows differed considerably from that of 1966. Thus, there was no longer a net reflux of U.S. bank credit such as that produced by the foreign credit restraint program in 1965 and by tight monetary conditions in 1966. Similarly, the net inflow of foreign funds through commercial banks abroad (including foreign branches of U.S. banks) was not so large as in 1966. For reasons not directly connected with current economic developments, there were no substantial advance repayments of debt by foreign governments, as in previous years. Net acquisitions of time deposits with maturities of more than a year and of other near-liquid assets by foreign central banks or governments and international institutions were still very large in the first half of 1967, but these dwindled after midyear. Toward the end of the year the United Kingdom liquidated a large amount of U.S.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

securities to augment its monetary reserves. Each of these developments was adverse for one or the other, or both, of the two measures of the U.S. balance of payments deficit.

The over-all deficit measured on the liquidity basis amounted to $3.6 billion, compared with $1.4 billion the year before. The alternative measure—on the basis of official reserve transactions—showed a deficit of $3.4 billion, compared with a small surplus in 1966. The narrow difference between the two measures hid substantial disparities between the two methods of computation. Acquisitions by foreign monetary authorities of certain types of claims on U.S. banks or the U.S. Treasury are treated differently in the two computations: net acquisitions of $1.3 billion of these claims in 1967 helped to reduce the liquidity deficit, while on the alternative basis they counted as official reserve transactions, financing the deficit. On the other hand, the official-reserve-transactions deficit was held down by $1.5 billion of net acquisitions of liquid assets in the United States by foreign commercial banks and private persons and international institutions—transactions that count in the liquidity balance as financing the deficit rather than reducing it.

The liabilities of the United States to foreign central banks and governments that count as financing the official-reserve-transactions deficit increased by $3.3 billion in 1967 to a total of $19.5 billion. Partly offsetting this rise in reserve liabilities, U.S. official holdings of convertible currencies increased by $1.0 billion, reflecting mainly assistance extended to the United Kingdom in support of sterling. After sterling was devalued in November, a wave of speculation arose in Europe regarding potential future increases in the price of gold in terms of dollars and other currencies. In order to quiet this speculation, the U.S. Treasury and the monetary authorities of other leading industrial countries made large sales of gold to hold the price steady in the London free market. Largely because of such sales, the gold stock of the United States decreased by $1.0 billion during the last 2 months of the year and by $1.2 billion over the year as a whole.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

At the end of 1967 the total gold stock amounted to $12.1 billion.

In view of the strains placed on the international monetary system—and in particular on the reserve asset and liability position of the United States—by 10 years of large deficits in the U.S. payments balance and by the developments in the last few weeks of 1967 described above, the President announced on January 1, 1968, a new program to reduce the balance of payments deficit. The part of the program that concerns foreign loans and investments of banks and other financial institutions is described on pages 17–21 of this REPORT.

TRANSACTIONS IN GOODS AND SERVICES

The surplus on goods and services, which totaled $5.1 billion in 1966, ran at a somewhat larger rate during most of 1967, but dropped in the fourth quarter to an annual rate of under $3 billion. For the year as a whole it fell short of $5 billion. Thus it was again far below the 1963–65 average of $7.1 billion.

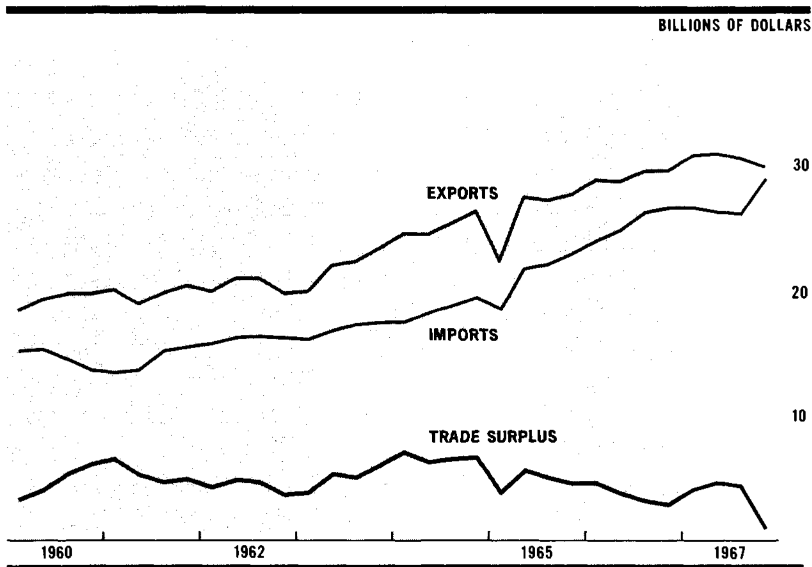
The fresh worsening in the current account of the balance of payments toward the end of 1967 resulted from a sharp rise in merchandise imports. After growing disproportionately to GNP during 1965 and most of 1966, imports leveled off in the first three quarters of 1967. Imports of industrial materials fell by 12 per cent from the peak level reached in the third quarter of 1966, but the rise in other imports only slowed. For all of 1967, as for 1966, merchandise imports were equal to 3.4 per cent of GNP, compared with 2.9 per cent in 1963 and 1964. With GNP now above $800 billion, each 0.1 per cent rise in this ratio would mean an addition of over $800 million of imports a year.

Merchandise exports increased until the spring of 1967, but from then on growth was slowed by the slackness in demand in most foreign countries—Japan, Italy, and Australia were important exceptions. Industrial output in Germany, now the leading producer of Western Europe, was 6 per cent lower in the first half of 1967 than a year earlier. At the year-end the stimulus to

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

world demand provided by renewal of expansion in the United States and in Germany had not yet been sufficient to generate an upturn in U.S. exports. The trade surplus for the year was $3.5 billion, a little less than that of 1966. The rise in imports late in the year caused the export surplus in the fourth quarter to drop to an annual rate of $1.0 billion.

3 | Merchandise EXPORTS and IMPORTS both level off, but IMPORTS jump again in fourth quarter



Seasonally adjusted balance of payments data.

Income receipts from foreign investments increased substantially in 1967, and there were good gains also in receipts of fees and royalties from direct investments and for other private services. On the other hand, travel expenditures (exclusive of fares) were about $500 million greater than in 1966; this jump, nearly three times the average annual increase in the preceding 5 years, was due mainly to the attraction of Expo 67 in Canada.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

There was a further large increase—by about $600 million—in military expenditures abroad. These reached an annual rate of $4.4 billion in the second half of the year, compared with the late 1964 and early 1965 low of $2.7 billion. Deliveries to other countries under military sales contracts rose by $400 million, to nearly $1.3 billion.

UNILATERAL TRANSFERS

U.S. Government economic aid grants of $1.8 billion in 1967 were less than the average of the preceding 6 years. Government pensions and other transfers amounted to $450 million. Private remittances rose by $200 million to more than $800 million; transfers of contributions to Israel were a principal factor in this increase.

FLOWS OF U.S. CAPITAL

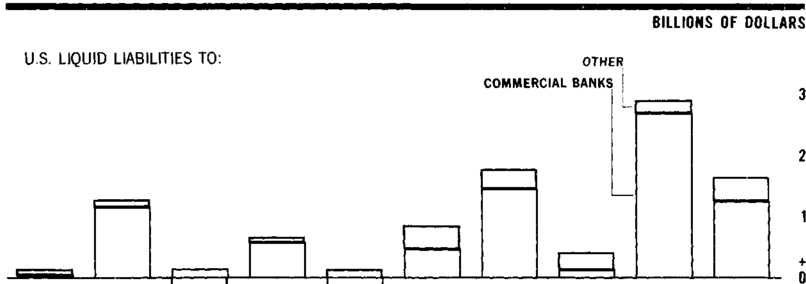
The outflow of U.S. Government credits to foreign countries and subscriptions to international agencies, net of changes in associated liabilities and after deducting loan repayments, amounted to $2.4 billion in 1967. (This does not include increases in liquid claims that count as U.S. official reserve assets.) Net disbursements rose by about $500 million, a major part of which was related to the growing stream of loans by the Export-Import Bank to finance U.S. sales of civilian jet aircraft and military equipment. Receipts of loan repayments were about $200 million less than the year before, as advance repayments—over $400 million in 1966—were negligible in 1967. The net outflow was thus about $700 million larger than in 1966.

Outflows of U.S. private capital were also appreciably larger than the year before. The largest change was a shift from about $250 million of net inflows of credits reportable by banks in 1966 to about $450 million of net outflows of such credits in 1967. Those foreign assets of U.S. banks to which the foreign credit restraint program applies increased by $370 million, which was less than the program ceilings would have allowed,

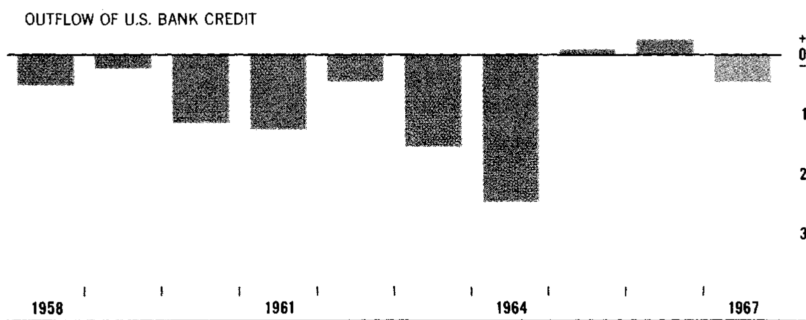
Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

while there were also increases in claims held for customers. This resumption of a net outflow of bank credit resulted in part from changes in monetary conditions here and abroad. In the United

4 **INFLOWS of funds through increases in U.S. liquid liabilities to commercial banks abroad and to other private foreign persons are not so large as in 1966 while . . .**



NET OUTFLOW of U.S. bank credit resumes



Balance of payments data. "U.S. bank credit" represents claims on foreigners reported by U.S. banks, including claims held for customers.

States bank liquidity was increasing and short-term market rates of interest were lower than in 1966, whereas in Japan, which is a heavy borrower from this country, short-term rates tended to rise. Outstanding U.S. bank credits in continental Western Europe

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

were reduced; slackness of demand for credit in some European countries reinforced the constraining effects of the interest equalization tax (IET) and the foreign credit restraint program.

Outflows of U.S. private capital to purchase newly issued Canadian, Israeli, and World Bank bonds—all of which are exempt from the IET—increased in 1967. Also U.S. investors became net purchasers of foreign equity securities, whereas during the first 3 years that the IET was in effect they had made sizable net sales. Total U.S. net purchases of foreign securities in 1967 were about $1.3 billion, compared with $0.5 billion in 1966.

Outflows for direct investment in foreign affiliated companies by U.S. corporations and other investors were smaller than in 1966. After deducting the amounts of such investment financed through borrowings abroad by U.S.-incorporated companies, the net outflow was about $2.7 billion, compared with $3.1 billion the year before. The flow to Canada, which had been unusually large in 1965 and 1966, contracted sharply.

In total, outflows of U.S. private capital, net of U.S. sales of bonds in foreign capital markets in connection with the financing of direct investment, increased to $5.0 billion from $3.6 billion the year before.

INFLOWS OF FOREIGN CAPITAL

A new development that might, if it continued, help considerably in restoring international payments equilibrium was the large inflow in 1967 of foreign capital to buy outstanding U.S. equity securities. For the year as a whole net purchases of U.S. stocks by foreigners—other than the U.K. Government and private persons in the United Kingdom, who were net sellers—were about $0.8 billion, but in the 6 months July–December alone they were $0.7 billion. Inflows of this size were unprecedented; in the first half of 1961, for instance, total foreign net purchases of U.S. stocks were unusually large but did not reach $250 million.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

In total, the inflows of foreign private capital through these purchases of stocks, through purchases of U.S. corporate bonds, through increases in commercial and other claims against U.S. businesses other than banks, and through direct investments in U.S. subsidiaries of foreign companies amounted to about $1.5 billion, compared with $0.7 billion in 1966. Not counted in these totals are the purchases, about $450 million in 1967, of bonds issued by U.S. companies for direct investment financing, which were mentioned in the preceding section.

Another important category of foreign private capital inflow in 1967 took the form of additions to foreign holdings of liquid and near-liquid assets in the United States—such as interbank balances, bank deposits, and U.S. Treasury and Federal agency securities. Total U.S. liquid liabilities to commercial banks abroad (including foreign branches of U.S. banks) increased by about $1.3 billion. Although only about half as large as the 1966 inflow of $2.7 billion, which had been swollen by heavy bidding by U.S. banks for Euro-dollar funds through their London branches at a time when U.S. banks were under severe liquidity pressures, this was still a very large amount; in only one other year—1964—had the inflow been larger than it was in 1967. Relatively easy short-term money market conditions in Germany in 1967 and the persistent forward exchange discounts on sterling against the dollar and other currencies during a large part of the year helped to generate movements of liquid funds to the United States through the Euro-dollar market, and Canadian and Japanese banks also increased their liquid assets in the United States considerably.

Liquid liabilities of the United States to foreign private persons other than commercial banks increased in 1967, as they had in each of the preceding 6 years. The net inflow of funds in this category totaled nearly $400 million for the year, substantially more than the 1961–66 average of $250 million.

Liquid and near-liquid liabilities to international organizations (including certain regional organizations) increased by

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

about $100 million in 1967, after decreasing the year before by a similar amount. Shifts by these holders from liquid assets to long-term time deposits and Federal agency securities were smaller than in 1966.

Finally, certain foreign official capital transactions had the effect of increasing the U.S. payments deficit in 1967 on either of the two methods of computation. In particular, the United Kingdom in the latter part of 1967 liquidated about $500 million of U.S. securities other than Treasury issues for the purpose of increasing its monetary reserves. Partly offsetting this outflow, there was an increase of under $100 million in U.S. liabilities to foreign governments for prepayments made on military sales contracts.

ERRORS AND OMISSIONS

The adverse balance of U.S. international payments and receipts as measured by the resulting official reserve transactions amounted to $3.4 billion in 1967, as noted above. This was substantially more than can be accounted for by the current-account transactions and capital flows that have been discussed. While some of the data are partly estimated and may eventually undergo revision, it appears that the excess of unidentifiable payments over unidentifiable receipts was only a little larger in 1967 than in the preceding years: perhaps $0.6 billion, compared with an average of $0.5 billion in the four preceding years. These "errors and omissions" may reflect statistical deficiencies in the measurement of current transactions, or they may imply that the net outflow of private capital in various forms has been larger than the available statistics and estimates have indicated.

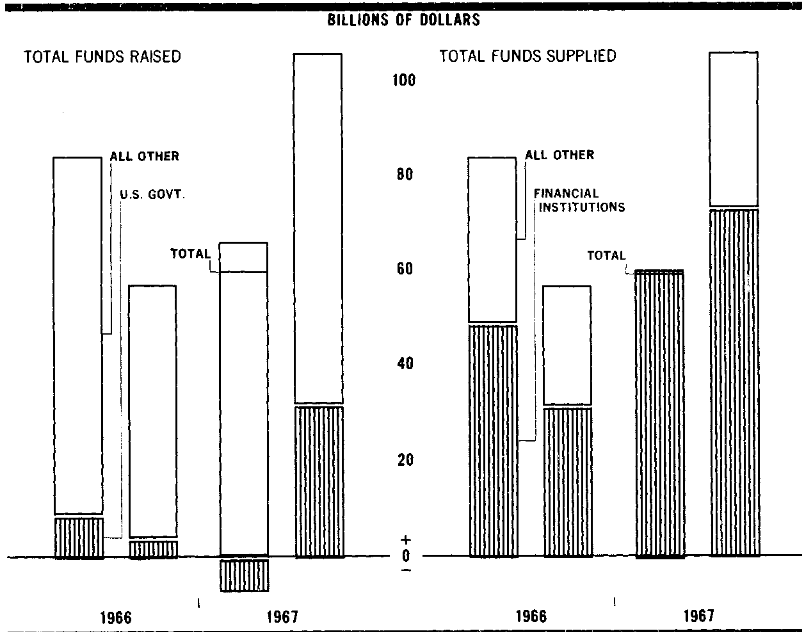
Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FINANCIAL FLOWS IN 1967

The amount of funds raised in financial markets in 1967 as a whole was very large in comparison with the reduced total in 1966. Most of the increase reflected a rapid acceleration of borrowing in the second half of the year, which drove interest rates to new highs in long-term markets. Although all sectors other than consumers stepped up their credit demands in 1967, most of the expansion in borrowing stemmed from the large demands of the Federal Government for funds to finance its record deficit in the second half of the year.

Financial institutions were able to expand their lending activi-

5 **U.S. GOVT. credit demands accelerate in second half of '67; FINANCIAL INSTITUTIONS supply more funds**



Flow of funds data. Half-year totals at seasonally adjusted annual rates. "All other" represents consumers, nonfinancial businesses, State and local governments, and foreigners. Data for second half of 1967 are preliminary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ties rapidly. Net inflows of funds to such institutions were enlarged not only by the return of more favorable spreads between market rates and rates on intermediary claims but also by the increased pace of consumer saving. However, credit flows through intermediaries moderated in the final months of the year as the public responded to the rising level of market yields by diverting a larger share of its financial asset acquisitions directly to market securities.

BORROWERS AND LENDERS

Financial markets in 1967 were dominated by the continued attempts of both borrowers and lenders to readjust financial positions following the credit market stringencies that had developed in 1966, by expectations of a return to tighter financial markets in the period ahead, and by the borrowing activities of the Federal Government. As a result, most sectors attempted to increase their holdings of liquid assets, and many borrowers made strenuous efforts to obtain large volumes of funds in long-term markets.

Federal Government. The Federal Government's financing needs dominated financial developments in 1967. Total Federal borrowing increased to about $14.5 billion—including $4.6 billion in issues of fully marketable participation certificates—or almost twice as much as the year before. In the first half of the year, accelerated tax payments and Treasury decisions to hold its cash balances at lower levels than usual permitted a more than seasonal repayment of debt—mostly of tax-anticipation bills. But after midyear, with cash balances lower than normal and with the gap between receipts and expenditures widening, total borrowing rose to record postwar levels.

Offerings of direct U.S. marketable securities alone totaled, net, about $16 billion during the second half—over $11 billion of which were Treasury bills. New issues of Treasury debt were confined to short- and intermediate-term maturities because market yields on long-term issues throughout 1967 remained above

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the statutory 4¼ per cent interest ceiling on Treasury bonds. On several occasions during the year the Treasury made offerings of issues with 5-year maturities, and in November it sold $1.7 billion of 7-year Treasury notes under new legislation. Even so, the average maturity of the Federal debt continued to decline from its recent peak reached in early 1965; by the end of 1967 it was down to 4 years and 1 month.

TABLE 3

FINANCIAL TRANSACTIONS OF U.S. GOVERNMENT

(In billions of dollars)

Item	Calendar year 1966			Calendar year 1967		
	1st H.	2nd H.	Year	1st H.	2nd H.	Year
Cash receipts	79.5	65.7	[illegible]	87.9	68.4	156.3
Cash payments [1]	70.8	80.1	[illegible]	75.1	88.5	163.6
Cash surplus or deficit (−) [1]	8.7	−14.4	[illegible]	12.9	−20.1	−7.3
Change in cash balance	6.5	−6.5	[illegible]	2.0	−0.8	1.2
Total borrowing	−1.4	9.4	[illegible]	−4.8	19.1	14.4
Nonmarketable securities [2]	−0.8	−0.5	[illegible]	0.1	1.6	1.7
Marketable securities, total	−0.6	9.9	[illegible]	−4.9	17.5	12.7
Direct U.S.	−5.5	8.9	[illegible]	−7.4	15.8	8.3
Nonguaranteed Federal agency	3.5	1.6	[illegible]	−1.2	0.8	−0.4
Participation certificates [3]	1.4	−0.6	[illegible]	3.7	0.9	4.6
Less: Official purchases or sales (−):						
By Govt. agencies and trust funds	0.1	2.3	[illegible]	4.2	−1.0	[illegible]
By Federal Reserve System [4]	1.7	1.5	[illegible]	3.0	2.3	[illegible]
Equals: Net Federal marketable obligations acquired by the public	−2.4	6.1	[illegible]	−12.1	16.2	4.1

[1] Participation certificates are included in cash payments of the Federal Government as a negative expenditure.
[2] Nonmarketable securities include the excess of cash sales over redemptions for savings bonds, and the change in outstanding savings notes, foreign series securities, depositary bonds, retirement plan bonds, and Rural Electrification Administration bonds.
[3] Includes only fully marketable participation certificates.
[4] Excludes repurchase agreements.
NOTE.—Data are not seasonally adjusted.

Borrowing in the market by Federal agencies, while large, was somewhat less than the record volume of 1966. Nonguaranteed debt of such agencies actually declined by $0.4 billion, in large part because the Federal home loan banks were able to retire substantial amounts of obligations as savings and loan associations repaid borrowings from the FHLB System. Marketable

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

participation certificates, on the other hand, were issued in record volume during 1967, mostly in the first half.

The Federal Reserve Open Market Account and Treasury trust accounts absorbed a sizable volume of direct U.S. Government and Federal agency securities. Net purchases by these official accounts totaled $8.5 billion—more than two-thirds of the rise in such debt outstanding. The Federal Reserve purchased more than $5 billion of marketable U.S. Government securities (excluding purchases made under repurchase agreements). Net purchases by Treasury trust accounts and agencies totaled $3.2 billion. Although most of this amount represented direct U.S. Government debt issues, it included more than $1 billion of participation certificates. The Treasury completed all of its acquisitions in the first half; during the second half it reduced its holdings.

With the increase in official purchases, absorption of Federal debt into private portfolios during 1967 was about the same as during 1966—around $4 billion. However, there was a much sharper than usual seasonal swing from the first to the second half, and private investors had to absorb $16 billion of Federal

TABLE 4

FEDERAL LENDING

(In billions of dollars)

	1964	1965	1966	1967
Total	3.8	4.7	7.9	4.5
Mortgages	0.2	1.0	3.4	2.7
Loans, total	*3.5*	*3.7*	*4.6*	*1.8*
To savings and loan assns.	0.5	0.7	0.9	−2.5
To foreigners	1.6	1.5	1.3	2.6
To others[1]	1.4	1.5	2.4	1.7

[1] To consumers, nonfinancial businesses, and State and local governments.

NOTE.—Flow of funds data; figures for 1967 are preliminary. Components may not add to totals due to rounding.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

direct and agency securities during the July–December period. Most of these were acquired by commercial banks and other financial institutions, but takings by the nonbank public rose as interest rates moved to higher levels.

The Federal sector reduced its extension of credit to financial markets in 1967 as pressures on mortgage markets subsided. Its net purchases of mortgages, although still quite large and increasing in the second half of the year, dropped by one-fifth and, as noted earlier, a large portion of its advances to savings and loan associations through the FHLB were repaid. Outstanding loans to foreigners, however, rose sharply—reflecting larger disbursements of loans by the Export-Import Bank, as well as smaller advance repayments by foreign governments.

Nonfinancial businesses. Total funds raised by nonfinancial businesses in credit and equity markets amounted to $37 billion in 1967, one-tenth more than in 1966. Noncorporate businesses raised less, but external financing by corporations rebounded early in 1967 from the reduced volume of the second half of the previous year and remained at advanced levels thereafter. For 1967 as a whole, nonfinancial corporations raised nearly $28 billion in credit and equity markets—$4 billion more than in 1966, though somewhat below the annual rate reached in the first half of that year.

Needs to obtain external financing to fill the gap between corporations' internal funds and their capital outlays abated only moderately in 1967. While the gap was narrower than the $16 billion experienced in the second half of 1966, it was still—at $12 billion—considerably wider than in years prior to 1966. Efforts of nonfinancial corporations to rebuild liquidity and to acquire long-term funds in advance of expected sharp increases in interest rates also contributed significantly to the volume of the external financing of these corporations, and especially to the predominantly long-term nature of that financing.

Sharp curtailment in corporate spending for inventories was offset only in part by the moderate rise in outlays for plant and

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

equipment and the sharp expansion in multifamily housing and commercial construction. As a result, nonfinancial corporations spent $4 billion less for fixed assets and inventories than in 1966. Funds available from internal sources also declined, for the first time since 1960, but by only $0.6 billion. Profits fell in early 1967 and remained below 1966 levels throughout the year, despite some improvement in the fourth quarter. But the continued rise in capital consumption allowances—primarily provision for depreciation—offset almost all of the $3 billion decline in retained earnings.

Corporations raised an unusually large share of the external funds they needed in 1967 in the securities market. Issues of bonds and stocks, amounting to $16.6 billion, accounted for 60 per cent of all funds raised in credit and equity markets by nonfinancial corporations, compared with 49 per cent in 1966 and an average of 44 per cent in 1961–65. Net new issues were largest in the third quarter when financing undertaken in expectation of intense credit strains in the fall swelled the total to a seasonally adjusted annual rate of $22 billion.

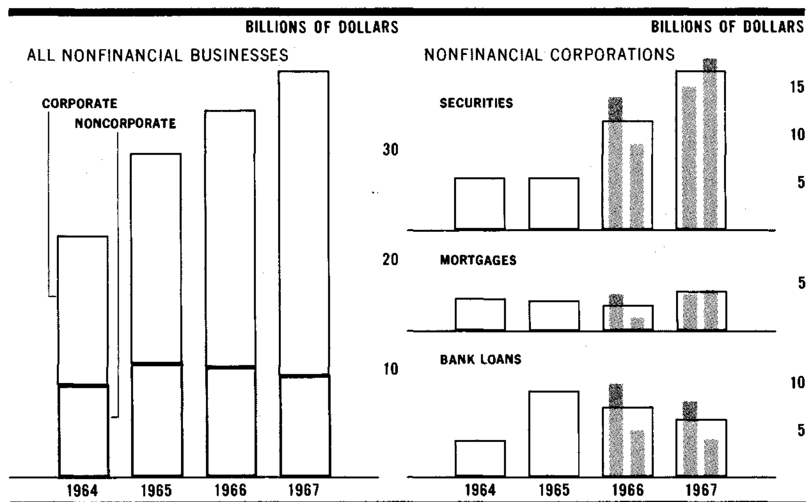
Until the closing months of the year, corporate demands centered on the public bond market, and the volume of issues offered there was more than double the previous record amount sold in 1966. Meanwhile, reflecting the constraints on new-commitment activity in 1966, the volume of issues placed privately with institutional investors was the smallest in several years. Late in the year, however, private placements increased and the pace of public offerings slowed.

In addition to raising an unprecedented volume of funds through security issues, nonfinancial corporations obtained a record amount of mortgage credit and increased the sale of their open market paper, in part to commercial banks. Even so, they obtained less financing from banks than in either of the two preceding years. Relatively large direct borrowing at banks occurred mainly around Federal income tax payment dates in the spring and near the year-end when inventory investment accelerated. But even at

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

these times, such borrowing was well below the rate reached in the spring of 1966. Acceleration of Federal income tax payments caused a much larger drain on corporate funds in 1967, but to meet this drain corporations relied mostly on other sources of funds, including their own liquid assets, rather than on bank loans.

6 | CORPORATE NONFINANCIAL BUSINESSES borrow more in '67 as security issues rise to record levels



Flow of funds data. All nonfinancial businesses represent domestic corporate and noncorporate (including farm) nonfinancial businesses; total funds raised by them exclude trade debt and miscellaneous liabilities. Bank loans include bank acquisitions of commercial paper and domestic acceptances. Half-year data are at seasonally adjusted annual rates. Data for the second half of 1967 are preliminary.

The marked shift toward long-term financing in 1967 reflected, among other things, the fact that nonfinancial corporations were trying to improve their liquidity positions by reducing their dependence on short-term funds and by rebuilding liquid balances. However, despite the 80 per cent expansion in security market and mortgage financing between the second half of 1966 and the first half of 1967, liquid asset holdings were reduced and the conventional measure of corporate liquidity—the ratio of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

liquid assets to total current liabilities—continued to decline as the drop in profits in the first quarter and very large tax payments in the second put pressure on liquid funds. Thus, the only way in which corporations may be said to have improved their liquidity positions over the first half of the year was in lengthening the average maturity of their debt.

But over the second half of the year the liquidity ratio probably stabilized and may even have risen a little more than seasonally. Holdings of liquid assets increased—and by more than the reduction in the first half. For the year as a whole, liquid asset holdings of nonfinancial corporations rose by about $2 billion—a moderate amount but the largest annual increase since 1963. Increases in time deposits and holdings of open market paper were more than enough to offset reductions in demand deposits and holdings of U.S. Government securities.

State and local governments. Net borrowing by State and local governments in 1967 rose sharply from the reduced pace of the previous year—to more than $10 billion—despite postponements of substantial amounts of new issues in the final months of the year in reaction to the high level of interest rates in capital markets. With the level of interest rates high, the volume of refunding issues continued to be negligible and nearly all of the increase in borrowing by State and local governments was used for capital outlays.

Some portion of the expanded borrowing by States and their subdivisions represented issues that had been postponed in 1966 because of high interest rates and the congestion in the capital markets. The relative facility with which issues were marketed during most of 1967 reflected not only the generally increased availability of credit but also the return of commercial banks to the market for tax-exempt issues. In 1966 commercial banks had diverted their reduced supply of funds from such investments to loans to their established customers, but in 1967—with their deposit inflows expanded and loan demands relatively modest—banks purchased municipals at a record rate.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Another factor leading to the record supply of new issues was the explosive growth in industrial revenue bonds—aggregating more than twice the already large volume of 1966. Such borrowing was accelerated in large part by expectations that the tax-exempt feature of these issues might be eliminated.

Perhaps the most important cause of rising credit demands by State and local governments was the declining adequacy of current revenues for financing their usual share of capital outlays. Cutbacks in Federal spending in 1967 sharply reduced the growth of grants-in-aid to State and local governments—such aid had been a source of increasing revenue to these units in recent years. Meanwhile these governments found that the costs of their operations were continuing to rise faster than their tax revenues. As a result, a significant portion of capital outlays normally financed from revenues had to be financed with borrowed funds. This shortfall of revenue, along with rising costs of borrowed funds and greater interest on the part of commercial banks in liquid assets, also contributed to a very large expansion in short-term borrowing by States and their political subdivisions.

State and local governments in recent years have supplied a significant volume of funds to credit markets through purchases of securities by their employee pension funds. Continuing the earlier trends to maximize income, most of the asset growth of such pension funds in 1967 took the form of higher-yielding corporate bonds. For the second consecutive year purchases of such bonds by State and local governments were larger than those by the previously dominant private insurance and pension fund sector.

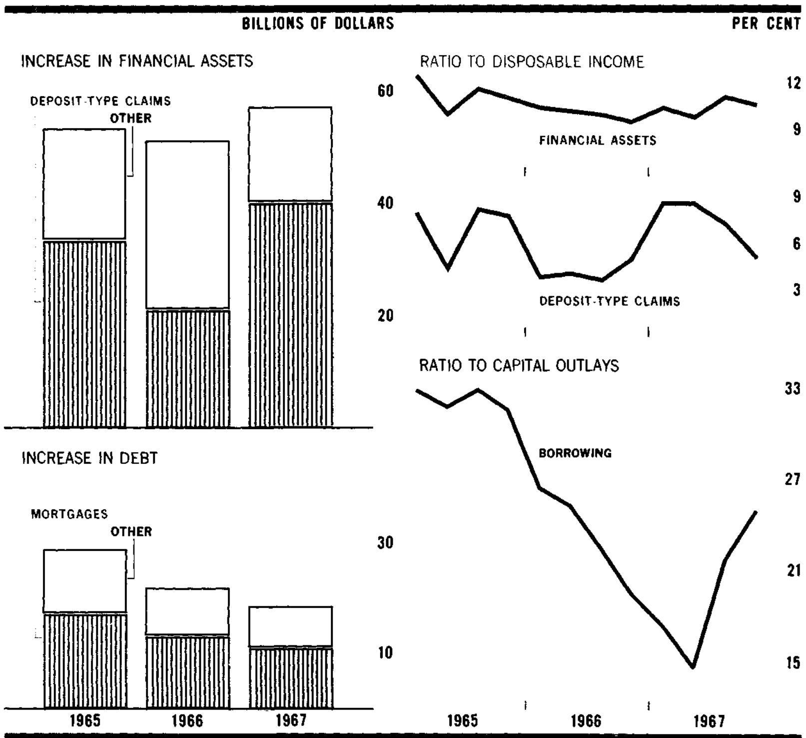
Consumers. With incomes rising at a relatively rapid rate and expenditures for housing and durable goods moderate, consumers increased their acquisitions of financial assets rapidly in 1967. In the first half of the year they liquidated market securities at a fast pace—shifting funds to the more liquid and relatively more attractive deposit-type instruments offered by financial institutions. With the renewed rise in market yields, how-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ever, claims on financial institutions became somewhat less attractive in the final months of 1967. Consequently, consumers reduced their rate of acquisitions of such claims as they shifted to market securities.

Despite the increased availability of credit, consumers reduced their rate of net borrowing in credit markets for the third straight

7 | CONSUMERS accelerate their acquisitions of financial assets--especially deposits--and borrow less



Flow of funds data. Consumer sector includes nonprofit institutions. Increase in financial assets excludes investment in noncorporate business and is less net security credit. Deposit-type claims are demand deposits and currency and interest-bearing, deposit-type claims on commercial banks and other financial institutions. Ratios to disposable income are based on acquisitions of financial assets and changes in deposit-type claims. Borrowing/capital outlays is consumer borrowing by mortgages, consumer credit, and bank and other loans (except security credit) divided by value of residential construction, nonprofit plant and equipment outlays, and outlays for consumer durable goods. All ratios are based on quarterly totals at seasonally adjusted annual rates. Data for fourth quarter of 1967 are preliminary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

year. This reduced borrowing reflected, to a large extent, the continued slower rate of growth in mortgage credit, particularly in the early part of 1967 when housing completions and starts were still unusually low and when turnover of existing homes had only just begun to regain momentum. However, nonmortgage borrowing by consumers also expanded at a relatively slow pace.

Consumer purchases of durable goods other than housing expanded in 1967, but the share of such purchases financed on credit was smaller than in earlier years. Indeed, while extensions of instalment credit rose rapidly after the spring, repayments also accelerated, and as a result the increase in instalment debt was the smallest in 3 years. Repayments on instalment debt in 1967 appear to have been buoyed by prepayments as consumers found their financial positions improved. Partly because an increasing share of their saving was used to repay debt, consumer acquisitions of financial assets—while large—did not rise so fast relative to income as they had in 1965 when both borrowing and acquisitions of financial assets by consumers were particularly large.

Rest of the world. Financial flows between the United States and the rest of the world increased sharply in 1967, although the net outflow did not change much.

Net outflows of U.S. private and U.S. Government loans and investments increased, as noted in the discussion of the balance of payments on pages 37–45 above. There was an increase also in the inflow of foreign private investments, partly to acquire outstanding U.S. equity securities, and partly to buy securities issued by U.S. companies to finance investments in their affiliates abroad. On the other hand, the U.K. authorities liquidated in 1967 a considerable amount of U.S. securities other than Treasury issues. Foreign purchases of more than $1 billion of gold were largely offset by a $1 billion increase in Federal Reserve and Treasury liquid claims in convertible currencies. Offsetting

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

an increase from 1966 to 1967 in the net outflow balance of all the foregoing categories of capital, as well as an increase in unidentified outflows, additions to foreign holdings of liquid and near-liquid assets in the United States were about $3 billion greater in 1967 than in 1966.

Additions to the foreign holdings of such assets were about $5 billion, compared with about $2 billion the year before. Among the principal components of the 1967 inflow were an increase of more than $1 billion in U.S. banks' demand and time liabilities to foreign central banks and governments, an increase of $1.3 billion in their balances due to commercial banks abroad, and an increase of $0.4 billion in their deposit liabilities to other private persons abroad. Foreign net acquisitions of U.S. Government securities, including special issues, exceeded $2 billion. These purchases were made mainly by central banks and governments and were especially large in the fourth quarter.

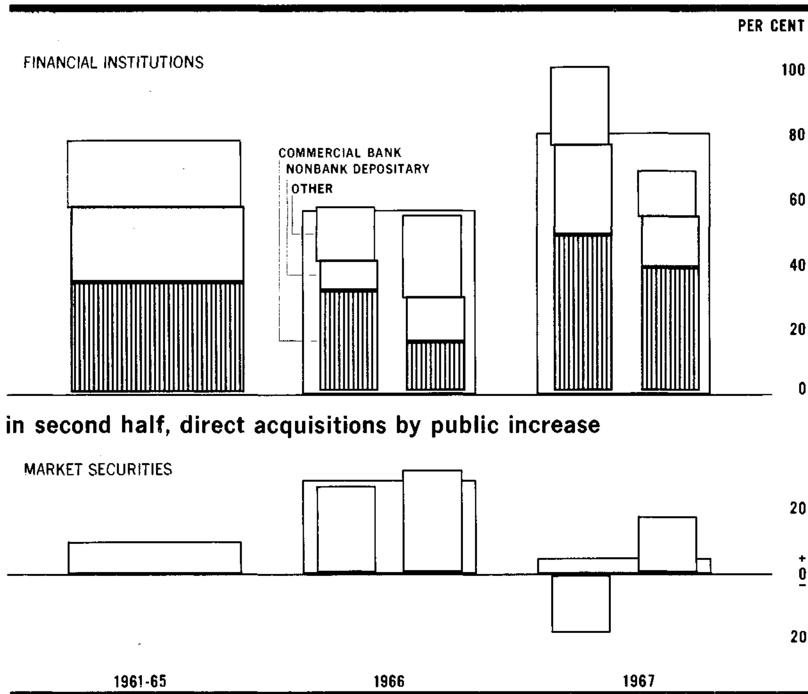
FINANCIAL INTERMEDIATION

During 1967 financial institutions as a group supplied about 80 per cent of the total funds raised in financial markets—reversing the unusually sharp decline in 1966 when institutions' share of total lending fell as the public shifted funds away from financial institutions to direct investment in market securities. In 1967 the increase in the relative attractiveness of claims on intermediaries, the public's preference for liquid assets, and the higher rate of consumer saving increased net inflows of funds to all types of financial institutions. As a group, however, these institutions allocated a large share of these inflows first to rebuilding liquidity depleted in 1966 and then—for both liquidity and yield considerations—to market securities other than mortgages.

Toward the year-end, rising yields on market securities tended to reduce the pace of inflows to financial institutions. But with short-term yields still below those of 1966, inflows of funds to these institutions as a whole remained considerably larger than during the more difficult periods of the previous year.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

8 FINANCIAL INSTITUTIONS supply larger share of total credit flows in '67, but . . .



Flow of funds data. Nonbank depositary institutions are savings and loan associations, mutual savings banks, and credit unions. Other nonbank financial institutions are made up mainly of life and other insurance companies and pension funds but also include finance companies, open-end investment companies, and miscellaneous institutions. Funds supplied directly by the public reflect acquisitions of market securities (less security credit) by domestic consumers, nonfinancial businesses, and State and local governments. Not shown are funds supplied by the F.R. System, other parts of the U.S. Govt., and foreigners. Data for half years are at seasonally adjusted annual rates and for second half of 1967 are preliminary.

Commercial banks. After relatively modest growth in 1966, loans and investments at commercial banks expanded in 1967 at a postwar record pace of 11 per cent. Credit extended by banks accounted for more than 40 per cent of total credit flows—their largest share in over a decade. The growth reflected not only the stance of monetary policy but also the increased attractiveness of bank deposits relative to alternative financial assets, and the efforts of the nonfinancial sectors to rebuild liquidity.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Time deposits. With the decline in money market yields in late 1966, time deposits at banks again became relatively attractive instruments, and inflows of such deposits accelerated to a rate of almost 16 per cent for the full year, about twice that of 1966. All forms of interest-bearing deposits—passbook savings accounts, negotiable CD's, and other time deposits—shared in the expansion.

The most rapid increase in time deposits occurred early in the year, when banks aggressively sought to recover the funds they had lost by attrition of CD's in the late summer and fall of 1966. By maintaining relatively attractive offering rates, banks increased their outstanding negotiable CD's to a new record in the first quarter of 1967. In the spring, however, with loan demands modest, other deposit inflows strong, and substantial improvement in bank liquidity, offering rates on CD's were reduced to relatively low levels at the same time that corporate liquidity was being drawn down in order to meet accelerated tax payments. Consequently, outstanding CD's showed no growth in the second quarter. Over the first half some banks also took steps—including reductions in rates—to moderate their inflows of other forms of time deposits. But in the aggregate, growth in consumer-type time deposits remained large.

As short-term market rates of interest began to rise around midyear, some banks raised their offering rates on consumer-type deposits and on large negotiable CD's. Moreover, with growing expectations of rising interest rates and heavier demands for loans, the increase in offering rates and the aggressiveness of banks in seeking deposits were most pronounced for CD's with longer maturities. The volume of outstanding CD's expanded rapidly over the summer, and at the same time large banks increased their borrowings of Euro-dollars at the relatively low prevailing rates.

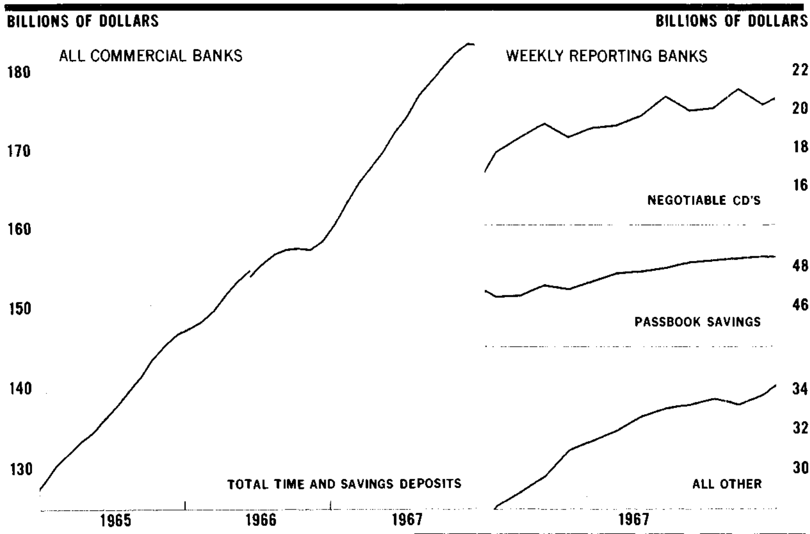
During the autumn, inflows of consumer-type deposits began to moderate as consumers shifted some funds into increasingly attractive market securities. Moreover, as short-term market in-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

terest rates continued to rise, offering rates on CD's began to approach their Regulation Q ceiling of 5½ per cent.

By late autumn longer-maturity CD's paying 5½ per cent became increasingly noncompetitive, and the average maturity of new CD's sold shortened considerably. After the devaluation of sterling and the increase in the Federal Reserve discount rate in November, offering rates of 5½ per cent on CD's became available throughout the maturity spectrum. At the year-end the average maturity of outstanding CD's at weekly reporting banks was 2.9 months, compared with 3.8 months in the spring. In addition, in the final weeks of 1967, the very large volume of CD's that were maturing and the increasing inability of banks to issue CD's in any maturities except the shortest term produced somewhat more than seasonal attrition in CD's, and inflows of other forms of time deposits continued to slacken.

9 | DEPOSITS at commercial banks grow rapidly



Total time and savings deposits are seasonally adjusted monthly averages of daily figures and exclude domestic interbank and U.S. Govt. deposits. Effective June 6, 1966, balances accumulated for payment of personal loans were reclassified for reserve purposes; such deposits are excluded thereafter. Data for weekly reporting banks are as of the last Wednesday of the month and are not seasonally adjusted.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Demand deposits. Private demand balances were also a major source of bank funds in 1967. Such deposits had declined after the late spring of 1966, but in 1967 they expanded at a rate of nearly 7 per cent; during the spring and summer months their rise was very rapid. To a large degree, this increase reflected efforts of the public to rebuild deposits from the low levels to which they had been reduced during the period of restrictive monetary policy in 1966. It is also likely that corporations, particularly in the fall, were trying to build up their compensating balances in order to insure bank credit availability in 1968. As market yields continued to rise, however, efforts to economize on cash contributed to a cessation of growth in demand balances in the final weeks of the year.

U.S. Treasury balances, as usual, fluctuated widely during 1967. Larger expenditures by the Treasury, new patterns of tax receipts, and large cash financings contributed to fluctuations in both Government and private demand deposits. The Treasury's balances with commercial banks were drawn down to very low levels at midyear, in part as a result of the redemption of a large amount of debt in late June. After midyear, these balances were rebuilt by an unusually large volume of Treasury cash financing, which contributed to rapid expansion of bank credit through October. But by the end of 1967 Government deposits had again declined to relatively low levels, and the rate of expansion of bank credit had tapered off considerably.

Bank credit. With demands for loans small relative to deposit inflows and with banks making efforts to improve their liquidity positions, somewhat over half of the increase in bank assets during 1967 took the form of securities. Holdings of securities expanded at a record rate, whereas total loans grew at the slowest pace since 1960–61.

The expansion in total loans at commercial banks over the entire year 1967 was only a little smaller than in the previous year. However, business loans grew considerably less than in the period 1965 through the summer of 1966 as corporations increased their reliance on market financing and reduced the pace

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

of inventory investment. The most rapid increase in business loans occurred in the first half of the year when the accelerated schedule of income tax payments greatly expanded the needs of corporations for funds; in the second half such loans expanded at two-thirds of their pace in the first half of the year—with some acceleration in December.

Other loans, on the other hand, expanded faster in the second half of the year than in the first. Real estate loans accelerated in the spring, and at about the same time the pace of lending to consumers increased. Loans to finance companies, which had declined from mid-1966 to the midsummer of 1967, also showed a moderate growth during the late summer and fall as the cost of market financing by these institutions began to approach the cost of bank loans; this increase, however, was halted by the increase in the bank prime rate late in November. Finally, with the shift in Treasury operations—from debt redemption in the first half to a large volume of new cash financing in the second—banks' security loans increased quite sharply in the summer and fall in contrast to net repayments earlier in the year.

In the securities segment of banks' portfolios, acquisitions of Treasury issues were the largest since 1958, and purchases of other securities were at record rates. The extent of the growth was associated with several factors, including the relatively modest demand for bank loans at a time when deposit inflows to banks were extremely large.

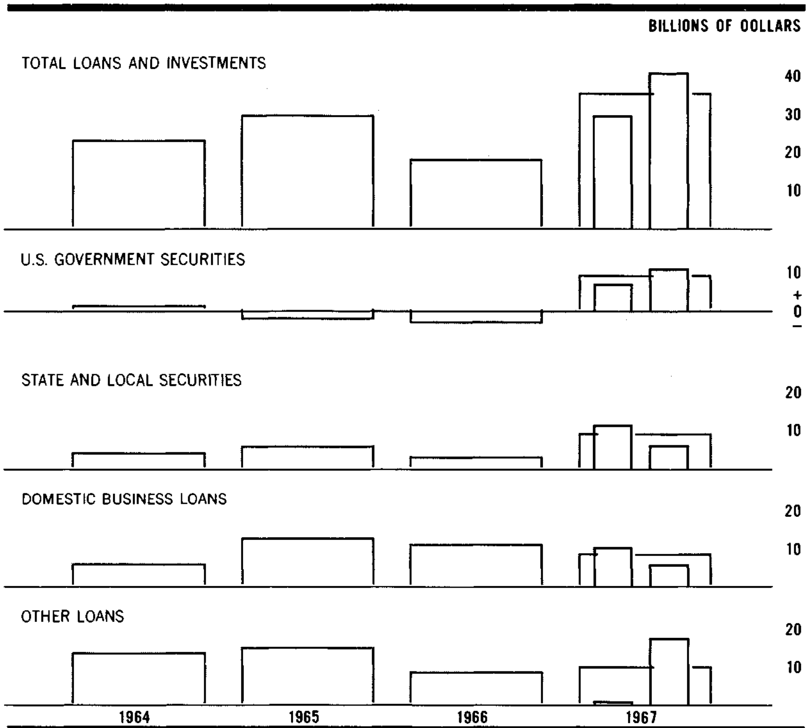
Like other financial institutions, banks had a desire to regain portfolio liquidity, which had been depleted in 1966 by heavy demands for loans at a time of restrictive monetary policy. It is difficult to quantify bank liquidity precisely, but such an indicator as the loans-to-deposits ratio fell in 1967. Moreover, banks not only increased their holdings of short-term Treasury and municipal issues but also added to their holdings of such liquid assets as acceptances and commercial and finance company paper—which are included as loans in banking statistics.

The interest of banks in accumulating liquid assets, while aimed in large part at regaining the liquidity depleted in 1966,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

was also associated with growing expectations of increased demand for loans and of greater monetary restraint as the year progressed—expectations that also strengthened banks' desires to obtain long-term time deposits. The mildness of the business

10 | **BANK CREDIT accelerates in '67; securities account for more than half of the increase**



Flow of funds data. U.S. Govt. securities include nonguaranteed debt of the U.S. Govt. and loan participation certificates. Business loans are to all domestic nonfinancial businesses and include commercial paper and domestic acceptances. Half-year data are at seasonally adjusted annual rates; those for second half of 1967 are preliminary.

pause early in 1967, the rapidity of the recovery, the large financing needs of the Federal Government, and widespread belief that credit demands might be large in 1968, all suggested to many banks that efforts to increase liquidity constituted a prudent

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

portfolio policy—particularly since they were still so conscious of their 1966 experience. Indeed, nonprice lending policies and terms were not relaxed much in 1967, despite the reduced demand for loans. The prime lending rate at banks had been reduced from 6 to 5½ per cent in the early months of 1967, but it was returned to 6 per cent after the November increase in the discount rate and a rise in the cost of bank funds from other sources.

Finally, bank demands for securities were augmented by very attractive yields on these securities—particularly on municipals. For the year as a whole, bank purchases of tax-exempt securities were equal to more than 80 per cent of the net borrowing by State and local governments. Banks also found the new issues of Treasury securities very attractively priced, and in the second half of 1967 they acquired an amount equal to more than one-third of these new issues.

Nonbank financial institutions. Financial institutions other than commercial banks also supplied an increased volume of credit in 1967. Nevertheless, their share of total credit supplied—while above that of 1966—remained less than it had been earlier in the 1960's. This reflected not only the greater relative success of commercial banks in obtaining deposits from the public but also the fact that savings and loan associations used an unusually large share of their increased inflows in early 1967 to repay loans obtained from the FHLB during the 1966 period of credit stringency.

Depositary institutions. Share accounts at savings and loan associations rose sharply in 1967, despite the general slowing of inflows toward the year-end. At the same time, net inflows of deposits to mutual savings banks—which, due to earlier upward adjustments in deposit rates, had begun to recover after mid-1966—rose to new records. As in the case of the savings and loan associations, however, rising yields on market instruments after midyear also tended to moderate inflows to these banks.

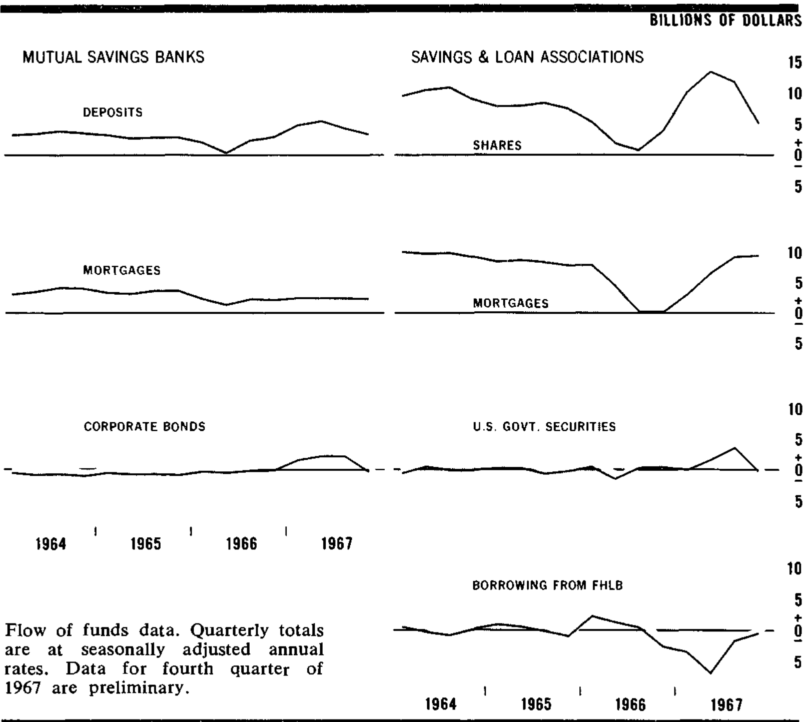
Savings and loan associations used a large proportion of their

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

inflows in 1967 to rebuild their depleted liquidity. As noted above, they made large repayments to the FHLB, especially during the first half of the year, and during the year as a whole they repaid almost all of the funds they had borrowed since 1963. Moreover, during the spring and summer the associations made record acquisitions of U.S. Government securities, thereby achieving a marked improvement in their portfolio liquidity.

As a result, acquisitions of mortgages by the savings and loan associations increased much less rapidly than share inflows over most of the year. This difference in rate of growth stemmed not only from the liquidity priority of the associations but also from

11 | Inflows of funds at NONBANK INSTITUTIONS accelerate in '67, but acquisitions of mortgages lag as institutions restore liquidity



Flow of funds data. Quarterly totals are at seasonally adjusted annual rates. Data for fourth quarter of 1967 are preliminary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the inevitably long lag between commitments and acquisitions, especially after a year such as 1966 when construction activity had lost considerable momentum and stocks of new housing units had been substantially reduced. But commitments began to rise in early 1967 and by August had returned to relatively normal levels. Indeed, with inflows higher and commitments rising, by midyear the associations had regained their dominant position in the mortgage market.

Mutual savings banks, even with record inflows of deposits during most of 1967, increased their net acquisitions of mortgages relatively little from the 1966 pace. Instead they expanded their acquisitions of corporate bonds; net purchases of these securities in the single year 1967 approached the total for the previous two decades. The interest shown by savings banks in corporate bonds was stimulated by the attractive yields on these securities, which made them increasingly competitive with mortgage investments as the year progressed. Moreover, since the bulk of the corporate bonds acquired were publicly traded, portfolio marketability of such banks was also enhanced by this shift.

Average rates paid on savings claims at both mutual savings banks and insured savings and loan associations increased in the first half of 1967 from the second half of 1966. While increases at these institutions were smaller than those during 1966, they raised rates to levels that were much more competitive with market yields, as reflected by the strength of net inflows during the first half of the year.

In July, few changes were made in offering rates by FDIC-insured mutual savings banks. Savings and loan associations, however, were affected by regulatory changes on both regular and special accounts that lowered rate ceilings by 25 basis points in 10 States. Reflecting these rate-ceiling amendments, average offering rates on both types of accounts at savings and loan associations decreased in July. At both types of institutions, however, over half of the insured members in July were offering rates below regulatory ceilings on regular accounts.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

During the remainder of 1967, there were no further changes in rate ceilings and although yields on market instruments increased significantly, offering rates changed little at both types of institutions. The special rate-control authority enacted by Congress in the fall of 1966 was extended for another year beginning September 21, 1967.

Other institutions. While the contractual nature of inflows of new funds to life insurance companies tends to insulate such inflows from immediate shifts in market pressures, the investment options of these companies are relatively broad. Consequently, investment allocation at any particular time is influenced more by considerations of comparative yield than it is at thrift institutions—particularly at savings and loan associations. Thus, in 1967 the shifting structure of yields produced further changes in the types of assets acquired by life insurance companies; similarly, the unexpected drain of lendable funds at these companies in 1966 had affected asset acquisitions in that year.

Flows of investment funds through life insurance companies in 1967 resumed the more stable pattern prevailing before 1966, although they were still being influenced by the level of market interest rates. For example, with their cost to the borrower still less than that on most other types of credit, loans to policy holders took about 9 per cent of the lendable funds of life insurance companies in 1967. While this was less than the 20 per cent of cash flows used for the same purpose in the third quarter of 1966, the share was higher than in the first half of the decade as a whole. Moreover, with interest rates high, flows of funds from prepayments of existing mortgage investments remained small. Life insurance companies, like other mortgage lenders, found not only that borrowers seemed reluctant to prepay existing mortgages but also that refinancings of existing mortgages remained quite limited under conditions of rising interest rates; turnover of used homes, though substantially improved, also continued to be relatively inhibited.

Still, the supply of funds available to life insurance companies

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

for lending was somewhat larger than in 1966, and the new commitments of such companies for investments increased at an accelerating pace from the low level at the beginning of the year. However, to an even greater extent than for mutual savings banks, life insurance companies—in their quest for higher yields—shifted both their commitments and their acquisitions from home mortgages to mortgages on income properties, and from mortgages in general to corporate securities. Indeed, the largest increase in portfolios in 1967 was in holdings of domestic corporate bonds; the dollar amount of such holdings expanded more rapidly than mortgages for the first time in almost a decade. Moreover, life insurance companies increased their acquisitions of publicly offered bonds relative to privately placed issues. With the attractive yields that prevailed on quality-rated public issues during the year, gains in portfolio marketability were made at yields close to those historically available on private issues, for which quality ratings are not available.

The volume of new commitments, which had reached very low levels in late 1966 and early 1967, surged after that and carried outstanding commitments of life insurance companies to new highs by late autumn. But continuing the trend that had begun in 1966, the funds covered by more than half of the new commitments would not become available until at least 6 months after the date of the commitment—reflecting in large part the size of demands relative to cash flows. Even so, with the moderation in policy loans and the gradual build-up of new commitments, the 1967 relationship between expected cash flows and outstanding commitments was far more comfortable than it had been from late 1965 through 1966.

Other kinds of insurance companies and private pension funds made no large changes in portfolio allocations during 1967. Fire and casualty insurance companies, which are subject to higher tax rates than life insurance companies, stepped up their purchases of municipal bonds and reduced their acquisitions of corporate bonds. Pension funds used a larger proportion of their

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

inflows to buy equities and reduced the proportion used to buy bonds. In view of the fact that more funds were available in the market and at other institutions, business firms reduced their debt to finance companies in the first half of the year. As a result of this and of reduced borrowings by consumers, credit granted by finance companies showed the smallest increase since 1961. Under these circumstances, finance companies not only repaid bank loans but also borrowed less in the open market.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

PART II

Records, Operations, and Organization

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

RECORD OF POLICY ACTIONS OF THE BOARD OF GOVERNORS

February 28, 1967

Amendment to Regulation D, Reserves of Member Banks.

The Supplement to Regulation D was amended to reduce reserve requirements from 4 per cent to 3 per cent against savings deposits, Christmas and vacation club accounts, and the first $5 million of other time deposits at each member bank. The reduction was made in two steps: the first, from 4 to 3½ per cent, effective with the reserve computation period beginning March 2, 1967; and the second, from 3½ to 3 per cent, effective with the reserve computation period beginning March 16, 1967.

Votes for this action: Messrs. Martin, Robertson, Shepardson, Mitchell, Maisel, and Brimmer. Votes against this action: None.

Economic and financial conditions prevailing at the time this action was taken are described in some detail in the record of policy actions of the Federal Open Market Committee, presented elsewhere in this ANNUAL REPORT. In brief, the economy had been displaying weakening tendencies since prior to the turn of the year. Production schedules were being adjusted to reduce excessive inventories, investment in new plant facilities was falling, and consumer spending for durable goods was declining.

In these circumstances the Federal Reserve moved to a more expansive monetary policy. Open market operations were undertaken to supply reserves generously, thereby permitting member banks to reduce their borrowings, enabling them to begin to restore liquidity positions, and supporting a rapid expansion of bank credit. The reduction in reserve requirements was a complementary easing action, designed to assist in meeting developing credit needs throughout the country in a manner consistent with the policy objective of assuring adequate credit availability to provide for orderly economic growth.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The action was so structured as to achieve a greater relative reduction in reserve requirements at the many smaller member banks spread throughout the banking system. Of the total amount of reserves released by the action, approximately $500 million accrued to country member banks and the remainder—about $350 million—to reserve city banks.

March 13, 1967

Revision of Regulation M, under the title Foreign Activities of National Banks, and amendments to Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act.

Effective March 15, 1967, the Board adopted a revision of Regulation M and conforming amendments to Regulation K, principally to implement Section 12(b) of Public Law 89-485.

Votes for this action: Messrs. Martin, Robertson, Shepardson, Mitchell, Maisel, and Brimmer. Votes against this action: None.

The principal purpose of the revision of Regulation M was to add two new sections covering the purchase by national banks of stock of foreign banks and loans to such banks by the national banks, as permitted under an amendment to Section 25 of the Federal Reserve Act contained in Public Law 89-485, approved July 1, 1966. (Under applicable law, Regulation M generally applies also to State-chartered banks that are members of the Federal Reserve System.)

One of the new sections of the revised Regulation authorized national banks, with the permission of the Board, to acquire the stock of foreign banks. However, the total amount of such investments was limited to not more than 25 per cent of the capital and surplus of the investing U.S. bank taken together with its capital investments, if any, in so-called Edge and agreement corporations operating pursuant to Sections 25 and 25(a) of the Federal Reserve Act.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The other new section of the revised Regulation authorized U.S. banks having a direct or indirect stock investment in foreign banks to make loans or extensions of credit to such foreign banks without regard to the provisions of Section 23A of the Federal Reserve Act.

The revision also amended Regulation M to increase to $50,000, from $20,000, the amount of credit permitted to be extended by a foreign branch of a U.S. bank to an executive officer of such branch for the purpose of acquiring or constructing living quarters for his use abroad.

The amendments to Regulation K were adopted in the interest of bringing about conformity between the two regulations.

April 6, 1967

Decrease in rates on discounts and advances by Federal Reserve Banks.

Effective April 7, 1967, the Board approved actions taken by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco establishing a rate of 4 per cent (a decrease from 4½ 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, Robertson, Shepardson, Mitchell, Daane, Maisel, and Brimmer. Votes against this action: None.

Pursuant to the policy established by this action, the Board subsequently approved the same rate for the Federal Reserve Bank of Atlanta effective April 10, 1967, and for the Federal Reserve Bank of St. Louis effective April 14, 1967.

Effective 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 decreases at most 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.

(In accordance with provisions of the Federal Reserve Act, the Federal

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Reserve Banks are required to 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 such rates since those referred to on pages 63–70 of the Board's ANNUAL REPORT for 1965. Certain proposed rate changes were disapproved by the Board in 1966, as described on pages 94–97 of the Board's ANNUAL REPORT for 1966.)

The implementation, through open market operations and a reduction of reserve requirements, of a policy of monetary ease during the early months of 1967 enabled banks to achieve more comfortable reserve positions. This was accompanied by a marked decline in interest rates, particularly in the short-term area. Over the first 3 months of the year the 3-month Treasury bill rate dropped from around 4.80 per cent to nearly 4 per cent, while the Federal funds rate declined from around 5.50 per cent to about 4 per cent.

The action to decrease the discount rate by ½ percentage point to a level of 4 per cent was taken in order to move that rate into closer alignment with the reduced level of money market rates. Moreover, in a period of hesitation in economic expansion such a reduction in the discount rate was in keeping with the general Federal Reserve policy objective of assuring adequate credit availability to provide for orderly economic growth.

April 20, 1967

Amendment to Regulation F, Securities of Member State Banks.

Effective April 20, 1967, Regulation F was amended to permit the use of a new form designed to simplify registration requirements under certain circumstances.

Votes for this action: Messrs. Martin, Shepardson, Daane, and Maisel. Votes against this action: None.

The purpose of this amendment was to authorize use of a simplified form for registration of additional classes of securities

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

of a member State bank in cases where most of the information necessary for the protection of investors in securities of the bank was already publicly available.

May 15, 1967

Amendment to Regulation O, Loans to Executive Officers of Member Banks.

Effective July 1, 1967, Regulation O was amended to exclude from its coverage certain types of indebtedness of executive officers arising from the use of charge accounts and credit-card or check-credit plans.

> Votes for this action: Messrs. Martin, Robertson, Mitchell, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None.

The purpose of the amendment was to exclude from the coverage of Section 22(g) of the Federal Reserve Act and of Regulation O certain indebtedness of an executive officer to a bank, other than his own bank, arising out of the use of charge accounts and credit-card or check-credit plans. The amendment also excluded an executive officer's indebtedness to his own bank arising from such transactions (except in the case of a particular indebtedness that would involve prior individual clearance or approval by his bank going beyond routine confirmation of the right to incur such indebtedness required of all participants in the general plan), but in no event to the extent that the aggregate amount of his indebtedness exceeded $1,000.

Because of its impersonal nature, indebtedness of the type covered by the new exclusion was not regarded as falling within the general intent of Section 22(g) of the Federal Reserve Act. However, in order to guard against possible abuse or evasion of the basic purposes of the law, certain limitations were prescribed

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

in the case of indebtedness of an executive officer to his own bank.

July 20, 1967

Revision of Regulation J, under the title Collection of Checks and Other Items by Federal Reserve Banks, and revocation of Regulation G, Collection of Noncash Items.

Effective September 1, 1967, the Board adopted a revision of Regulation J and revoked Regulation G.

> Votes for this action: Messrs. Robertson, Mitchell, Maisel, Brimmer, and Sherrill. Votes against this action: None.

The new Regulation J replaced the previous Regulations G and J, which related, respectively, to the collection of noncash items and the collection of checks and other cash items. This combination had the advantage of avoiding repetition while at the same time insuring a precise interlock between the provisions relating to cash items and those relating to noncash items.

In general, the revision of Regulation J brought the regulatory provisions into closer conformity with the check collection provisions of the Uniform Commercial Code and with developments in banking practices. It also clarified and described in more precise language the terms and conditions under which checks and other items would be received and handled for collection by the Federal Reserve Banks.

In connection with the adoption of the new Regulation, the Federal Reserve Banks revised their operating circulars governing the details of collection operations, also effective September 1, 1967.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

November 13, 1967

Revision of foreign credit restraint program guidelines.

Effective November 16, 1967, the Board issued revised guidelines for banks and nonbank financial institutions cooperating with the President's program of voluntary foreign credit restraint to improve the nation's balance of payments.

Votes for this action: Messrs. Robertson, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None.

During 1967 the financial community had continued to cooperate effectively with the President's voluntary foreign credit restraint program. Foreign credits of commercial banks increased far less in the first three quarters of the year than would have been permitted by the program guidelines; on September 30 the banks were $783 million below the end-of-1967 target ceiling. Foreign claims of nonbank financial institutions subject to the guidelines for such institutions declined by $76 million (3.9 per cent) during the first 6 months of 1967, and at the end of June those institutions were $57 million below the target ceiling.

Nevertheless, since the U.S. balance of payments position had not improved during 1967, it was considered necessary to continue the voluntary effort to reduce the outflow of private capital. Accordingly, the Board issued revised guidelines for financial institutions.

The changes in the commercial bank guidelines were designed to tighten somewhat the over-all restraint on the flow of bank capital abroad, restrict further growth in nonexport credits to developed countries of continental Western Europe, provide more equitable treatment for banks that had small bases on December 31, 1964, and give further stimulus to export financing.

The program for nonbank financial institutions remained substantially the same as that for 1967. However, the target ceiling applicable to assets covered by the guidelines was increased somewhat for 1968, and reporting requirements were modified to reduce the number of reporting institutions.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

November 18, 1967

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

Effective November 20, 1967, the Board approved actions taken by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco establishing a rate of 4½ per cent (an increase from 4 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, Robertson, Mitchell, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None.

Pursuant to the policy established by this action, the Board subsequently approved the same rate for the Federal Reserve Bank of Philadelphia effective November 21, 1967, and for the Federal Reserve Bank of St. Louis effective November 27, 1967.

Effective the same dates the Board approved for the respective Federal Reserve Banks a rate of 5 per cent (an increase from 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.

(In accordance with provisions of the Federal Reserve Act, the Federal Reserve Banks are required to 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 the most recent rate changes were made in April 1967, as described on pages 74 and 75 of this ANNUAL REPORT.)

On November 18 the British Government announced a reduction in the par value of the pound sterling from $2.80 to $2.40. Later that day—against the background of growing inflationary pressures in the United States, but more specifically as a modest precautionary move in a situation of grave international uncertainties—the Board approved an increase of ½ percentage point in the discount rate to a level of 4½ per cent, effective November 20, for all Federal Reserve Banks whose directors

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

had acted not later than November 19 to establish the higher rate. By the afternoon of November 19 the directors of 10 Reserve Banks had fixed the 4½ per cent rate, and the announcement made by the Board so indicated.

The action on the discount rate was undertaken, in combination with appropriate open market operations, to help assure the continued orderly functioning of U.S. financial markets and to maintain the availability of reserves to the banking system on terms and conditions that would foster sustainable economic growth at home and a sound international position for the dollar. At the same time the Board expressed its confidence in the basic economic and financial strength of the United States and pledged to do its full share in maintaining the soundness of the dollar both domestically and internationally. In addition, the Board affirmed that borrowing by member banks for purposes of making adjustments to market pressures was an appropriate use of the discount mechanism.

In the course of this action, the Board of Directors of the Federal Reserve Bank of New York at first established a rate of 5 per cent on discounts and advances under Sections 13 and 13a. However, that rate was disapproved by the Board of Governors, on the ground that a more moderate response to the existing situation was appropriate. The New York Board then acted to fix the Bank's rate at 4½ per cent, and that rate was approved by the Board of Governors.

November 29, 1967

Amendments to Regulation F, Securities of Member State Banks.

Effective December 31, 1967, Regulation F was amended to add a definition of "beneficial ownership" and a provision relating to inclusion of minority stockholder proposals in a bank's proxy soliciting material.

> Votes for this action: Messrs. Robertson, Maisel, Brimmer, and Sherrill. Votes against this action: None.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Diversity had been noted in the reporting of ownership of bank stock held by members of families of directors, officers, and principal stockholders of banks subject to Regulation F. This had occurred not only in stock-ownership reports required to be filed by such persons pursuant to Section 16(a) of the Securities Exchange Act but also in registration statements and proxy statements required to be filed by banks pursuant to Sections 12 and 14 of the Act. In the interest of uniform disclosure, the Board incorporated a definition of the term "beneficial ownership" in Regulation F.

In the light of experience gained since Regulation F was adopted in 1964, the Board also determined that it would be in the public interest to adopt requirements relating to presentation of stockholder proposals in a bank's proxy soliciting material. The new provisions were designed to promote corporate democracy and at the same time to provide reasonable rules covering relationships between bank management and minority stockholders.

December 27, 1967

Amendment to Regulation D, Reserves of Member Banks.

The Supplement to Regulation D was amended to increase reserve requirements against demand deposits in excess of $5 million at any one bank from 16½ per cent to 17 per cent for reserve city banks, effective with the reserve computation period beginning January 11, 1968, and from 12 per cent to 12½ per cent for other member banks, effective with the reserve computation period beginning January 18, 1968.

Votes for this action: Messrs. Martin, Robertson, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None.

In the closing months of 1967, with inflationary pressures increasing following the termination of strikes in the auto and other industries, and with pressure on the international position of the dollar intensifying after the devaluation of the pound ster-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ling, monetary policy was shifted toward a less expansive stance. Overt Federal Reserve action initially took the form of an increase of ½ percentage point in the discount rate in November. In December, as prices continued to advance rapidly, as losses from the U.S. gold stock mounted, and as the U.S. international trade balance diminished, Federal Reserve open market operations were adjusted in support of the less expansionary monetary policy.

The December 27 action to increase member bank reserve requirements was an additional coordinated step in furtherance of the Federal Reserve's general policy objective, namely, the fostering of financial conditions conducive to the resistance of inflationary pressures and progress toward reasonable equilibrium in the U.S. balance of international payments. The action was designed to affect primarily the larger member banks—about 2,000 in number—doing the great bulk of the nation's banking business. The resulting increase in required reserves was estimated to total approximately $360 million at reserve city banks and $190 million at other member banks, bringing about a corresponding decrease in funds that might otherwise have been used for loans and investments. The effective dates for the increase in percentage requirements were selected to coincide with a period when needs for reserves would normally be declining from their pre-Christmas peak.

December 29, 1967

Revision of foreign credit restraint program guidelines.

Effective January 1, 1968, the Board adopted revised guidelines for 1968 for the use of banks and nonbank financial institutions in limiting foreign credits as part of the President's new balance of payments program.

> Votes for this action: Messrs. Martin, Robertson, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The revised guidelines were a part of and were announced simultaneously (on January 1, 1968) with the President's new program to strengthen the U.S. balance of payments. The guidelines, substantially more restrictive than those issued on November 16, 1967, were designed to achieve a net inflow of capital of at least $500 million during 1968. The intent was to focus the major effect of the reduction in outstanding credits on the developed countries of continental Western Europe without adverse effects on credits necessary to finance U.S. exports or on credits to developing countries.

For banks whose 1968 ceilings had previously been set at 109 per cent of the amount of foreign credits they had outstanding on December 31, 1964, the ceiling for 1968 would now be 103 per cent. For other banks with smaller bases, whose ceilings had been set at 2 per cent of their total assets on December 31, 1966, the 1968 ceiling would now be an amount equal to their 1967 ceiling plus one-third of the addition to that ceiling envisaged in the original 1968 guidelines.

Banks were also asked to reduce outstanding loans with maturities of 1 year or more to developed countries of continental Western Europe by not renewing such loans at maturity, and by not relending the repayments of such loans to residents of those countries. The guidelines requested also that short-term loans to developed countries of continental Western Europe be reduced during 1968 by 40 per cent of the amount outstanding on December 31, 1967, at a rate of not less than 10 percentage points in each quarter. The ceilings of the individual banks involved would be further reduced during 1968 by the amount of repayments received on term loans to developed countries of continental Western Europe, plus an amount equal to 40 per cent of the short-term credits to such countries outstanding on December 31, 1967.

The revised guidelines for nonbank financial institutions requested that holdings of foreign assets covered by the program be reduced during 1968 by 5 per cent or more compared with

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the amount of such assets held on December 31, 1967. It was expected that holdings of deposits and money market instruments abroad would be reduced to zero, or to the minimum working balance required to conduct foreign business activities, even if that entailed a reduction of covered foreign assets by more than 5 per cent. Nonbank financial institutions were requested to refrain from making any new loans or investments in developed countries of continental Western Europe other than those judged essential for the financing of U.S. exports.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 meetings of the Federal Open Market Committee held during the calendar year 1967, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions. The summary descriptions of economic and financial conditions are based on the information that was available to the Committee at the time of the meetings, rather than on data as they may have been revised later.

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.

As noted on page 341, the Federal Open Market Committee adopted a revision of its Rules relating to the availability of information to the public, effective July 4, 1967. Under the revised rules, the policy record for each meeting is released approximately 90 days following the date of the meeting and is subse-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

quently published in the *Federal Reserve Bulletin* as well as in the Board's ANNUAL REPORT.

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. In the area of domestic open market activities the Federal Reserve Bank of New York operates under two separate directives from the Open Market Committee—a continuing authority directive and a current economic policy directive. In the foreign currency area it operates under an authorization for System foreign currency operations and a foreign currency directive. These four instruments are shown below in the form in which they were in effect at the beginning of 1967. Subsequent revisions in the current economic policy directive are shown in the records for each meeting held during the year. A revision in the continuing authority directive is shown in the policy record for the meeting of March 7, 1967, and revisions in the authorization for System foreign currency operations are shown in the records for the meetings of May 23, July 18, November 14, November 27, and December 12.

CONTINUING AUTHORITY DIRECTIVE WITH RESPECT TO DOMESTIC OPEN MARKET OPERATIONS
(in effect January 1, 1967)

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:

(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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 $2.0 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;

(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 $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;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, 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, obligations, or acceptances in 15 calendar days or less, at rates not less than (1) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities or agency issues 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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 $1 billion.

CURRENT ECONOMIC POLICY DIRECTIVE
(in effect January 1, 1967)

The economic and financial developments reviewed at this meeting indicate that over-all domestic economic activity is continuing to expand, with rising defense expenditures but with additional evidences of moderating tendencies in the private economy. While there has been some slowing in the pace of advance of most broad price measures, upward price pressures persist for many finished goods and services. Bank credit and money have shown no net expansion in recent months. Although demands on bond markets have increased, upward pressures on long-term interest rates have moderated. The balance of payments remains a serious problem. In this situation, it is the Federal Open Market Committee's policy to foster money and credit conditions conducive to noninflationary economic expansion and progress toward reasonable equilibrium in the country's balance of payments.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to attaining somewhat easier conditions in the money market, unless bank credit appears to be resuming a rapid rate of expansion.

AUTHORIZATION FOR SYSTEM FOREIGN CURRENCY OPERATIONS
(in effect January 1, 1967)

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive:

A. To purchase and sell the following 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 U.S. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

B. To hold foreign currencies listed in paragraph A above, up to the following limits:

(1) Currencies held spot or purchased forward, up to the amounts necessary to fulfill outstanding forward commitments;

(2) Additional currencies held spot or purchased forward, up to the amount necessary for System operations to exert a market influence but not exceeding $150 million equivalent; and

(3) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to $200 million equivalent.

C. To have outstanding forward commitments undertaken under paragraph A above to deliver foreign currencies, up to the following limits:

(1) Commitments to deliver to the Stabilization Fund foreign currencies in which the United States Treasury has outstanding indebtedness, up to $200 million equivalent;

(2) Commitments to deliver Italian lire, under special arrangements with the Bank of Italy, up to $500 million equivalent; and

(3) Other forward commitments to deliver foreign currencies, up to $275 million equivalent.

D. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such 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.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for System Open Market Account with the following foreign banks, which are among those designated by the Board of Governors

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)	Maximum period of arrangement (months)
Austrian National Bank	100	12
National Bank of Belgium	150	12
Bank of Canada	500	12
Bank of England	1,350	12
Bank of France	100	3
German Federal Bank	400	6
Bank of Italy	600	12
Bank of Japan	450	12
Netherlands Bank	150	3
Bank of Sweden	100	12
Swiss National Bank	200	6
Bank for International Settlements:		
System drawings in Swiss francs	200	6
System drawings in authorized European currencies other than Swiss francs	200	6

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall be at prevailing market rates and no attempt shall be made to establish rates that appear to be out of line with underlying market forces. Insofar as is practicable, foreign currencies shall be purchased through spot transactions when rates for those currencies are at or below par and sold through spot transactions when such rates are at or above par, except when transactions at other rates (i) are specifically authorized by the Committee, (ii) are necessary to acquire currencies to meet System commitments, or (iii) are necessary to acquire currencies for the Stabilization Fund, provided that these currencies are resold forward to the Stabilization Fund at the same rate.

4. It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in accordance with Section 14(e) of the Federal Reserve Act.

6. 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) is authorized to act on behalf of the Committee when it is necessary to enable the Federal Reserve Bank of New York to engage in foreign currency operations before the Committee can be consulted. All actions taken by the Subcommittee under this paragraph shall be reported promptly to the Committee.

7. The Chairman (and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors) is authorized:

A. 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;

B. 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; and

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. 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.

10. The Special Manager of the System Open Market Account for foreign currency operations shall keep the Committee informed on conditions in foreign exchange markets and on transactions he has made and shall render such reports as the Committee may specify.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FOREIGN CURRENCY DIRECTIVE
(in effect January 1, 1967)

1. The basic purposes of System operations in foreign currencies are:

A. To help safeguard the value of the dollar in international exchange markets;

B. To aid in making the system of international payments more efficient;

C. To further monetary cooperation with central banks of other countries having convertible currencies, with the International Monetary Fund, and with other international payments institutions;

D. To help insure that market movements in exchange rates, within the limits stated in the International Monetary Fund Agreement or established by central bank practices, reflect the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public; and

E. To facilitate growth in international liquidity in accordance with the needs of an expanding world economy.

2. Unless otherwise expressly authorized by the Federal Open Market Committee, System operations in foreign currencies shall be undertaken only when necessary:

A. To cushion or moderate fluctuations in the flows of international payments, if such fluctuations (1) are deemed to reflect transitional market unsettlement or other temporary forces and therefore are expected to be reversed in the foreseeable future; and (2) are deemed to be disequilibrating or otherwise to have potentially destabilizing effects on U.S. or foreign official reserves or on exchange markets, for example, by occasioning market anxieties, undesirable speculative activity, or excessive leads and lags in international payments;

B. To temper and smooth out abrupt changes in spot exchange rates, and to moderate forward premiums and discounts judged to be disequilibrating. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified or curtailed unless upon review and reassessment of the situation the Committee directs otherwise;

C. To aid in avoiding disorderly conditions in exchange markets. Special factors that might make for exchange market instabilities include (1) responses to short-run increases in international political tension, (2) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, and (3) market rumors of a character likely to stimulate speculative transactions.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Whenever exchange market instability threatens to produce disorderly conditions, System transactions may be undertaken if the Special Manager reaches a judgment that they may help to reestablish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. In such cases, the Special Manager shall consult as soon as practicable with the Committee or, in an emergency, with the members of the Subcommittee designated for that purpose in paragraph 6 of the Authorization for System foreign currency operations; and

D. To adjust System balances within the limits established in the Authorization for System foreign currency operations in light of probable future needs for currencies.

3. System drawings under the swap arrangements are appropriate when necessary to obtain foreign currencies for the purposes stated in paragraph 2 above.

4. Unless otherwise expressly authorized by the Committee, transactions in forward exchange, either outright or in conjunction with spot transactions, may be undertaken only (i) to prevent forward premiums or discounts from giving rise to disequilibrating movements of short-term funds; (ii) to minimize speculative disturbances; (iii) to supplement existing market supplies of forward cover, directly or indirectly, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders; (iv) to allow greater flexibility in covering System or Treasury commitments, including commitments under swap arrangements; (v) to facilitate the use of one currency for the settlement of System or Treasury commitments denominated in other currencies; and (vi) to provide cover for System holdings of foreign currencies.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

JANUARY 10, 1967

Authority to effect transactions in System Account.

Expansionary forces in the economy were moderating as 1966 ended, and business inventory/sales ratios had risen substantially. With inventory accumulation expected to slow, a reduced rate of over-all economic growth appeared likely in the first quarter of the new year.

Gross national product was estimated to have increased substantially in the fourth quarter of 1966, but much of the advance appeared to reflect the sharp rise in inventory accumulation. Growth slackened in consumer spending for goods, in business capital outlays, and, apparently, in Federal defense expenditures. The downtrend in residential construction activity that had begun in the spring of 1966 continued in the fourth quarter, although in November housing starts recovered most of their sharp October decline. Industrial production was little changed during the quarter at about the level reached in August, as output curtailments in such industries as steel, construction materials, automobiles, and some household appliances offset continued gains in certain other industries. There had been some rise recently in claims for unemployment compensation, but labor market conditions generally remained strong in the closing months of 1966.

With respect to the outlook for the first quarter of 1967, prospective business efforts to hold down the pace of inventory accumulation appeared likely to lead to a marked slowing of the growth rate in GNP, to some decline in industrial production, and to a moderate increase in the unemployment rate from the level of around 3.8 per cent that had prevailed recently. Defense outlays were expected to remain an expansive influence, although the evidence available at the time of this meeting suggested some further slackening in the growth of such spending as well as in business capital outlays. On the other hand, the extended decline in residential construction was expected to level out in the first quarter as a result of improvement in mortgage markets. Yields

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

on home mortgages touched a record high in November, the latest month for which data were available, but net inflows of funds to savings and loan associations and other major mortgage lenders had recovered recently, and there were indications of some actual or prospective easing in the supply of mortgage funds.

The pace of advance of broad price measures had slowed recently; indeed, the wholesale price index declined in November for the second successive month, to a level 2.3 per cent above a year earlier, as a further reduction in prices of foodstuffs more than offset a small increase in prices of industrial commodities. The earlier succession of substantial increases in consumer prices was broken in November, when retail food prices declined somewhat and the total index rose by only one-tenth of 1 per cent. However, unit labor costs in manufacturing had risen further in recent months, as a result both of more rapid increases in average hourly earnings and of smaller gains in productivity.

Tentative estimates indicated some deterioration in the U.S. balance of payments in the fourth quarter of 1966, as an apparent improvement in the merchandise trade surplus was more than offset by an indicated worsening on capital account. While full information was not yet available on fourth-quarter developments, it appeared that the deficit on the "liquidity" basis of calculation had increased despite substantial special receipts from Germany at the year-end, and that the balance on the "official reserve transactions" basis had reverted to deficit even though there had been large net inflows of liquid funds through foreign branches of U.S. banks during the quarter.[1] Abroad, the German

[1] The balance on the "liquidity" basis is measured by changes in U.S. reserves and in liquid U.S. liabilities to all foreigners. The balance on the "official reserve transactions" basis is measured by changes in U.S. reserves and in liquid and certain nonliquid liabilities to foreign official agencies, mainly monetary authorities. The latter balance differs from the former by (1) treating changes in liquid U.S. liabilities to foreigners other than official agencies as ordinary capital flows, and (2) treating changes in certain nonliquid liabilities to foreign monetary authorities as financing items rather than as ordinary capital flows.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Federal Bank announced a reduction in its discount rate, from 5 per cent to 4½ per cent, effective January 6, 1967.

System open market operations since the preceding meeting had been directed at achieving somewhat easier conditions in the money market against a background of year-end seasonal churning. Net borrowed reserves of member banks fluctuated widely over the four statement weeks ending January 4, but on the average they were somewhat smaller than in the preceding 4 weeks—about $170 million, as compared with $215 million. The market yield on 3-month Treasury bills declined more than 20 basis points to 4.80 per cent in the third week of December and subsequently remained near that level. Other money market rates declined less, partly for seasonal reasons and partly because large financing needs of Government security dealers added to demands for short-term funds.

A buoyant atmosphere pervaded bond markets in recent weeks, as signs of moderating tendencies in the economy continued to appear and as it became increasingly evident to market participants that monetary policy had shifted toward less restraint—a view reinforced by the System's action on December 27, 1966, rescinding the letter of September 1 to member banks regarding lending to business and discount window administration.[2] Despite large recent and prospective offerings of corporate and municipal securities and a recent public sale of $600 million of participation certificates by the Federal National Mortgage Association, yields on Treasury, corporate, and municipal bonds all declined, with yields on long-term Treasury bonds returning to about their levels at the end of 1965, following the increase in the discount rate. Near the end of January the Treasury was expected to announce the terms on which it would refund securities maturing in mid-February, of which about $3.8 billion were held by the public.

[2] For the text of the September 1 letter, see the Federal Reserve BULLETIN for September 1966, pp. 1338-39; for the text of the December 27 announcement, see the BULLETIN for January 1967, p. 83.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The recent declines in security yields were accompanied by resumed expansion in commercial bank credit and private deposits. Bank credit, which had declined on balance since August, increased substantially between the last Wednesdays of November and December. The increase was attributable primarily to expansion in holdings of Government securities and in short-term loans to security dealers and brokers, as banks acted to rebuild their sharply reduced liquidity positions. Business loans did not rise, apparently because of both a continuation of restrictive lending policies and some further weakening in demands for such loans.

Time and savings deposits expanded relatively fast in December following slow growth since August, when banks began to experience sizable runoffs of negotiable certificates of deposit (CD's). Although a record volume of CD's matured in December, banks were able to increase the net volume outstanding somewhat as declines in market yields on competitive instruments, particularly Treasury bills, enhanced the relative attractiveness of CD's to investors. Expansion in the money supply (private demand deposits plus currency outside of banks), which had resumed in mid-November after a period of irregular decline beginning in July, continued in December, reflecting in large part a reduction in Government deposits at commercial banks. In 1966 as a whole the money supply increased by a little less than 2 per cent, compared with a 4.7 per cent rise in 1965.

Staff projections at the time of the Committee's preceding meeting had suggested that there would be relatively little increase from November to December in daily-average deposits of member banks—the "bank credit proxy" [3]—if the then-exist-

[3] Since mid-1966 the Committee had been making increased use of daily-average statistics on total member bank deposits as a "bank credit proxy"—that is, as the best available measure, although indirect, of developing movements in bank credit. Because they can be compiled on a daily basis with a very short lag, the deposit figures are more nearly current than available bank loan and investment data. Moreover, average deposit figures for a calendar month are much less subject to the influence of single-date fluctuations than are the avail-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ing money market conditions were maintained. But with easier conditions prevailing in the latter part of the month, these deposits increased at an annual rate of 3.4 per cent in December as a whole.

Current staff projections suggested that member bank deposit expansion would increase temporarily to an annual rate in the 7 to 9 per cent range on the average during January (largely as a result of expansion that had occurred around the turn of the year), and to a somewhat more rapid rate in that month if there were some further easing of money market conditions. All of the projected increase in January was in time and savings deposits and Government deposits; private demand deposits were expected to decline somewhat, resulting in little or no growth in the money supply.

In the Committee's discussion it was noted that appropriate monetary policy over coming months would depend importantly on the nature of Federal fiscal policies. For the immediate future, however, in light of the continued slackening of various expansionary forces in the economy and the prospect for slower overall growth in early 1967, the Committee decided that it would be desirable to relax monetary restraint somewhat further. The members agreed that the renewed expansion in bank credit and the money supply in December was appropriate; and a majority, taking note of the staff projections for the money supply and for member bank deposits, thought that somewhat easier money market conditions should be sought unless bank credit appeared to be expanding significantly faster than expected.

---

able month-end data on total bank credit, which represent estimates of loans and investments at all commercial banks on one day—the last Wednesday—of each month. For statistics on daily-average member bank deposits, see the Federal Reserve BULLETIN for October 1966, p. 1478, and subsequent months. Some brief comments on the relation between the member bank deposit series and the bank credit statistics are given in the note on p. 1460 of the October 1966 BULLETIN.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The Committee agreed that the forthcoming Treasury financing should be taken into account in the conduct of open market operations, although it was expected that the financing would be a routine one and that requirements for maintaining an "even keel" in the money market would not come into play until late in the month. Some sentiment was expressed for extending System reserve-supplying security purchases in intermediate- and longer-term Treasury securities, both to stimulate flows of funds into longer-term markets, including mortgage markets, and—for balance of payments reasons—to avoid depressing short-term interest rates unduly.

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

The economic and financial developments reviewed at this meeting indicate further moderation in various expansionary forces and sharply increased inventory accumulation. The pace of advance of broad price measures has slowed, although upward price and cost pressures persist for many finished goods and services. Partly reflecting the recent modification of monetary policy, financial market conditions have become less taut than earlier and bank credit expansion has resumed. With respect to the balance of payments, trends in international transactions indicate a continuing serious problem. In this situation, it is the Federal Open Market Committee's policy to foster money and credit conditions conducive to noninflationary economic expansion and progress toward reasonable equilibrium in the country's balance of payments.

To implement this policy, and taking account of forthcoming Treasury financing, System open market operations until the next meeting of the Committee shall be conducted with a view to attaining somewhat easier conditions in the money market, unless bank credit appears to be expanding significantly faster than currently anticipated.

Votes for this action: Messrs. Martin, Brimmer, Clay, Daane, Hickman, Maisel, Mitchell, Robertson, and Wayne. Votes against this action: Messrs. Irons, Shepardson, and Treiber.

The members dissenting from this action thought that it would be preferable not to relax monetary restraint further at this time.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Among the considerations they advanced were the continuing balance of payments problem and the desirability of awaiting further information on prospective Federal taxes and expenditures before changing monetary policy further. Individual dissenting members also expressed the judgments that, despite present indications of slower economic growth early in 1967, the longer-run prospects for the economy were not weak; and that the rate at which member bank deposits were expected to grow in January, given no change in money market conditions, was appropriate.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEBRUARY 7, 1967

Authority to effect transactions in System Account.

The pace of economic expansion continued to moderate in early 1967, according to reports at this meeting. Tentative estimates indicated that industrial production had declined somewhat in January and that, with sales of new automobiles falling further, total retail sales had failed to increase. Layoffs and short workweeks continued to be reported in the automobile industry and in some consumer appliance industries, but the labor market as a whole apparently remained strong.

Staff projections suggested that expansion in GNP would be at a sharply slower pace in the first half of 1967 than in 1966. Inventory accumulation was expected to decline markedly from its recent advanced rate, slower growth was anticipated in defense spending and business capital outlays, and only a small increase was expected in real takings of goods by consumers. On the other hand, it appeared likely that the substantial decline in residential construction would end and that State and local government outlays would continue to expand.

Projections by the Council of Economic Advisers, contained in its recent annual report, also indicated slowing of the economic advance in the first half of 1967. The Council expected expansion to accelerate in the second half of the year, when it anticipated a strong rise in residential construction, an end to the decline in the rate of inventory investment, and a rise in transfer payments (primarily as a result of a proposed increase at midyear in social security benefits). The Council foresaw a sizable stimulus from fiscal policy in the first half of the year, but the administration's budget recommendations provided for a shift in the direction of fiscal restraint at midyear in the form of a 6 per cent surcharge on income tax liabilities of individuals and corporations.

In December the wholesale price index was stable and the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

consumer price index again rose by only one-tenth of 1 per cent. Effective February 1, the minimum wage was increased and its coverage extended under the terms of legislation enacted in 1966. Unit labor costs in manufacturing were estimated to have been 2.7 per cent above their year-earlier level in the fourth quarter of 1966, and it appeared likely that such costs would continue to rise.

The deficit in the U.S. balance of payments on the "liquidity" basis of calculation was estimated to have been at an annual rate of about $2 billion in the fourth quarter of 1966, despite larger dollar receipts from various official transactions. For the full year the deficit on this basis was estimated at $1.4 billion. On the "official reserve transactions" basis there was a small deficit in the fourth quarter but a surplus of $175 million for the year. Partial data for January indicated a continued sizable deficit on both bases of calculation. Liabilities of U.S. banks to their foreign branches declined in late December and early January, but remained well above their level in the spring of 1966.

Abroad, interest rates had declined substantially from their recent peaks in the Euro-dollar market and in various national markets. The Bank of England reduced its discount rate from 7 to 6½ per cent on January 26, and subsequently the central banks of Canada, Belgium, and Sweden reduced their discount rates by varying amounts.

Open market operations since the last meeting of the Committee had been directed at attaining somewhat easier conditions in the money market. Net borrowed reserves averaged about $60 million in January and member bank borrowings about $475 million, compared with $190 million and $530 million, respectively, in December. Rates on Federal funds moved generally lower, and they fell sharply in the last week of January when float rose temporarily in the wake of a severe snowstorm in the midwest. The yield on 3-month Treasury bills declined further, from 4.80 per cent 4 weeks earlier to less than 4.50 per cent,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

although by the time of this meeting it had backed up slightly. Rates on other short-term instruments also moved significantly lower. A major New York City bank reduced its prime lending rate from 6 to 5½ per cent on January 26, and subsequently many other banks lowered their prime rates, but generally to 5¾ per cent.

Long-term security yields also had declined sharply further in recent weeks. Yields on new corporate bonds reached their lowest levels since April 1966, and those on Treasury and municipal bonds fell to levels prevailing prior to the increase in the discount rate in December 1965. Although the market atmosphere became cautious at times, mainly because of reports of a growing calendar of corporate and municipal offerings, sentiment was buoyed by various developments. These included the evidences of further easing of monetary policy; the President's statement—in his State of the Union message of January 10—that he was proposing a surcharge on income taxes and would strive to lower interest rates; and the reductions in discount rates by foreign central banks and in prime rates by domestic commercial banks. Activity in the stock market was extremely heavy, and prices of common stocks advanced virtually without interruption after the first of the year.

On January 25 the Treasury announced that it would refund securities maturing in mid-February with a cash offering of two new securities, a 15-month note and a 5-year note, both bearing 4¾ per cent coupons and priced to yield 4.85 and 4.84 per cent, respectively. With market yields declining, the new issues were heavily oversubscribed. The Treasury was expected to announce in late February or early March an offering of tax-anticipation bills due in June, and a large volume of Federal agency securities and participation certificates was expected to be marketed before midyear.

Net inflows of savings funds to depositary-type institutions increased considerably in late 1966 and early 1967, and conditions

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

in markets for home mortgages appeared to have eased further recently. The rate of new mortgage commitments still appeared to be lagging, however, as many institutions used a large part of the inflows to improve their liquidity positions. Housing starts declined less than seasonally in December, but the annual rate remained relatively low.

The rate of increase in total bank credit between late December and late January was the highest since mid-1966. Banks substantially increased their holdings of municipal and Federal agency securities and their loans to businesses and security dealers. The sharp rise in business loans, following 5 months of slow net growth, was in part a reflection of a temporary concentration of corporate needs for funds to make accelerated tax payments.

Growth in time and savings deposits, which had resumed in December, accelerated in January. The increase was centered in large-denomination negotiable CD's, which became increasingly attractive to investors as yields on competitive market instruments declined. The net increase in such CD's outstanding at weekly reporting banks was at a record high in January, and in the 6 weeks after mid-December such banks recovered more than two-thirds of the runoff they had experienced in the preceding 4 months. The average maturity of new issues of CD's was lengthened significantly in January for the first time since mid-1966, and recently many banks had reduced their offering rates on CD's.

As a result of the marked increase in time deposits—together with a substantial rise in Government deposits, which was offset in part by a decline in private demand deposits—the bank credit proxy (daily-average member bank deposits) rose more from December to January than had been expected, even in the light of the easing of money market conditions that had occurred. New staff projections suggested that, if money market conditions remained unchanged, bank credit as measured by the proxy series

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

would rise at an annual rate of about 9 to 11 per cent from January to February. The projections allowed for continued rapid growth in time deposits, resumed growth in private demand deposits, and some decline in Government deposits.

The Committee decided that it would be appropriate at this time to maintain the easier money market conditions achieved under the policies adopted at the three preceding meetings, unless bank credit appeared to be deviating significantly from its expected course. Various reasons were advanced by individual members against a further deliberate relaxation of monetary policy at present. These included the recent and projected growth rates of bank credit, which some members considered to be at about the upper end of a desirable range in the current circumstances; the likelihood that much of the impact on the economy of the policy actions already taken was still to come; the risk that unduly rapid easing might necessitate a sharp reversal of policy later in the year; the possibility that speculative excesses would be encouraged by continued increases in prices of fixed income securities; and concern about the implications of rising labor costs for the foreign trade balance and of declining domestic interest rates for international capital flows. The current Treasury financing also was mentioned, although "even keel" considerations were considered less important than usual in view of the market reception of the new securities.

At the same time, in light of the short-run economic outlook there was considerable sentiment for "leaning toward ease" in open market operations. In particular, the Committee agreed that efforts should be made to resist any sharp rises in interest rates but that rates should be permitted to decline if market forces worked in that direction. It was noted in this connection that the recent declines in interest rates had reflected expectational factors to an important extent, and that long-term rates were particularly vulnerable at present to a change in expectations.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

The economic and financial developments reviewed at this meeting indicate further moderation in various expansionary forces, with continued large inventory accumulation. The pace of advance of broad price measures has slowed, although upward price and cost pressures persist for many goods and services. Interest rates have declined markedly, financial conditions generally are considerably easier, and bank credit expansion recently has been vigorous. While interest rates abroad have also declined, trends in international transactions indicate a continuing serious balance of payments problem. In this situation, it is the Federal Open Market Committee's policy to foster money and credit conditions, including bank credit growth, conducive to noninflationary economic expansion and progress toward reasonable equilibrium in the country's balance of payments.

To implement this policy, and taking account of the current Treasury financing, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining the prevailing conditions of ease in the money market, but operations shall be modified as necessary to moderate any apparently significant deviations of bank credit from current expectations.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Clay, Daane, Hickman, Irons, Maisel, Robertson, Shepardson, and Wayne. Vote against this action: Mr. Mitchell.

Mr. Mitchell dissented from this action because he favored moving somewhat further toward ease. He was inclined to give more credence to the present expectations for a weaker economic performance in the first half of the year than to those for a stronger performance in the second half, and he thought that the major economic risk for the immediate future was that a downturn in over-all economic activity might be precipitated by the expected inventory adjustment.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MARCH 7, 1967

1. Authority to effect transactions in System Account.

Evidences of marked slowing in the pace of economic expansion were reported at this meeting. In February, according to tentative estimates, industrial production fell for the second consecutive month, sales of new automobiles decreased sharply further, and total retail sales declined from their reduced December–January level. Although the unemployment rate remained at 3.7 per cent in January, signs of easing demands for labor were beginning to appear in such sensitive indicators as the length of the workweek in manufacturing, claims for unemployment insurance, and indexes of "help wanted" advertisements. On the other hand, residential construction activity turned up in January, after 10 months of decline, as conditions in mortgage markets continued to ease.

Staff projections of GNP for the first half of 1967, which earlier had suggested a sharply reduced rate of growth, had been lowered somewhat further and now implied only moderate increases in dollar GNP and little rise in real output of goods and services. A large reduction in the rate of business inventory accumulation was still expected, although there was little evidence as yet to suggest that the adjustment had begun; in January, with retail sales sluggish, inventories of manufacturers rose sharply further despite cutbacks in production, and manufacturers' stock/sales ratios advanced to the highest levels since 1961. Defense spending was expected to continue increasing, although at a slower rate; and residential construction outlays were expected to be about the same in the first quarter as a whole as in the fourth quarter of 1966, and to rise in the second quarter. However, continuing lack of strength in consumer demands for durable goods was suggested by a Census Bureau survey taken in mid-January, which found that smaller proportions of consumers were planning to buy new cars and household durable

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

goods than was the case a year earlier. It was indicated that a Department of Commerce–Securities and Exchange Commission survey, taken in February, would show that businesses planned to make outlays on new plant and equipment in the first half of 1967 at a rate no higher than that actually recorded in the fourth quarter of 1966.

The consumer price index was unchanged in January, but average wholesale prices of both industrial commodities and foodstuffs rose. Advance estimates for February suggested that average prices of industrial commodities had remained stable in that month and that prices of foodstuffs had declined somewhat. Unit labor costs in manufacturing rose sharply further in January.

With respect to balance of payments developments, capital outflows from the United States had increased relatively little recently despite the easing of domestic monetary conditions. On the other hand, revised data indicated that the surplus on U.S. merchandise trade had not improved in the fourth quarter of 1966, as had been reported earlier. Growth in imports, which previously appeared to have leveled off in late 1966, was now shown to have continued at a reduced rate through January 1967, and estimates of growth in exports in the fourth quarter had been revised downward. Prospects still favored improvement in the trade surplus over coming months, when slowing inventory accumulation was expected to reduce the demand for imports.

Abroad, economic activity had been slackening for several months in a number of industrial countries, including the United Kingdom and Germany, and monetary and fiscal policies were being relaxed somewhat. The German Federal Bank, which along with the Bank of England and a number of other central banks had reduced its discount rate earlier in the year, announced a further reduction, from 4½ to 4 per cent, on February 17. Reserve requirements of German commercial banks were lowered effective March 1.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Conditions in domestic financial markets had passed through two distinct phases since the preceding meeting of the Committee, with a period of firmer money markets, congested bond markets, and rising long- and short-term interest rates followed by a period of easier financial conditions and declining rates. Shifts in expectations of market participants contributed importantly to these developments.

Early in the period concern developed about the viability of the levels to which interest rates had fallen, in view of a steady stream of additions to an already large calendar of corporate and municipal security issues, large inventories of securities held by underwriters, and rumors of renewed sales of FNMA participation certificates. Moreover, market participants began to reappraise the prospects for monetary policy, partly because of congressional testimony by various officials suggesting a strengthening of economic forces in the second half of the year. A belief that the trend of monetary policy toward greater ease had been halted, and perhaps reversed, was strengthened by the development of firmer conditions in the money market, as reflected by increases in rates on Treasury bills and Federal funds and advances in lending rates to Government securities dealers posted by major New York City banks. The System injected a large volume of reserves through open market operations in an effort to cope with these firming tendencies, but operations were complicated by persistent shortfalls of reserve availability from initial projections.

Subsequently, money market conditions again turned easier, earlier expectations regarding monetary policy were gradually restored, and long-term interest rates—particularly on Treasury securities—declined somewhat. These developments were initially stimulated by large-scale official purchases of Treasury securities on February 24 in conjunction with arrangements undertaken to avoid a rise in the Federal debt above the legal ceiling, and by concurrent purchases of bills for System Account to supply reserves. The view that monetary policy was still trend-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ing toward ease was reinforced on February 28 when the Board of Governors announced a reduction in member bank reserve requirements for the purpose of meeting developing credit needs throughout the country. Reserve requirements against savings deposits and the first $5 million of other time deposits at each member bank were reduced in two successive steps: from 4 to 3½ per cent, and then to 3 per cent, effective with the reserve computation periods beginning March 2, 1967, and March 16, 1967, respectively.

By the day before this meeting the yield on 3-month Treasury bills had fallen to about 4.35 per cent, roughly 20 basis points below its level at the time of the preceding meeting, and other money market conditions in general were about as easy as they had been 4 weeks earlier. In February as a whole, member bank borrowings averaged about $365 million, compared with $475 million in January; and excess reserves exceeded borrowings by about $35 million, in contrast with a net borrowed reserve position of about $65 million in the preceding month.

Following congressional approval of legislation raising the temporary debt ceiling on March 1, the Treasury announced that $2.7 billion of tax-anticipation bills due in June would be auctioned on March 7, the day of this meeting. Treasury cash balances were expected to reach relatively low levels before the March 13 payment date for these bills, and it was possible that the Treasury would need to borrow directly from the Federal Reserve for short periods.

Bank credit expanded further between the last Wednesdays of January and February, although apparently at a rate below that of the two preceding months. Banks used the additions to their reserves mainly to improve their liquidity positions; acquisitions of securities continued heavy, but business loans increased relatively little and total loans declined. Time and savings deposits grew sharply further on the average from January to February, although the rate of expansion moderated considerably over

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the course of the latter month as large money market banks became less aggressive sellers of negotiable CD's. Private demand deposits and the total money supply rose, after declining in January, and Government deposits at commercial banks were about unchanged.

Daily-average member bank deposits—the bank credit proxy—increased at an annual rate of about 15 per cent from January to February, more than had been expected. Most of the rise occurred early in February, when time deposits were growing rapidly. New staff projections for March suggested that growth in the proxy would be at an annual rate of about 6 to 8 per cent if money market conditions were unchanged, and somewhat larger if money market conditions were eased somewhat further. It appeared unlikely that banks would resume aggressive selling of negotiable CD's in the near future, in view of their large CD sales in recent months and the uncertain outlook for loan demands following the March and April dividend and tax dates. Accordingly, time deposits were projected to expand considerably less on the average in March than in February. The projections also allowed for a substantially higher average level of private demand deposits, reflecting sharp increases late in February, and some decline in the average level of Government deposits.

The Committee agreed that somewhat easier money market conditions were desirable at present to combat the effects of weakening tendencies in the economy, and that still easier conditions should be sought if bank credit appeared to be expanding significantly less than expected. Individual members mentioned various intermediate objectives, including those of encouraging sustained growth in the money supply and further declines in long-term interest rates, of stimulating banks to relax their lending policies more rapidly than they had to date, and of confirming market interpretations that the current reduction in reserve requirements was intended to be an easing action rather than simply an alternative to open market operations as a means of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

meeting seasonal reserve needs. Some members stressed the desirability of avoiding sharp shifts in expectations regarding the near-term course of monetary policy, such as had occurred in February. Others, while sharing this position, placed equal weight on the need to avoid generating expectations that monetary policy was moving more rapidly toward ease than in fact was the case. In the course of the discussion several members expressed the view that a reduction in the discount rate might well be considered soon, although none indicated that he would favor such action immediately.

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

The economic and financial developments reviewed at this meeting indicate some decline in industrial production and a marked slowing of expansion in over-all economic activity. Lack of growth in retail sales may be retarding adjustment of inventory accumulation from its recent excessive rate. Average commodity prices have changed little recently, but unit labor costs in manufacturing have risen further. Bank credit expansion has been vigorous and, after a period of rising interest rates and congested bond markets, financial conditions have again turned easier. Recent data suggest little improvement in the foreign trade surplus but also little increase in the outflow of U.S. capital. In several important countries abroad, economic activity has been softening for several months and monetary and fiscal policies have eased somewhat. In this situation, it is the Federal Open Market Committee's policy to foster money and credit conditions, including bank credit growth, conducive to combatting the effects of weakening tendencies in the economy, while recognizing the need for progress toward reasonable equilibrium in the country's balance of payments.

To implement this policy against the background of the current reductions in reserve requirements, System open market operations until the next meeting of the Committee shall be conducted with a view to attaining somewhat easier conditions in the money market, and to attaining still easier conditions if bank credit appears to be expanding significantly less than currently anticipated.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Shepardson, Swan, and Wayne. Votes against this action: None.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

2. Amendment of continuing authority directive.

On recommendation of the System Account Manager, Section 1(b) of the continuing authority directive to the Federal Reserve Bank of New York regarding domestic open market operations was amended to clarify the language describing the two limits specified on aggregate holdings of bankers' acceptances by the Federal Reserve Bank of New York, in accordance with the manner in which that language had always been interpreted. Specifically, the phrase "whichever is the lower" was added at the end of the paragraph, following the description of the two limits. With this change, 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 (1) $125 million or (2) 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, whichever is the lower.

After reviewing various amendments to the continuing authority directive that had been made during the past year, the Committee renewed the directive in its existing form (as set forth in the preface to this record of Federal Open Market Committee policy actions), except for the change resulting from this amendment.

> Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Shepardson, Swan, and Wayne. Votes against this action: None.

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Reserve Banks to serve for the year beginning March 1, 1967, 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 operations has been described in the preceding portion of the entry for this date.

The Committee reaffirmed its authorization for System foreign currency operations and its foreign currency directive, in the forms in which both were outstanding at the beginning of the year 1967, as set forth in the preface to this record of policy actions.

Votes for these actions: Messrs. Martin, Hayes, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Shepardson, Swan, and Wayne. Votes against these actions: None.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

APRIL 4, 1967

Authority to effect transactions in System Account.

Recent information supported earlier indications of a marked slowing in the pace of economic expansion and suggested that the anticipated curtailment in the rate of business inventory accumulation was under way. The latest staff projections for the first half of 1967, like those of 4 weeks earlier, implied only moderate increases in dollar GNP and little rise in real output.

Both retail sales and industrial production declined in February, as tentative estimates had suggested. In March sales of new automobiles remained close to their reduced February level, and it appeared from weekly data for most of the month that total sales continued sluggish. The production decline in February brought the capacity utilization rate in manufacturing down to 87 per cent from the 91 per cent level that had prevailed during most of 1966, and was associated with sharp reductions at factories in employment, in length of the average workweek, and in payrolls. Total nonfarm employment continued to rise, however, and the unemployment rate remained at the January level of 3.7 per cent.

With respect to inventories, accumulation by manufacturers slowed markedly in February from its earlier rapid pace. Stocks of wholesalers and retailers had not grown in January; as a result, there was a substantial reduction in that month in the over-all rate of inventory growth.

The staff projections of GNP allowed for large reductions in the rate of inventory accumulation in both the first and second quarters of 1967. Although Federal spending for defense and nondefense purposes apparently was rising somewhat more rapidly than had been expected, near-term prospects for most other broad categories of final demand did not appear strong. Growth in incomes was expected to slow in the second quarter—implying continued weakness in consumer spending for goods. Longer-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

term prospects for residential construction remained favorable, but declines in building permits and housing starts in February suggested that a strong expansion in that sector was not in immediate prospect. The results of the recent Commerce–SEC survey of business plans for plant and equipment expenditures indicated a decrease in such spending (from the fourth-quarter rate) in the first half of 1967, followed by a moderate rise in the second half. For the year as a whole, if reported plans were realized, fixed capital outlays would be 3.9 per cent above those of 1966, in contrast to increases of more than 15 per cent in each of the past 3 years. While the survey was made before the President proposed legislation to restore the tax incentives for investment that had been suspended in October 1966, it appeared unlikely that enactment of such legislation would have a significant effect on outlays until after midyear.

The consumer price index rose slightly in February; since October 1966 it had advanced at an annual rate of 1 per cent, compared with a 4 per cent rate earlier in 1966. Average wholesale prices declined in February, and according to advance estimates, they were unchanged in March at a level slightly below their peak of the preceding September. Unit labor costs continued to rise in February, and for the first quarter it appeared likely that they would average more than 4 per cent above a year earlier.

Tentative estimates of the U.S. balance of payments in the first quarter suggested that, despite some improvement in the merchandise trade surplus, the deficit was larger than in the preceding quarter on both the "liquidity" and "official reserve transactions" bases of calculation. However, it appeared that all of the increase in the liquidity deficit and part of that in the official settlements deficit was accounted for by differential effects in the two quarters of various types of special transactions. Much of the rise in the official settlements deficit reflected repayments by U.S. banks during the early weeks of the year of funds borrowed abroad through their foreign branches.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The widespread slowdown in economic activity in Western Europe, which had begun around mid-1966, apparently continued in the first few months of 1967 although in the United Kingdom there were indications that the decline in activity might be leveling out. Since the beginning of the year monetary and fiscal policy actions had been taken in a number of countries to stimulate activity, including numerous reductions in central bank discount rates. On March 16 the Bank of England reduced its discount rate for the second time in 1967, from 6½ to 6 per cent. Discount rate reductions also were made in March by the central banks of Sweden and the Netherlands.

System open market operations since the preceding meeting of the Committee had been directed at fostering somewhat easier conditions in the money market. Growth in total and nonborrowed reserves of member banks was rapid in March, as it had been in the first 2 months of the year. Free reserves rose to an average of $165 million from about $35 million in February, member bank borrowings declined to about $200 million from $365 million, and rates on Federal funds and on bank loans to Government securities dealers moved into lower ranges. Interest rates on short-term market securities fell considerably further as a result of System operations and of other factors, including further reports of weakness in economic indicators, reductions in foreign discount rates, and widespread expectations of an early cut in the Federal Reserve discount rate. The market yield on 3-month Treasury bills declined by about 35 basis points, to slightly less than 4 per cent. On March 22 a large New York City bank lowered its prime lending rate from 5¾ per cent to 5½ per cent, and subsequently many other banks took similar action.

Long-term interest rates had also moved down somewhat in recent weeks, but they remained above the 1967 lows, which had been reached in late January and early February. The declines were limited by extremely large flotations of bonds in March, including a record volume of corporate offerings, con-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

tinued heavy sales of new municipal securities, and a sizable issue of FNMA participation certificates. The volume of offerings appeared likely to remain large in April, although not so large as in March.

The Treasury was expected to announce near the end of April the terms on which it would refund securities maturing in mid-May, of which $2.9 billion were held by the public. On Friday, March 10, the Treasury temporarily replenished its cash balances by selling a special certificate of indebtedness in the amount of $149 million to the Federal Reserve. The certificate was redeemed 3 days later.

Inflows of funds to savings and loan associations and mutual savings banks were exceptionally large in February, and growth appeared to continue in March. With supplies of mortgage funds exceeding demands, conditions in mortgage markets eased further. Depositary-type institutions used a large part of their increased inflows to repay indebtedness and to acquire marketable securities.

Commercial banks also continued to experience substantial inflows of time and savings deposits in March. Expansion in such deposits over the last 4 months—December through March—had been at an annual rate of 16 per cent, nearly twice the rate for the full year 1966. Growth in large-denomination CD's had moderated considerably since early in 1967, but passbook savings deposits began to rise sharply in mid-February after almost a year of continuous decline. Demand deposits and the money supply also expanded sharply in March. The annual rate of growth in the money supply over the December–March period was 6 per cent, compared with a rise of slightly less than 2 per cent in 1966.

Commercial banks made further sizable additions to their holdings of securities in March, and in contrast with February also expanded their loan volume substantially. A large increase in business loans was associated, in part, with the needs of businesses to finance their payments of income taxes and with-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

held individual and social security taxes. From February to March the bank credit proxy—daily-average member bank deposits—rose at an annual rate of 15 per cent, the same as from January to February and more than had been expected.

Staff projections for April suggested that the bank credit proxy would expand at an annual rate in the 10 to 13 per cent range if monetary policy remained unchanged, and somewhat more rapidly if easier money market conditions were sought. The demand for business loans was expected to be enlarged temporarily because of an unusually sharp rise in April in the volume of accelerated tax payments. The projections allowed for some slackening in growth of time and savings deposits from the exceptionally rapid pace of recent months, for a large increase in Government deposits, and for a small decline in private demand deposits. With currency holdings expected to continue rising, the money supply was projected to remain about unchanged.

There was broad agreement at this meeting that it would be desirable shortly to reduce the Federal Reserve discount rate, which had been maintained at 4½ per cent since December 1965, in order to bring it into better alignment with market interest rates. It was noted that lack of such action might result in a reversal of the recent downward trends in interest rates, which reflected in part anticipations of a reduction in the discount rate. Individual members of the Committee suggested that a lower discount rate would also help to encourage further declines in yields on long-term securities and mortgage loans; in rates paid by depositary-type institutions, which had been relatively sticky in the recent period of declining yields; and in discount rates of foreign central banks.

As to what degree of reduction in the discount rate would be most desirable, one possibility discussed was a cut of ¼ of a percentage point, with a second ¼ point reduction to be made later if it appeared warranted by unfolding developments.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

However, most of the members favored a reduction of the discount rate by ½ of a percentage point, for various reasons. A smaller reduction, they thought, was likely to be interpreted by financial market participants as a cautionary signal regarding System policy intentions, and thus might lead to a back-up in market interest rates that would be difficult to offset without very large injections of reserves. Also, a reduction of ¼ point would create uncertainties regarding the possibility of further discount rate action—an effect deemed undesirable in a period preceding a Treasury refunding operation. Moreover, a ½ point cut was viewed as likely to have significantly stronger effects than the more modest action in encouraging reductions in other interest rates domestically and abroad.

With respect to open market operations, a number of members expressed the view that recent growth rates in member bank reserves, bank credit, and the money supply—while appropriate temporarily in light of the slowing of the business expansion—were too high to be sustained for an extended period. In particular, they questioned the desirability of any policy course that might tend to accelerate growth in these financial aggregates, given the lagged effects of monetary policy and the possibility that business activity would be expanding more vigorously later in the year. These members suggested that operations might be directed toward maintaining the prevailing state of net reserve availability, or of money market conditions in general, with such modifications as might be necessary to moderate apparently significant deviations of bank credit growth in either direction from current expectations.

Other members favored open market operations consistent with the somewhat easier money market conditions that they expected would follow the anticipated reduction in the discount rate, or operations directed at attaining somewhat greater reserve availability. In general, these members thought that continued expansion in financial aggregates at rates in the neighborhood of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

those recently prevailing would be appropriate in the present economic and financial environment.

At the conclusion of the discussion the Committee agreed that open market operations should be directed at attaining somewhat easier conditions in the money market by supporting the easing expected to result from the anticipated discount rate action, but not at achieving further easing independently of that action unless bank credit appeared to be expanding significantly less than currently anticipated. With this understanding, the Committee voted to issue the following current economic policy directive to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting support earlier indications of a marked slowing of expansion in over-all economic activity. Retail sales have continued sluggish and curtailment in the rate of business inventory accumulation is in process. Average commodity prices have changed little recently, but unit labor costs in manufacturing have risen further. Bank credit expansion has remained vigorous, short-term interest rates have declined markedly further, and long-term rates have moved down somewhat despite very heavy securities market flotations. The balance of payments deficit increased in the first quarter despite some improvement in the foreign trade surplus. In several important countries abroad, monetary and fiscal policies have eased further in response to slackened economic activity. In this situation, it is the Federal Open Market Committee's policy to foster money and credit conditions, including bank credit growth, conducive to combatting the effects of weakening tendencies in the economy, while recognizing the need for progress toward reasonable equilibrium in the country's balance of payments.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to attaining somewhat easier conditions in the money market, and to attaining still easier conditions if bank credit appears to be expanding significantly less than currently anticipated.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Shepardson, Swan, and Wayne. Votes against this action: None.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MAY 2, 1967

Authority to effect transactions in System Account.

Prospects for renewed economic expansion had improved recently, according to reports at this meeting, and business confidence in the outlook had strengthened markedly. Department of Commerce figures for GNP in the first quarter confirmed earlier staff estimates that there had been no growth in real output of goods and services in that quarter. However, the official estimates—which were based in part on preliminary information for February and March—indicated that consumer expenditures had been considerably larger than anticipated, and the reduction in the rate of inventory accumulation correspondingly greater. Government outlays also appeared to have risen more than expected.

The inventory adjustments now under way were associated with both rising retail sales and a reduced level of industrial production. The retail sales estimate for February had been revised upward nearly to the January level, and the advance estimate for March showed a surprisingly large increase in that month. Although the advance estimate may have overstated the actual gain in March, weekly sales figures for the first part of April were relatively strong. Industrial output was somewhat lower in the first quarter than in the fourth quarter of 1966, and it was tentatively estimated to have fallen slightly in April. Employment in manufacturing industries declined again in March, and total nonfarm employment rose little. The unemployment rate was about unchanged in both March and April, but recent substantial increases in claims for unemployment insurance suggested weakness in some labor markets.

Continuing inventory adjustments—with a further large reduction in the accumulation rate in the second quarter and perhaps some net liquidation in the third—appeared to be in prospect. For the near term some further declines in industrial pro-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

duction and manufacturing employment seemed likely, and growth in over-all economic activity was expected to be well below the economy's potential. Nevertheless, the staff's projection for GNP in the second quarter had been revised upward moderately, in large part because of the apparent strengthening in consumer spending, and an initial projection for the third quarter suggested that activity then would be expanding at a more rapid rate. With housing starts increasing contra-seasonally in the first quarter, prospects for residential construction activity had improved. The projections assumed that total fixed investment by business would remain relatively stable at about the high first-quarter rate, that defense expenditures would continue to exceed earlier expectations, and that State and local government outlays would maintain their strong upward momentum.

The rise in the consumer price index in March was somewhat larger than the small average increase of the preceding 4 months. Contrary to earlier indications, average wholesale prices declined in March, and according to advance estimates they fell further in April. The declines in both months reflected reductions in prices of farm products and processed foods; average prices of industrial commodities were stable despite renewed weakness in prices of basic industrial materials. However, industrial prices were expected to continue under pressure from rising unit labor costs. Unit labor costs in manufacturing advanced slightly further in March, and for the first quarter as a whole they were now estimated to have been 4.7 per cent above a year earlier—the largest increase in nearly a decade.

The balance of payments deficit in the first quarter was now estimated to have been about the same as in the fourth quarter of 1966 on the "liquidity" basis of calculation, but of near record magnitude on the "official reserve transactions" basis. The liquidity deficit continued to be held down in the first quarter by various types of special transactions. First-quarter payments were affected favorably by a substantial rise in the surplus on

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

merchandise trade; the nature of the factors offsetting this favorable development could not be determined as yet from the available data.

The Board of Governors approved a reduction in the Federal Reserve discount rate from 4½ to 4 per cent on April 6, and the Bank of Canada reduced its discount rate on the same day. On April 13 the German Federal Bank lowered its discount rate for the third time in 1967—to 3½ per cent—and 2 weeks later it announced its second reduction of the year in reserve requirements. Meanwhile, market interest rates in a number of major industrial countries abroad continued to decline.

Recent System open market operations had been directed at maintaining the easier money market conditions that developed after the announcement of the Federal Reserve discount rate action on April 6. That announcement had been followed promptly by reductions in rates on Federal funds, on bank loans to Government securities dealers, and on negotiable CD's and other short-term market instruments. The market rate on 3-month Treasury bills declined more than 20 basis points, and was 3.75 per cent on the day before this meeting. Large demands by private investors, as well as System purchases, contributed to the declines in bill yields.

Total and nonborrowed reserves of member banks continued to grow in April, but at a rate sharply lower than in the first quarter. Free reserves, which fluctuated widely from week to week, averaged about $210 million, compared with $170 million in March; and average member bank borrowings declined to $150 million from $200 million.

In contrast to developments in short-term markets, long-term interest rates had risen considerably since the preceding meeting of the Committee, reaching levels well above the highs of late February. These rate advances reflected both the continued heavy volume of new security flotations and the shift to more optimistic appraisals of the economic outlook by market partici-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

pants. The volume of new corporate issues offered publicly in April, while less than the March total, was a record for the month, and the calendar of offerings scheduled for May and June was already large. Municipal bond flotations continued heavy, and another sizable issue of FNMA participation certificates was expected before midyear. Market attitudes also were influenced by the prospect that the Federal Government would have substantial needs for cash in the second half of the year.

On April 26 the Treasury announced a refunding of securities maturing in May and a prerefunding of issues maturing in June and August, with settlement scheduled for May 15. In exchange for these securities, of which about $9 billion were held by the public, the Treasury offered two new issues: a 15-month, 4¼ per cent note and a 5-year, 4¾ per cent note. The 5-year note, priced at par, was offered to holders of any of the maturing issues; the 15-month note, priced to yield 4.29 per cent, was offered to holders of securities maturing in May and June.

The seasonally adjusted rate of increase in mortgage debt outstanding rose somewhat in the first quarter after three successive quarters of decline, but it remained relatively low. Downward pressure on mortgage yields was maintained in March by continuing large inflows of funds to depositary-type institutions. These institutions were continuing to use a large part of their inflows to rebuild liquidity through repayment of debt and the acquisition of marketable securities, partly because the supply of mortgages available for immediate acquisition remained limited. However, the possibility of a further increase in flows of funds into mortgage markets in coming months was suggested by an expanding volume of mortgage commitments.

Data for city banks indicated that loan demands had been moderate in the first half of April despite large corporate tax payments. Corporations apparently used part of the proceeds of recent capital market flotations and some of their CD holdings to help finance their tax payments. Beginning in late March,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

banks sharply reduced the interest rates offered on large-denomination CD's, and the volume of such CD's outstanding declined over the tax period by more than had been contemplated in staff projections. However, growth in consumer-type time deposits accelerated in April and total time and savings deposits of commercial banks continued to expand rapidly—although not so rapidly as earlier in the year. Government deposits rose substantially as a result of receipts of taxes, and private demand deposits and the money supply declined. Daily-average member bank deposits—the bank credit proxy—rose at an annual rate of 13.5 per cent from March to April, about in line with expectations and somewhat less than the rate earlier in the year.

Net business demands for bank loans were expected to be quite moderate in May; the corporate tax period was past, needs for inventory financing appeared likely to be small, and—with the continuing large volume of capital market flotations—a rise in the rate of repayments of bank loans was possible. Growth in the bank credit proxy was projected to slow considerably in May—to an annual rate in the 1 to 4 per cent range—if money market conditions were unchanged. Staff projections for the month suggested a sharp decline in Government deposits, offset only in part by a rise in private demand deposits, and a sizable increase in the money supply. Growth in time and savings deposits was expected to moderate somewhat further.

The Committee concluded that it would be appropriate at this time to maintain the prevailing conditions in the money market. While the emphasis of individual members varied, both the general economic situation and outlook and the desirability of maintaining an "even keel" in the money market during the current Treasury financing were advanced as grounds for such a policy course. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting suggest that prospects for renewed economic expansion have improved.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The adjustment of excessive inventories is proceeding, as a result of the reduced level of industrial output and with consumer buying strengthening. Average wholesale prices have declined recently, reflecting reductions in farm and food prices and stability in prices of industrial commodities; but unit labor costs in manufacturing have risen further. Bank credit expansion has moderated in recent weeks from its earlier rapid rate. Long-term interest rates have risen considerably under the influence of heavy securities market financing and more optimistic market appraisals of the business outlook, but short-term yields have declined further following the recent reduction in Reserve Bank discount rates. Interest rates abroad have continued to decline and some further reductions have been made in foreign central bank discount rates. The balance of payments deficit has remained substantial despite some improvement in the foreign trade surplus. In this situation, it is the Federal Open Market Committee's policy to foster money and credit conditions, including bank credit growth, conducive to renewed economic expansion, while recognizing the need for progress toward reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of the current Treasury financing, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining the prevailing conditions in the money market.

Votes for this action: Messrs. Martin, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, Ellis, and Treiber. Votes against this action: None.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MEETING HELD ON MAY 23, 1967

1. Authority to effect transactions in System Account.

The latest reports on recent economic developments were somewhat less favorable than earlier. Nevertheless, staff projections continued to suggest some rise in real GNP in the second quarter and a more rapid advance in the third.

Retail sales data for February had been revised downward, and figures for March revealed that the expansion in sales then had been smaller than had been indicated by the earlier advance estimate. The Commerce Department's estimate of GNP for the first quarter had been reduced somewhat, as a downward revision in consumer expenditures on nondurable goods was only partly offset by upward revisions in defense outlays and net exports. The new estimates indicated that real GNP had declined slightly in the first quarter rather than remaining stable.

In April total retail sales were about unchanged, according to the advance estimate, although sales of new automobiles rose moderately. Industrial production declined slightly, and employment in manufacturing fell further. On the other hand, housing starts in April—while moderately below the first-quarter average—were sufficiently high to suggest that the large rise in starts usual in the spring season was likely to occur this year.

The rate of business inventory accumulation, which had declined sharply in February, fell slightly further in March and for the first quarter as a whole it was only one-third the extraordinarily high rate of the fourth quarter of 1966. Staff projections now suggested the possibility of small net inventory liquidation in the second quarter and some further decumulation in the third. While inventory adjustments were retarding industrial activity currently, by the third quarter their depressant influence was expected to be considerably reduced.

Final sales had expanded substantially in the first quarter, with

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

increases in outlays by Federal, State, and local governments accounting for an unusually high proportion—about half—of the rise in the total. It appeared likely that expansion in final sales would remain substantial in the second and third quarters, with defense expenditures continuing to exceed earlier estimates, State and local government outlays expanding sharply further, and consumer expenditures rising somewhat faster than earlier in the year. Prospects continued to favor expansion in residential construction but little change in fixed capital outlays by business.

Despite upward pressures on unit labor costs in manufacturing, average industrial prices had been stable since early in the year. Recent sharp reductions in prices of farm products and foods had resulted in a decline in the total wholesale price index and an appreciable slowing in the rate of increase in average consumer prices. The earlier marked expansion in output of livestock products had begun to taper off, however, and by summer or autumn supplies of many livestock products were expected to return to about their levels of a year earlier. As a result, it seemed likely that average wholesale prices of farm products and foods would stabilize or rise soon, and that retail food prices would advance more than seasonally by summer.

The deficit in the U.S. balance of payments in the first quarter was officially estimated at $540 million on the "liquidity" basis, compared with $450 million in the fourth quarter of 1966. A substantial increase in the merchandise trade surplus was more than offset by the combination of an unusually large rise in outflows of private U.S. capital into foreign securities and the absence of official debt prepayments in the first quarter. Tentative estimates suggested that the rate of deficit increased in April.

The deficit on the "official reserve transactions" basis had been enlarged in recent months as a result of repayments by U.S. banks of earlier borrowings through their foreign branches. In the first quarter the official settlements deficit was estimated at a record $1.8 billion, compared with a level close to zero in the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

fourth quarter of 1966, and it apparently continued very large in April. These high deficits had a substantial counterpart in the improved position of sterling.

On May 4 the Bank of England reduced its discount rate for the third time in 1967, to 5½ per cent, and on May 11 the German Federal Bank made the fourth such reduction, to 3 per cent. The National Bank of Belgium also had recently lowered its discount rate further.

In the recently completed Treasury refunding, $3.4 billion of publicly held securities maturing in May and June and $1.3 billion of securities maturing in August were exchanged for $2.0 billion and $2.7 billion, respectively, of the new 15-month and 5-year notes. The redemptions of May and June maturities for cash were somewhat larger than had been generally expected, but the volume of August maturities exchanged for the 5-year note also was greater than anticipated.

System open market operations since the preceding meeting of the Committee had been directed at maintaining an "even keel" in the money market during the Treasury financing. At member banks average free reserves were somewhat larger in the first 3 weeks of May than in April, and borrowings were moderately smaller. Federal funds traded in a narrow range around the 4 per cent discount rate, about the same as in April, while interest rates on most types of short-term market instruments moved lower. Demands for Treasury bills remained strong and the rate on 3-month bills declined 25 basis points further, to 3.50 per cent. On the other hand, major banks raised their offering rates on large-denomination CD's, particularly on those of longer maturity.

Yields on long-term securities continued to rise, under the influence of heavy current and prospective offerings of new issues and—despite some dampening of the earlier marked optimism—investor confidence that economic expansion would become more vigorous later in the year. Treasury, corporate, and municipal

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

bond yields reached new highs for 1967, and some long-term rates were approaching the peaks recorded in the summer of 1966.

The decline in mortgage yields slowed in April despite continuing large inflows of funds to depositary-type institutions, and in early May there were scattered reports of slight rises in secondary-market yields on Federally underwritten mortgages on homes. Although interest rates on mortgages had fallen considerably since turning down in November 1966, they were still high relative to the level from which their advance had started in the summer of 1965.

At commercial banks growth in business loans had slowed markedly since the mid-April tax date. The volume of large-denomination CD's outstanding declined over the same period. As a result of further growth in other types of time and savings deposits, however, the total of such deposits was continuing to expand rapidly; new staff projections suggested that from April to May time and savings deposits would rise almost as fast as they had from March to April. As before, the projections for May allowed for a sharp decline in Government deposits and sizable increases in private demand deposits and the money supply. For total member bank deposits—the bank credit proxy—the range of expected growth in May had been narrowed somewhat, to an annual rate between 3 and 4 per cent. In June the proxy was projected to rise at an annual rate in the 4 to 7 per cent range if money market conditions were unchanged. Growth in time and savings deposits was expected to be maintained at its recent pace. Further sharp declines in Government deposits and sharp increases in private demand deposits and the money supply were anticipated.

In the course of the Committee's discussion it was noted that, while prospects favored resumption of economic expansion later in the year, the current situation was characterized by various cross currents and uncertainties. The Committee concluded that

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

under these circumstances it would be desirable to maintain prevailing conditions in the money market.

A considerable amount of concern was expressed in the discussion about the recent marked increases in long-term interest rates. Some members noted that further rises might result in slowing the expected economic upturn, especially in the housing sector. The Committee concluded, although some reservations on the matter were voiced, that a constructive influence might be exercised by more extensive resort to purchases of longer-term Government securities in meeting part of the needs for bank reserves that were expected to arise in the next several weeks. In particular, it was believed that some purchases of coupon issues, if and when feasible in the course of reserve-supplying operations in the coming period, could serve to lighten somewhat the market supplies of Government securities in the maturity ranges in which such supplies were the heaviest. It was also noted that this substitution of purchases of coupon issues for bill purchases could be important for balance of payments reasons, as a means of reducing downward pressures on bill rates. The Committee members made clear that such purchases of coupon issues should not be directed at maintaining any particular level or maturity pattern of interest rates.

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

The economic and financial developments reviewed at this meeting suggest that renewed economic expansion later in the year is in prospect. Output is still being retarded by adjustments of excessive inventories, but growth in final demands, particularly Government, continues strong. Average wholesale prices have declined recently, but unit labor costs in manufacturing have risen further. Bank credit expansion has slowed in recent weeks from its earlier rapid rate. Long-term interest rates have continued to rise under the influence of heavy securities market financing, but short-term yields have declined further. Some further reductions have been made in foreign central bank discount rates. The balance of payments deficit has remained substantial despite some improvement in the foreign trade surplus. In this situation, it is the Federal Open Market

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Committee's policy to foster money and credit conditions, including bank credit growth, conducive to renewed economic expansion, while recognizing the need for progress toward reasonable equilibrium in the country's balance of payments.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining the prevailing conditions in the money market, while utilizing operations in coupon issues in supplying part of reserve needs.

> Votes for this action: Messrs. Martin, Brimmer, Daane, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, Wayne, and Treiber. Vote against this action: Mr. Francis.

In dissenting from this action, Mr. Francis expressed the view that monetary policy had been highly stimulative thus far in 1967, that fiscal policy was providing an increasing stimulus, and that the economy was responding relatively quickly. On the grounds that a marked increase in demands for goods and services was likely later in the year and that monetary policy actions had their main effects after some time lag, he thought some firming in the money market should be sought now to guard against the development later of excessive demands and associated inflationary pressures.

2. Ratification of amendments to authorization for System foreign currency operations.

At this meeting the Committee ratified actions taken by the members on May 12, 1967, amending paragraphs 1A and 2 of the authorization for System foreign currency operations, effective May 17, 1967. The first of these paragraphs was amended to add Danish kroner, Norwegian kroner, and Mexican pesos to the list of foreign currencies in which System operations were authorized. The second paragraph was amended to expand the list of foreign banks with which reciprocal currency (swap) arrangements were authorized to include the National Bank of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Denmark and the Bank of Norway, with each of which standby arrangements of $100 million equivalent were authorized, and the Bank of Mexico, with which a standby arrangement of $130 million equivalent was authorized. Maximum periods of 12 months were specified for all three new swap arrangements. With these amendments, the affected paragraphs read as follows:

1A. To purchase and sell the following 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 U.S. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:

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

* * * * * * *

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for System Open Market Account with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Foreign bank	Amount of arrangement (millions of dollars equivalent)	Maximum period of arrangement (months)
Austrian National Bank	100	12
National Bank of Belgium	150	12
Bank of Canada	500	12
National Bank of Denmark	100	12
Bank of England	1,350	12
Bank of France	100	3
German Federal Bank	400	6
Bank of Italy	600	12
Bank of Japan	450	12
Bank of Mexico	130	12
Netherlands Bank	150	3
Bank of Norway	100	12
Bank of Sweden	100	12
Swiss National Bank	200	6
Bank for International Settlements:		
System drawings in Swiss francs	200	6
System drawings in authorized European currencies other than Swiss francs	200	6

Votes for ratification of these actions: Messrs. Martin, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, Wayne, and Treiber. Votes against ratification of these actions: None.

The Committee had considered the possibility of expanding the System's network of swap arrangements to include the central banks of Denmark, Norway, and Mexico at a number of recent meetings, and it had authorized the Special Manager of the System Open Market Account to hold discussions with officials of those central banks looking toward the negotiation of arrangements between their banks and the Federal Reserve. Committee members had approved the amendments to the authorization indicated above following receipt of advice from the Special Manager that the discussions had been satisfactorily completed.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MEETING HELD ON JUNE 20, 1967

Authority to effect transaction in System Account.

Over-all economic activity was expanding at a modest pace, according to reports at this meeting, and prospects for growth later in the year had strengthened. Staff projections suggested that the current advance in real GNP, though moderate, would turn out to be higher than earlier estimates for the second quarter, and that the rate of growth would accelerate in the third quarter. The projections reflected an expectation that final sales would continue to expand rapidly in the second and third quarters, and that the effect on over-all activity of inventory adjustments—which had resulted in a slight decline in real GNP in the first quarter—would diminish progressively.

The rate of business inventory accumulation declined further in April to a low level. It appeared likely that there would be little, if any, net accumulation of inventories in the second quarter as a whole and that there would be a moderate amount of liquidation in the third quarter. Industrial production fell slightly further in May to a level about 2 per cent below the high of December 1966. Manufacturing employment declined again in May, but the reduction was less than in other recent months. The unemployment rate, at 3.8 per cent, was little changed from the April level.

Government spending remained an important source of economic stimulus, with Federal defense outlays continuing to exceed earlier estimates and State and local government expenditures rising steadily. The staff projections suggested, however, that the rate of growth in defense outlays would moderate in the second and third quarters, and that private sales would account for a larger proportion of growth in total final sales than they had in the first quarter.

Both consumer expenditures for goods and the volume of resi-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

dential construction activity appeared to have gained some momentum recently. Retail sales were now reported to have increased in April, contrary to the earlier indication that they had not changed in that month, and the advance estimate for May showed a further rise. Housing starts increased substantially in May, and various factors—including the further rise in building permits issued and the substantial increases in mortgage commitments by major groups of lenders—pointed toward higher expenditures on new housing in the months ahead.

A Commerce–SEC survey of business plans, taken in late April and May, suggested that capital spending would rise moderately in the second half of the year. The survey implied a slightly smaller rise in business outlays on plant and equipment in 1967 as a whole than had the survey taken 3 months earlier—2.9 rather than 3.9 per cent. The downward adjustment, however, was attributable mainly to a larger decline in actual outlays in the first quarter than had been implied by the plans reported earlier; for the last three quarters of the year changes in planned outlays were similar to those that had been indicated in the preceding survey.

Average wholesale prices of industrial commodities remained stable in May. Nevertheless, the over-all wholesale price index rose as prices of farm products and foods increased sharply following 7 months of nearly continuous decline. In April the consumer price index increased somewhat more than it had on the average during the winter and early spring.

With respect to the U.S. balance of payments, the surplus on merchandise trade continued to increase in April and net repayments of borrowings abroad by U.S. banks, which had enlarged the deficit on the "official reserve transactions" basis in the first 4 months of the year, were small in May. However, the available data on changes in U.S. reserves and liabilities in recent months suggested that the underlying payments deficit remained large.

Abroad, bond yields had stabilized or risen recently in a num-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ber of industrial countries, interrupting the downward trend of interest rates that had been under way since late in 1966. Conditions in some foreign exchange markets had been unsettled as a result of the Middle-East hostilities in early June.

System open market operations since the preceding meeting of the Committee had been directed toward maintaining prevailing conditions in the money market. The System supplied reserves early in the interval and again near its close, partly through purchases of coupon-bearing Treasury securities. In the intervening period the System sold bills to offset part of the large volume of reserves supplied by declines in Treasury balances at Federal Reserve Banks. On June 15 the Treasury temporarily added to its balances by selling a special certificate of indebtedness in the amount of $87 million to the Federal Reserve. The certificate was redeemed the following day.

Growth in nonborrowed reserves of member banks had moderated further in May, and total reserves had declined slightly. In June aggregate bank reserves were rising relatively slowly. In the 3 weeks through mid-June free reserves averaged about $290 million, little changed from the average of $270 million for all of May and somewhat above the April level (revised) of $200 million. Member bank borrowings declined further to an average of about $75 million in the latest 3 weeks, from $95 million in May as a whole and $150 million in April. The Federal funds rate remained close to 4 per cent and rates on bank loans to Government securities dealers were generally stable.

Interest rates on most types of market securities had risen on balance since the preceding meeting of the Committee, with yields on Treasury securities fluctuating widely. In short-term markets yields advanced on finance company paper, bankers' acceptances, Federal agency securities, and negotiable CD's. In late May and early June the market rate on 3-month Treasury bills extended its earlier persistent decline and on June 5 it reached a low for the year of 3.37 per cent. Subsequently the rate moved up and

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

was about 3.60 per cent on the day before this meeting. Yields on intermediate- and long-term Treasury bonds, which had risen to 1967 highs around mid-May, receded late in that month but then advanced sharply in the first half of June to levels above the May peaks. Corporate bond yields had drifted up further after stabilizing for a time in early June.

The recent increases in short-term interest rates appeared to have been related in part to pressures associated with the mid-June tax and dividend dates. Conditions in financial markets generally, however, were influenced by the continuing heavy volume of flotations of corporate and municipal securities, and by prospects for a very large volume of Federal debt financing in the second half of the year. Public offerings of new corporate bonds in June appeared likely to be about one-fourth larger than the previous monthly record set in March, and an unusually large volume of offerings was already scheduled for the third quarter. It appeared that the Treasury would need to raise a substantial amount of new cash later in the year, although the magnitude of the Federal deficit in the second half of 1967 would depend in large part on the course of defense spending and on the size and effective date of any increase in income taxes, all of which were uncertain at this time. The Treasury was expected to undertake a short-term cash financing in July, but the size, terms, and date of the offering had not been determined as of the date of this meeting.

In May contract interest rates on conventional mortgages on new homes advanced slightly following six consecutive months of decline, and secondary-market yields on Federally underwritten home mortgages rose fairly sharply. Inflows of funds to depositary-type institutions remained large, but the share of these funds used to expand mortgage holdings continued low. Thrift institutions reportedly were still rebuilding liquidity primarily because of a relative scarcity of mortgages available for immediate acquisition.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

At commercial banks business loans outstanding declined in May, but holdings of Treasury and municipal securities increased markedly. With offering rates on negotiable CD's rising, large city banks recovered much of the CD run-off they had experienced in April. Inflows of other time and savings deposits continued large at banks generally, and total time and savings deposits expanded almost as rapidly from April to May as they had earlier in the year. Private demand deposits and the money supply, which had declined from March to April, rose substantially in May. As a result of sharp declines in Government deposits at banks, however, daily-average member bank deposits—the bank credit proxy—increased at an annual rate of only 2 per cent.

In general, the deposit trends of May—rapid increases in time and savings and private demand deposits and sharp declines in Government deposits—appeared to be persisting in June. On balance, however, the bank credit proxy was expected to increase from May to June at an annual rate in the 7 to 8 per cent range. This was faster than from April to May, but considerably slower than in the first 3 months of the year. The probable growth rate of member bank deposits from June to July depended in large measure on the size and timing of the expected Treasury financing. On the assumption that the Treasury would sell, primarily to the banking system, about $4 billion of new securities shortly after mid-July, the bank credit proxy was projected to rise at an annual rate in the 10 to 12 per cent range if money market conditions were unchanged. Continued rapid growth was projected in private demand deposits, as were some slackening in inflows of time and savings deposits and little change in Government deposits.

The Committee decided that it would be appropriate at this time to maintain about the same conditions in the money market as had prevailed since the preceding meeting, partly because of the expected Treasury financing. Various other reasons were ad-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

vanced by individual members against seeking firmer money market conditions at present. Among these were the current pressures in capital markets, the prospect—which some members thought had been enhanced recently—that action to raise Federal income taxes might be taken soon, and the absence to date of firm evidence that the widely expected upsurge in economic activity had already begun.

While none of the members advocated seeking easier money market conditions, a number expressed concern about the continued uptrend in long-term interest rates, particularly in light of the risk that higher rates might slow the recovery in the housing industry and in the economy generally. Partly for this reason, the Committee agreed that purchases of coupon issues should continue to be utilized in meeting a portion of the needs for reserves that were expected to develop in coming weeks, although some reservations were again expressed concerning the possible adverse effects in the longer run of such purchases on the functioning of the market for coupon issues. Some members favored purchases of coupon issues on other grounds. These included considerations relating to the balance of payments, currently limited market supplies of Treasury bills, and the composition of the System's portfolio of Government securities.

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

The economic and financial developments reviewed at this meeting suggest that economic activity is rising modestly, and that prospects for economic expansion later in the year have strengthened. Output is still being retarded by adjustments of excessive inventories, but growth in final demands continues strong, reflecting substantial further increases in Government expenditures and also some strengthening of consumer buying. Prices of farm products have turned up recently, but average prices of industrial commodities have remained stable. The pace of bank credit expansion has increased in recent weeks, but is still well below the rapid rate of earlier in the year. Most long-term interest rates have tended to rise further under the influence of heavy securities market financing,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and most short-term yields have also increased. The balance of payments deficit has remained substantial despite some improvement in the foreign trade surplus. In this situation, it is the Federal Open Market Committee's policy to foster money and credit conditions, including bank credit growth, conducive to renewed economic expansion, while recognizing the need for progress toward reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of expected Treasury financing activity, the timing and quantity of which are still uncertain, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed since the preceding meeting of the Committee, while continuing to utilize operations in coupon issues in supplying part of reserve needs.

> Votes for this action: Messrs. Martin, Hayes, Brimmer, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, Wayne, and Patterson. Votes against this action: None.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MEETING HELD ON JULY 18, 1967

1. Authority to effect transactions in System Account.

Real GNP rose modestly in the second quarter, according to preliminary Department of Commerce figures. Final expenditures expanded substantially further and the downdrag from inventory adjustments was considerably reduced. Staff projections continued to suggest that real GNP would grow at a faster rate in the third quarter, when it was expected that final sales would rise somewhat more rapidly and that the depressant influence of inventory adjustments would be reduced still more.

The private sector accounted for a much larger proportion of the expansion in final sales in the second quarter than in the first. Consumer spending contributed substantially to the expansion, with sales of automobiles especially strong. Residential construction activity increased significantly further but business outlays for fixed capital declined slightly. The rise in defense outlays was much smaller than in the first quarter, but State and local government purchases maintained their steady expansion.

Businesses accumulated inventories at a low rate in the second quarter, according to Commerce Department estimates, and the prospect appeared to be for some net liquidation in the third quarter. Industrial production again edged down in June. However, manufacturing employment advanced somewhat following 4 months of decline, and total nonfarm employment rose strongly. The unemployment rate increased to 4.0 per cent from 3.8 per cent in May, mainly because of an exceptionally large expansion in the labor force.

Prospects appeared favorable for another large increase in consumer spending in the third quarter, when rising employment was expected to result in a more rapid advance in wage incomes than in the spring quarter. Further gains in residential construction activity were suggested by a rise in building permits and a

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

significant increase in lender mortgage commitments through May. Prospects for a modest advance in business spending for fixed capital were supported not only by the latest Commerce-SEC survey but also by recent increases in new orders for machinery and equipment. Little new information was available on prospective defense spending but the staff projection assumed that such spending would rise in the third quarter by about as much as it had in the second quarter.

The wholesale price index in June was officially estimated to have risen for the second consecutive month—reflecting a further increase in prices of farm products and foods. The average of industrial prices continued stable. In May the consumer price index rose again and was 2.7 per cent above a year earlier. Benefits provided in recently negotiated wage contracts suggested further upward pressure on unit labor costs in manufacturing in the months ahead.

Tentative estimates indicated that the balance of payments deficit on the "liquidity" basis of calculation was about as large in the second quarter as in the first, despite an increase in official foreign acquisitions of long-term deposits. An improvement in the trade surplus apparently was more than offset by a turn from inflow to outflow of U.S. short-term bank credit. The deficit on the "official reserve transactions" basis was much smaller in the second quarter than in the first, as repayments of borrowings by U.S. banks from their foreign branches tapered off. Abroad, economic activity remained sluggish in most industrial countries, but expansion continued in Italy and Japan.

System open market operations since the last meeting of the Committee had been directed toward maintaining about the same conditions in the money market as had prevailed during the preceding 4 weeks. A large volume of reserves was provided to meet seasonal needs, mainly through purchases of bills but partly through acquisitions of coupon securities.

Growth in nonborrowed reserves of member banks slowed

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

further in June but total reserves increased moderately following the slight decline of May. Free reserves and member bank borrowings fluctuated over a wide range in the 4 weeks ending July 12, reflecting in large part seasonal patterns that regularly develop around the midyear bank statement date and the July 4 holiday. Free reserves averaged $295 million, little changed from the $285 million average of the preceding 4 weeks, and borrowings averaged about $165 million compared with about $70 million in the prior period. The Federal funds rate remained close to 4 per cent, and rates on bank loans to Government securities dealers also changed little.

Treasury bill rates rose sharply from late June to early July, and interest rates on other short-term market instruments also moved up generally, but less than did bill rates. The market rate on 3-month Treasury bills had reached a low for the year of 3.33 per cent on June 23; by July 5, the rate had advanced to a peak of 4.29 per cent. Subsequently the rate receded somewhat, but on the day before this meeting it was 4.17 per cent, almost 60 basis points higher than 4 weeks earlier. To some extent the rise reflected seasonal influences, but for the most part it was related to the large recent and prospective Treasury cash borrowing in the bill area.

Following an announcement on June 28, the Treasury auctioned $4 billion of March and April 1968 tax-anticipation bills on July 5 at average issuing rates of 4.86 and 4.90 per cent, respectively, for payment July 11. The Treasury also indicated that it would raise an additional $2.2 billion of new money by adding $100 million to each of its regular weekly and monthly bill auctions. Virtually all of the tax-anticipation bills, which carried 100 per cent tax-and-loan-account privileges, were acquired by commercial banks, and bank sales of the bills following the auction were relatively light. The Treasury was expected to announce in late July the terms on which it would

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

refund coupon-bearing securities maturing in mid-August, of which the public held $3.6 billion.

A record volume of publicly offered corporate bonds and a continuing large volume of municipal bonds were issued in June, and the calendar of offerings for July and August was heavy. Yields on long-term securities generally rose further in the second half of June and early July and then declined. Before turning down, yields on intermediate- and long-term Treasury bonds had reached new highs for the year, while those on new corporate issues in some cases had exceeded their highs of August 1966. Yields on municipal issues also reached new 1967 highs and then tended to level off in the first half of July. To some extent the recent improvement in the tone of longer-term securities markets reflected both enhanced expectations of a tax increase and diminished expectations of a large further build-up of troops in Vietnam. Yields on Treasury bonds apparently also were influenced by the low volume of dealer inventories and by System purchases of coupon issues. In markets for common stocks, trading was heavy and there appeared to have been an increase in speculative activity.

In June contract rates on conventional first mortgages on homes edged up for the second consecutive month, and secondary market yields on Federally underwritten home mortgages rose further. The inflow of savings to nonbank depositary-type institutions was maintained in record volume.

At commercial banks, credit demands were heavy during the tax and dividend period in June, and business loans increased sharply during the month. Banks liquidated sizable amounts of Treasury securities and increased their holdings of municipal securities at a less rapid rate than in other recent months.

Bank offering rates on negotiable CD's rose further in June and the outstanding volume of these deposits increased moderately. Inflows of other time and savings deposits continued large and total time and savings deposits increased about as fast as in

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

earlier months of the year. The money supply rose at a 13 per cent annual rate, almost as sharply as it had in May. Government deposits at banks declined somewhat less than in May, and daily-average member bank deposits—the bank credit proxy—increased at an annual rate of almost 9 per cent. In the 6 months through June, time deposits had risen at an annual rate of 17 per cent; the money supply, almost 7 per cent; and the bank credit proxy, 12 per cent.

Banks were expected to reduce their holdings of the new tax bills in July, and repayments of business loans appeared likely to result in liquidation of some private deposits. Nevertheless, the latest staff projections suggested that total bank credit, as measured by the proxy series, would rise from June to July at an annual rate in the 13 to 15 per cent range and the money supply at a rate in the 5 to 7 per cent range if money market conditions were unchanged. Government deposits were expected to increase following the declines of May and June, and time and savings deposits were projected to grow nearly as rapidly as they had in June.

In August, business loans of banks were expected to increase relatively little on balance, as a result of repayment of the tax-related borrowings of late June and early July and continued small needs for financing inventories. On the assumption that the Treasury would not raise new cash until early September, the rate of bank credit expansion was expected to be considerably slower in August than in July. For the 2 months together, the bank credit proxy was projected to grow at an annual rate in the 10 to 12 per cent range.

In the course of the Committee's discussion considerable concern was expressed about the recent high rates of growth of bank credit and the money supply, particularly in view of the prospects for more rapid economic expansion later in the year. It was generally agreed, however, that the Treasury's forthcoming financing militated against seeking a change in money market

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

conditions at present. Moreover, even apart from the Treasury financing, most members felt that it would be premature to seek firmer money market conditions at a time when resumption of expansion in over-all economic activity was in a fairly early stage; and some also referred in this connection to the growing expectations that the administration would press for measures of fiscal restraint. In addition, some members expressed concern about the possibility that any significant further increases in market interest rates might reduce the flows of funds into mortgages and slow the recovery under way in residential construction activity.

The Committee concluded that it would be appropriate at present to maintain about the prevailing conditions in the money market, although the members agreed that operations should be modified, insofar as permitted by "even keel" considerations associated with the Treasury financing, if there was a tendency for bank credit and the money supply to expand more than currently expected. It was noted that the growth rates in bank credit and money currently expected rested on particular assumptions regarding the pattern of forthcoming Treasury financing activity and were subject to revision if the actual pattern differed from that assumed.

Prior to the vote on the full text of the current economic policy directive to be issued at this meeting, a preliminary vote was taken on the question of whether a reference to operations in coupon issues for supplying part of reserve needs, such as had appeared in the second paragraph of the directives issued on May 23 and June 20, 1967, should be included in today's directive.

Votes for including such a reference: Messrs. Brimmer, Maisel, and Mitchell. Votes against: Messrs. Hayes, Robertson, Scanlon, Sherrill, Swan, Wayne, and Patterson.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The majority favored omitting the reference in question for a number of reasons, including the imminent Treasury refunding, the small volume of net reserve needs projected for the interval up to the next meeting of the Committee, the substantial decrease in the market availability of coupon issues, and the recently more settled conditions in longer-term securities markets. It was stressed by members of the majority that operations in coupon issues from time to time were a normal part of open market operations, and that omission of the reference to them from the directive did not preclude such operations under appropriate circumstances.

Members of the minority noted that the heavy calendar of prospective corporate issues could result in renewed upward pressures on long-term yields, with possibly adverse effects on mortgage markets. They expressed the view that recent operations in coupon issues had had some moderating effect on long-term rates by affecting both market supplies and expectations of market participants, and that such operations could continue to serve a constructive purpose in dealing selectively with capital market pressures. Mr. Maisel thought that there remained a broad demand for liquidity in the economy, and that helping to meet that demand by purchases of coupon issues represented an appropriate System portfolio policy.

Mr. Brimmer observed that appropriate circumstances for coupon operations might not arise in the coming period, and along with Messrs. Maisel and Mitchell he agreed that omission of the reference from the directive would not preclude them if the need arose. Nevertheless, these members felt that the reference should be retained in the present directive to clarify the Committee's intent.

The Committee then voted to issue the following current economic policy directive to the Federal Reserve Bank of New York:

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The economic and financial developments reviewed at this meeting indicate that economic activity has been rising modestly and that prospects are for further expansion. Output is still being retarded by adjustments of excessive inventories, but growth in final demands continues strong, reflecting some strengthening in consumer expenditures for durable goods and housing, and also further increases in Government outlays. The over-all indexes of both wholesale and retail prices have risen further, although wholesale prices of industrial commodities have remained stable. Bank credit expansion has been large in recent weeks. Most short- and long-term interest rates, after reaching advanced levels under the influence of heavy public and private securities market financing, have declined somewhat recently. The balance of payments deficit has remained substantial despite some improvement in the foreign trade surplus. In this situation, it is the Federal Open Market Committee's policy to foster money and credit conditions, including bank credit growth, conducive to continuing economic expansion, while recognizing the need for reasonable price stability for both domestic and balance of payments purposes.

To implement this policy, while taking account of forthcoming Treasury financing activity, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the prevailing conditions in the money market; but operations shall be modified insofar as the Treasury financing permits to moderate any apparent tendency for bank credit and money to expand more than currently expected.

> Votes for this action: Messrs. Hayes, Brimmer, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, Wayne, and Patterson. Votes against this action: None.

2. Amendments to authorization for System foreign currency operations.

At this meeting the Committee ratified an action taken by members on June 29, 1967, effective June 30, 1967, amending paragraph 2 of the Committee's authorization for System foreign currency operations to change the maximum period authorized

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

for the reciprocal currency (swap) arrangement with the Netherlands Bank from 3 to 6 months.

> Votes for ratification of this action: Messrs. Hayes, Brimmer, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, Wayne, and Patterson. Votes against ratification of this action: None.

Subsequently in the course of the meeting the Committee amended paragraph 2 of the authorization in certain other respects. In the text of the paragraph the phrase "for periods up to a maximum of 12 months" was added following the direction to the Federal Reserve Bank of New York to maintain swap arrangements with indicated foreign banks; and the column in the table contained in the paragraph that specified a maximum maturity for each of the existing arrangements—12 months in 10 cases and 3 or 6 months in the others—was deleted. These changes, which were in line with the Committee's interest in moving toward 12-month maturities for swap arrangements where agreeable with the foreign bank concerned, eliminated the necessity for amending the authorization each time the maturity of an arrangement was changed.

In addition, the paragraph was amended to reflect approval of increases (a) from $200 million to $250 million in the swap arrangement with the Swiss National Bank, (b) from $200 million to $250 million in the arrangement with the Bank for International Settlements covering System drawings in Swiss francs, and (c) from $200 million to $300 million in the arrangement with the Bank for International Settlements covering System drawings in authorized European currencies other than Swiss francs. These increases were considered desirable to provide broader margins of safety to deal wth unforeseeable contingencies.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Votes for these actions: Messrs. Hayes, Brimmer, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, Wayne, and Patterson. Votes against these actions: None.

Reflecting these amendments, paragraph 2 of the authorization for System foreign currency operations read as follows:

The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	100
National Bank of Belgium	150
Bank of Canada	500
National Bank of Denmark	100
Bank of England	1,350
Bank of France	100
German Federal Bank	400
Bank of Italy	600
Bank of Japan	450
Bank of Mexico	130
Netherlands Bank	150
Bank of Norway	100
Bank of Sweden	100
Swiss National Bank	250
Bank for International Settlements:	
System drawings in Swiss francs	250
System drawings in authorized European currencies other than Swiss francs	300

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MEETING HELD ON AUGUST 15, 1967

Authority to effect transactions in System Account.

Economic activity had been expanding more rapidly in recent weeks, according to reports at this meeting. The latest business developments lent support to the expectation that the rate of growth in real GNP would accelerate in the third quarter, when it was anticipated that final sales would continue to increase rapidly and that the depressant influence of inventory adjustments would wane.

In July industrial production turned up after declining irregularly over the first half of the year, nonfarm employment rose further, and the unemployment rate edged down to 3.9 per cent from 4.0 per cent in June. According to the advance estimate, retail sales increased in July from a June level that had been revised upward substantially. Housing starts declined somewhat in June after rising sharply in May, but they remained above their reduced year-earlier level. Following the sharp contraction in the rate of accumulation earlier in the year, business inventories declined substantially in June, and in many industries stocks were moving into better relation with sales.

In a message to Congress on August 3 the President proposed a new fiscal program, the main element of which was a 10 per cent surcharge on Federal income taxes, to be effective October 1, 1967, for individuals, and to be retroactive to July 1, 1967, for corporations. A staff projection suggested that, even if the President's fiscal program was enacted promptly in the form recommended, the growth rate in real GNP in the fourth quarter would be slightly higher than that expected in the third. It was anticipated that the tax increases, if enacted, would moderate the pace of expansion in final spending—particularly by consumers. However, it was thought likely that this effect would be about offset in terms of the rise in total GNP by a shift from

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

small decumulation of inventories in the third quarter to moderate accumulation in the fourth. Among the uncertainties affecting the projections for the second half of the year was the possibility of a strike in the automobile industry in early September when existing wage contracts would expire.

The rise in the wholesale price index slowed in July, according to the advance estimate, as prices of farm products and foods increased only moderately further. However, average industrial prices apparently edged up after 4 months of stability, and increases for a number of industrial commodities had been announced following the mid-July date to which the index applied. In June, as in May, the consumer price index rose at a faster rate than in the first quarter. Unit labor costs in manufacturing advanced further in June, and for the second quarter as a whole they were estimated—after upward revisions in the data for some months—to be 5.5 per cent higher than a year earlier.

Recent data on the U.S. balance of payments supported earlier estimates indicating that the deficit on the "liquidity" basis of calculation was about as large in the second quarter as in the first and that it was considerably above the 1966 rate. Although the merchandise trade surplus increased somewhat in the second quarter as a whole, there was no improvement after April, partly because industrial activity continued sluggish in important industrial countries abroad. The liquidity deficit apparently remained large in July, and there seemed to be little reason to expect it to decline substantially during the second half of the year.

The deficit on the "official reserve transactions" basis was quite large in the second quarter, although only about half the record high of the first quarter. The balance on this basis had fluctuated widely over the past year as a result of marked swings in the indebtedness of U.S. banks to their foreign branches.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Banks had borrowed heavily through their branches abroad from about the middle of 1966 until late in the year, had repaid a large amount of this debt over the ensuing period until mid-May 1967, and then had resumed such borrowing at a substantial rate.

The President's tax message was followed by a rally in the Government securities market, but this response was short-lived. Subsequently, yields on most coupon-bearing Treasury issues advanced to levels about equal to their previous 1967 highs, as market participants focused on the uncertainties of the congressional reaction to the President's recommendations and on the volume of Federal financing in prospect for the rest of the calendar year even if the tax program was enacted in the form recommended. Yields on municipal securities moved lower, however—mainly because the volume of new offerings had abated somewhat recently, but apparently also because the proposed tax increase enhanced the attractiveness of tax-exempt issues to investors. Markets for corporate bonds continued to be dominated by the heavy flow of new issues, and yields remained close to the highs reached in late June. The volume of new corporate bonds offered publicly in July was more than four times that of a year earlier and was at a new record level; and the calendar for August was large, although not so large as in July.

With a Treasury refunding under way in August, System open market operations since the preceding meeting of the Committee had been directed toward maintaining steady conditions in the money market. The market operations needed for this purpose proved to be relatively limited and were reflected in a small rise in System holdings of Treasury bills. Free reserves of member banks averaged about $265 million in the 4 weeks ending August 9, compared with $285 million in the preceding 4 weeks, and member bank borrowings continued light. Interest rates on Fed-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

eral funds and on bank loans to Government securities dealers had remained relatively stable since the preceding meeting of the Committee, and the market rate on 3-month Treasury bills was about unchanged on balance. However, rates on a variety of short-term market instruments, including 9- and 12-month Treasury bills, had risen somewhat further.

In its refunding operation the Treasury redeemed securities maturing in mid-August with the proceeds of a sale of a 5¼ per cent, 15-month note (priced to yield 5.30 per cent), and it also raised $300 million of new cash. The Treasury was expected to raise an additional $2 billion to $2.5 billion of new cash later in August by the sale of another new issue, but the specific terms had not yet been decided upon.

Secondary-market yields on Federally underwritten home mortgages, which had turned up in May, apparently rose little further in July, when inflows of funds to savings and loan associations and mutual savings banks were unusually large for that time of the year. The pace of mortgage lending by such institutions had accelerated in June—bringing the net increase in outstanding mortgages on homes in the second quarter as a whole to the highest rate since early 1966.

Commercial bank credit expanded markedly in July, partly because of bank acquisitions of tax-anticipation bills auctioned by the Treasury. Also, business loans at banks, which had risen seasonally in June in connection with midmonth corporate income tax payments, failed to show their usual decline in July; as compared with the pattern in other recent years, loan repayments tended to lag, not appearing in volume until late July and early August. This development, which probably was related to the acceleration in the schedule on which businesses pay to the Treasury the taxes they withhold on individual incomes, resulted in a sharp rise in business loans after seasonal adjustment on the basis of past patterns. Daily-average member bank

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

deposits—the bank credit proxy—increased at an annual rate of about 15 per cent from June to July, reflecting a marked expanson in private demand deposits and the money supply, a rise in U.S. Government deposits, and continued rapid growth in time and savings deposits. The volume of negotiable CD's outstanding continued to increase as banks raised their offering rates on these deposits somewhat further.

With business loan repayments becoming large, it appeared likely that growth in bank credit and money would slow over the course of August. For July and August together, however, the bank credit proxy was now projected to rise at an annual rate in the range of 14 to 16 per cent. This was somewhat higher than the range previously expected, partly because of differences between the emerging pattern of Treasury financing and the pattern that had been anticipated earlier.

Staff projections suggested a slower rate of increase in the bank credit proxy from August to September—in the range of 7 to 9 per cent, annual rate—if money market conditions were unchanged. The money supply, which appeared likely to increase much less in August than in July, was projected to decline somewhat in September as Government deposits rose, and growth in time and savings deposits was expected to be somewhat slower. It was recognized that a strike in the automobile industry in September, should one develop, could alter the outlook for bank credit and for demand and time deposits, since it would affect corporate cash flows, personal income, and credit demands.

In the course of the Committee's discussion the members agreed that the fiscal program recommended by the President would, if enacted, make a substantial contribution to balanced economic growth. They also agreed that the continuing substantial deficit in the U.S. balance of payments represented a serious national problem, and some members suggested that a

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

strengthening of elements of the voluntary programs for limiting capital outflows might be desirable.

A number of members expressed the judgment that both the impending Treasury financing and uncertainties about the outcome with respect to the fiscal program now under active consideration by Congress militated against a change in monetary policy at present. At the same time, most members were of the view that recent rates of growth in bank credit were higher than should be sustained in light of the current economic outlook. The Committee concluded that open market operations should be directed at maintaining about the prevailing conditions in the money market, but that operations should be modified, insofar as the Treasury financing permitted, to moderate any apparent tendency for bank credit to expand more than currently expected.

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

The economic and financial developments reviewed at this meeting indicate that economic activity has been expanding more rapidly in recent weeks. With strengthening of private demands for final products and further curtailment of inventory investment, a better balance between inventories and sales is emerging. Upward pressures on costs persist and the over-all indexes of both wholesale and consumer prices have risen further. The balance of payments deficit has remained substantial and is a serious national problem. Bank credit expansion has continued large, while most short- and long-term interest rates have fluctuated close to their highs of the year, under the combined pressure of heavy private security market financing and of current and prospective Federal financing. A new fiscal program has been proposed by the President, including a sizable increase in income taxes, which would make a substantial contribution to balanced economic growth. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions, including bank credit growth, conducive to continuing eco-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

nomic expansion, while recognizing the need for reasonable price stability for both domestic and balance of payments purposes.

To implement this policy, while taking account of expected Treasury financing activity, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the prevailing conditions in the money market; but operations shall be modified, insofar as Treasury financing permits, to moderate any apparent tendency for bank credit to expand more than currently expected.

Votes for this action: Messrs. Robertson, Brimmer, Daane, Maisel, Mitchell, Scanlon, Sherrill, Swan, Ellis, Patterson, and Treiber. Votes against this action: None.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MEETING HELD ON SEPTEMBER 12, 1967

Authority to effect transactions in System Account.

Economic activity had strengthened recently and the prospect was for more rapid growth in coming months. It appeared that industrial production had advanced in August at about the July rate and since June had recovered much of the decline experienced earlier in the year. Nonfarm employment also rose further in August, and the unemployment rate again edged down—to 3.8 per cent from 3.9 per cent in July. Housing starts, which had fallen slightly in June, rebounded in July. Real GNP was expected to rise at a substantial rate in the third quarter as a whole, despite a strike that began in early September at a major automobile producer.

It appeared likely that growth in real GNP would accelerate further in the fourth quarter to a rate that would reinforce existing upward pressures on costs and prices. This expectation was premised on the assumptions—which were necessarily uncertain—that work stoppages in the automobile industry would be of relatively short duration and limited extent, and that a surcharge on Federal income taxes, which was now under consideration by Congress, would not go into effect before the end of the year. With growth in personal incomes accelerating as a result of more rapid increases in both employment and wage rates, consumer spending was expected to rise substantially, accounting for about half of the large advance in GNP foreseen for the fourth quarter. Also anticipated were continued sizable increases in Federal and State and local government spending, a moderate further rise in residential construction outlays, and some net growth in business inventories following the small decline expected for the third quarter. A Commerce–SEC survey taken in August indicated that businesses planned slightly smaller expenditures on plant and equipment during 1967 than had been reported in April and

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

May, but the latest survey still suggested that such outlays would be slightly higher in the second half of the year than in the first half.

Prices of industrial commodities increased appreciably from mid-July to mid-August, according to preliminary estimates, although the total wholesale price index declined because of a downturn in prices of farm products and foods following 3 months of advance. Price increases were being announced for a wide variety of industrial materials and products as producers sought to pass on, at a time of strengthening demands, the increases in costs they had incurred earlier. The rise in industrial prices from July to August represented a departure from the pattern of stability that had prevailed over the preceding 5 months, when a downdrift in prices of materials had offset moderate advances in prices of industrial products. The consumer price index rose substantially further in July, partly because of seasonal increases in food prices.

With respect to the balance of payments, U.S. banks borrowed heavily through foreign branches during July and August, a period in which rates on Euro-dollar deposits were unusually low relative to rates offered by U.S. banks on domestic CD's. As a result, a substantial surplus developed after midyear in the payments balance on the "official reserve transactions" basis of calculation.

Tentative data suggested that the payments deficit on the "liquidity" basis was at a somewhat lower rate in July and August than in the first half of 1967, but that it was still undesirably large. The surplus on merchandise trade was about unchanged in July at a level below the average for the first 5 months of the year. Thus far in 1967 imports had remained unexpectedly high and exports had shown no tendency to grow, in part because of continued stagnation of business activity in most industrial countries abroad. Moderately stimulative monetary and fiscal measures had been taken in some countries; the most recent of these

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

measures was a further reducton in Germany of minimum reserve requirements of commercial banks, effective September 1. However, the use of expansionary public policies had been restrained in many countries by concern over actual or prospective inflationary pressures or, as in the United Kingdom, by balance of payments problems.

On August 17, shortly after completing its mid-August refunding, the Treasury announced an offering of a 3½ year, 5⅜ per cent note (priced to yield 5.40 per cent), to raise $2.5 billion of new money. The payment date for the note, which carried full tax-and-loan-account privileges, was August 30. It was reported that the Treasury was tentatively planning to obtain part of the new cash it would require in the fourth quarter by auctioning about $4.5 billion of tax-anticipation bills in early October. On Friday, September 8, the Treasury replenished its balances by selling a special certificate of indebtedness in the amount of $153 million to the Federal Reserve. The certificate was redeemed 3 days later.

Recent System open market operations had been directed at maintaining generally steady conditions in the money market while the Treasury's note financing was under way. In the 4 weeks ending September 6 free reserves of member banks averaged about $285 million and member bank borrowings about $75 million, both little changed from the averages of the previous 4 weeks. In the latter part of August the interest rate on Federal funds fell to a level generally below the 4 per cent discount rate, and rates on bank loans to Government securities dealers also frequently dropped below the discount rate. In early September, however, rates of both types moved back to 4 per cent and above. Market rates on Treasury bills had fluctuated rather widely since the preceding meeting of the Committee, with the rate on 3-month bills rising 18 basis points on balance to 4.34 per cent on the day before this meeting. Yields on most other types of short-term securities fluctuated near their highs for the year.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Capital markets remained under pressure in the latter part of August as a result of continued heavy corporate bond flotations and Treasury financing activity, and longer-term yields advanced to levels near or above the peaks reached earlier in the summer. The atmosphere in markets for U.S. Government notes and bonds and corporate securities subsequently improved, however, as the volume of publicly offered corporate bonds appeared to be moderating. In contrast, pressures persisted in markets for municipal securities, where the volume of new offerings in prospect for September was considerably above the reduced August level.

Business loans outstanding at commercial banks, which had risen sharply in July, declined by nearly as much in August. These changes probably were related in large part to delays in loan repayments relative to the usual seasonal pattern, because of the need in July of this year to finance accelerated payments to the Treasury of taxes withheld on individual incomes. Despite the contraction in business loans, total bank credit expanded rapidly in August, as it had in July. Banks again acquired a substantial volume of newly issued Treasury securities and they increased their loans to Government securities dealers considerably further. According to preliminary estimates the bank credit proxy—daily-average deposits of member banks—rose at an annual rate of 17 per cent from July to August, slightly more than had been anticipated. Most of this increase in the proxy series occurred in late July and early August; growth slackened markedly in the last 3 weeks of August.

Among deposit categories, total time and savings deposits continued to grow rapidly from July to August as the volume of outstanding negotiable CD's increased sharply further and inflows of other time and savings deposits remained large. Private demand deposits—and the money supply—again rose substantially on average, although growth ceased in the latter part of August when credit demands abated. U.S. Government deposits increased somewhat.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Staff projections now suggested that the bank credit proxy would rise at an annual rate in the range of 9 to 12 per cent from August to September if money market conditions were unchanged. Loan demands appeared likely to be relatively moderate in September, and with U.S. Government deposits expected to rise slightly on average, it was anticipated that there would be little or no growth in private demand deposits and in the money supply. The rate of expansion in total time and savings deposits was expected to slacken considerably, primarily because banks were expected to become less aggressive in issuing negotiable CD's.

Considerable concern was expressed in the course of the Committee's discussion about the evidences of developing inflationary pressures in the economy and the prospects for overly rapid growth in aggregate demands later in the year. The members agreed that congressional enactment of the surcharge on income taxes recommended by the President would make a needed contribution to balanced economic growth.

Many members also indicated that they were disturbed by the rapid rates of increase in bank credit and the money supply in recent months. The Committee was divided, however, with regard to the appropriate course for monetary policy under current circumstances. The majority concluded that open market operations should be directed at maintaining prevailing conditions in the money market, with the proviso that operations should be modified as necessary to moderate any apparent tendency for bank credit to expand significantly more than currently expected.

Members of the majority advanced various reasons in support of this course, including the desirability of waiting for firmer indications of the likely nature of action by Congress with regard to the President's tax proposals. Other considerations cited were the risks that under present conditions in financial markets even a modest move toward greater monetary restraint at this time might have an exaggerated impact on market expectations and result in sharp further increases in interest rates, with attendant

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

adverse effects on depositary-type financial intermediaries and on the position of sterling in foreign exchange markets. Also noted were existing uncertainties with respect to the extent, duration, and ultimate economic effects of the strike in the automobile industry.

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

The economic and financial developments reviewed at this meeting indicate that economic activity has strengthened and, despite the strike in the automobile industry, that prospects favor more rapid growth later in the year. Upward pressures on costs persist and average prices of industrial commodities have turned up following several months of stability. While there recently have been large inflows of liquid funds from abroad, the balance of payments continues to reflect a substantial underlying deficit. Bank credit expansion has continued large, while most short- and long-term interest rates have fluctuated close to their highs of the year, under the combined pressure of heavy private security market financing and of recent and prospective Federal financing. The President's new fiscal program calling for a sizable increase in income taxes, which would make a substantial contribution to balanced economic growth, is now before Congress. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions, including bank credit growth, conducive to sustainable economic expansion, recognizing the need for reasonable price stability for both domestic and balance of payments purposes.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the prevailing conditions in the money market; but operations shall be modified as necessary to moderate any apparent tendency for bank credit to expand significantly more than currently expected.

Votes for this action: Messrs. Martin, Brimmer, Daane, Maisel, Mitchell, Robertson, Sherrill, Swan, and Wayne. Votes against this action: Messrs. Hayes, Francis, and Scanlon.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Messrs. Hayes, Francis, and Scanlon dissented from this action because they thought that greater monetary restraint was required in light of recent rates of growth in bank credit, present and prospective inflationary pressures, and the unsatisfactory balance of payments situation. They considered it particularly important to modify monetary policy at this time because they felt that Treasury financing operations would limit the opportunities for such action later in the year. The dissenting members differed, however, with respect to the degree of restraint they thought was appropriate under present circumstances.

Mr. Francis favored seeking significantly firmer money market conditions, and firming still further if growth in bank credit did not moderate substantially. In his judgment, both monetary policy and fiscal policy were characterized by excessive ease at present, the lagged effects of which would magnify the pressures on the economy expected in the months ahead. He observed that fiscal policy was likely to remain extraordinarily stimulative even if the President's tax proposals were enacted in the form recommended. He expressed the view that the limitation by appropriate monetary action of excessive demand, inflation, speculation, and further deterioration in the U.S. balance of payments appeared to be more crucial than any temporary hardships on the Treasury, financial intermediaries, and long-term borrowers resulting from higher interest rates.

Messrs. Hayes and Scanlon, on the other hand, agreed with members of the majority that there were risks in moving toward firmer money market conditions at present. In their judgment, however, those risks argued not for maintaining prevailing money market conditions but for exercising caution in probing toward moderately less easy conditions.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MEETING HELD ON OCTOBER 3, 1967

Authority to effect transactions in System Account.

Reports at this meeting indicated that underlying economic conditions had strengthened and that prospects were for more rapid growth later in the year, apart from the effects of the strike at a major automobile producer that was now in its fourth week. More complete data confirmed earlier indications that industrial production had increased further in August, and while output had probably declined in September, it appeared likely that growth would resume when the automobile industry returned to full production. Retail sales had continued to rise rapidly in August, according to the advance estimate, and housing starts had edged up. Price increases for industrial commodities continued to be widespread.

The latest information tended to support earlier expectations of a substantial increase in real GNP in the third quarter. Also, an acceleration in growth still appeared in prospect for the fourth quarter, when it was expected that final sales would rise considerably further and that business inventories would increase modestly. As before, the expectations for the fourth quarter were based on the assumptions that work stoppages in the automobile industry would be of relatively short duration and limited extent, and that a surcharge on Federal income taxes—which was still pending before Congress—would not go into effect before the end of the year.

Average prices of industrial commodities again increased appreciably from mid-August to mid-September, according to preliminary estimates, and the number of announced increases that were to become effective after the latter date suggested that the average would advance further in the following month. The consumer price index, which since March had been rising more rapidly than earlier, increased at a sizable rate in August. Unit labor costs in manufacturing were expected to remain under up-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ward pressure in coming months, when it appeared likely that wage increases would more than offset gains in productivity.

The large deficit in the U.S. balance of payments on the "official reserve transactions" basis in the second quarter was followed by a large surplus in the third quarter as a result of heavy inflows of liquid funds, particularly in July and August, through foreign branches of U.S. banks. The deficit on the "liquidity" basis was estimated to have increased somewhat in the third quarter, although a decline would have been recorded had it not been for certain types of official transactions that had held down the second-quarter deficit. The merchandise trade surplus increased in August as a result of a reduction in imports. Prospects for renewed strength in exports had been enhanced by recent signs of industrial recovery in Germany and Britain, but imports also were expected to rise with expansion in U.S. business activity.

In Britain the improvement in exports and in the basic payments balance that had been hoped for in 1967 had not materialized thus far, in part because of the slowdown in economic activity on the continent and the balance of payments costs of the Middle East crisis, and sterling remained under pressure in foreign exchange markets. The Bank of Canada had raised its discount rate from 4½ to 5 per cent on September 27. This action was generally interpreted as a technical adjustment to the sharp increases in market interest rates that had occurred in Canada over the preceding 6 months.

On September 22 the U.S. Treasury announced that it would auction $4.5 billion of April and June tax-anticipation bills on October 3, the date of this meeting, for payment on October 9. The Treasury also indicated that it would add $100 million to each of its weekly bill offerings for 13 weeks beginning with the auction of October 9. Since early July the Treasury had raised about $10 billion of new cash through sales of bills—including today's offering of tax-anticipation bills—and nearly $3 billion through sales of coupon-bearing securities, and it appeared that

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the Treasury would need to raise substantial further amounts of cash in the remaining months of 1967. An announcement was expected in late October of the terms for refunding U.S. Government securities maturing in mid-November, of which $2.6 billion were held by the public.

System open market operations since the preceding meeting of the Committee had been directed at maintaining steady conditions in the money market. In the 3 weeks ending September 27 free reserves of member banks had averaged about $270 million and member bank borrowings about $85 million, both within the ranges prevailing recently, and the Federal funds rate had averaged about 4 per cent, slightly higher than in July and August. After the preceding meeting of the Committee the market rate on 3-month Treasury bills had risen sharply—reaching 4.60 per cent on September 22—chiefly as a result of market anticipations of additional Treasury bill financing. The bill rate had subsequently declined, however, and on the day before this meeting it was 4.40 per cent, only 6 basis points above its level 3 weeks earlier. Rates on other short-term market instruments increased further or remained at advanced levels.

In capital markets the volume of new securities offered to the public had moderated recently. Although flotations by State and local governments in September and those in prospect for October were considerably above their reduced August level, the presently estimated volume of new corporate offerings in September and October was only about half the extraordinarily large volume of July and August. Nevertheless, bond yields were subject to renewed upward pressures, with yields on long-term Treasury bonds rising to levels above their 1966 highs. In part, the pressures in capital markets reflected apprehension over the large cash needs of the Treasury in prospect for the near term. They also reflected concern about developing inflationary pressures, growing doubts about the prospects for congressional enactment of the proposed income tax surcharge, and accompany-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ing uncertainties concerning the course of monetary policy.

In August interest rates on conventional mortgages on new homes edged up, and secondary-market yields on Federally underwritten mortgages increased. Inflows of funds to nonbank depositary-type institutions remained large—although not quite so large in August, after seasonal adjustment, as in the spring and early summer.

Demands for business loans at commercial banks were relatively light in early September but they appeared to have picked up around the midmonth tax-payment period. Growth in total time and savings deposits moderated considerably, mainly because of a sizable reduction in the volume of negotiable CD's outstanding. Private demand deposits and the money supply changed little, but U.S. Government demand deposits increased further from their June low. According to preliminary estimates, daily-average member bank deposits—the bank credit proxy—rose at an annual rate of 9.5 per cent from August to September, well below the rate of more than 15 per cent earlier in the summer.

Staff projections suggested that if money market conditions remained unchanged the bank credit proxy would rise at an annual rate in the 10 to 13 per cent range from September to October. About half of the expansion was expected to be in U.S. Government deposits, as a result of heavy borrowing by the Treasury during October. Growth in time and savings deposits appeared likely to be at a somewhat more rapid rate than in the preceding month, but less rapid than the average rate earlier in the year. Private demand deposits—and the money supply—were expected to rise only slightly.

Many members of the Committee thought that current and prospective inflationary pressures and the rapid rate of bank credit growth in recent months offered strong grounds for seeking somewhat greater monetary restraint at this time. Some members also pointed to the unsatisfactory balance of payments situ-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ation as arguing for a firming of monetary policy. The majority believed, however, that these considerations were outweighed by others militating against a change in policy at present. The latter included the desirability of awaiting firmer indications of the probable actions by Congress with respect to Federal taxes and expenditures; the uncertainties regarding the extent and duration of the automobile industry strike; and the risk that under present financial market conditions any firming action at this time would lead to sharply higher interest rates, with possible undesired effects on financial intermediaries domestically and on the position of sterling in foreign exchange markets. The Treasury's current bill financing and, more importantly, the November refunding soon to follow also were cited as considerations arguing against a change in monetary policy at this juncture.

The Committee concluded that open market operations should be directed at maintaining about the prevailing conditions in the money market, but that operations should be modified, to the extent permitted by Treasury financing, to moderate any apparent tendency for bank credit to expand more than currently expected. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The economic and financial developments reviewed at this meeting indicate that, apart from the effects of the strike in the automobile industry, underlying economic conditions have strengthened and prospects favor more rapid growth later in the year. Upward pressures on costs persist, average prices of industrial commodities have risen further, and the rate of increase in consumer prices remains high. While there recently have been large inflows of liquid funds from abroad through foreign branches of U.S. banks, the balance of payments continues to reflect a substantial underlying deficit. Bank credit expansion has continued large, although there was some moderation in September from the rapid July–August rate. The volume of corporate bond flotations has slackened, but Federal and State and local government financing demands remain large and most interest rates have on balance moved up somewhat further. The President's new fiscal program is still pending before Congress. In this situa-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

tion, it is the policy of the Federal Open Market Committee to foster financial conditions, including bank credit growth, conducive to sustainable economic expansion, recognizing the need for reasonable price stability for both domestic and balance of payments purposes.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the prevailing conditions in the money market; but operations shall be modified, to the extent permitted by Treasury financing, to moderate any apparent tendency for bank credit to expand significantly more than currently expected.

> Votes for this action: Messrs. Hayes, Brimmer, Daane, Maisel, Mitchell, Robertson, Sherrill, Swan, and Wayne. Votes against this action: Messrs. Francis and Scanlon.

Messrs. Francis and Scanlon dissented from this action because they assessed the balance of considerations at issue differently from the majority and favored seeking greater monetary restraint. In their judgment, in view of the prospects for further price inflation the risks in not acting at this time to moderate the rapid growth of bank credit outweighed the various considerations seen as militating against a firmer monetary policy.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MEETING HELD ON OCTOBER 24, 1967

Authority to effect transactions in System Account.

Underlying economic conditions continued strong despite recent weakness in some key measures of activity resulting from strikes in the automobile and other industries. In the third quarter, according to preliminary Commerce Department figures, real GNP rose substantially and average prices—as measured by the GNP "deflator"—increased more rapidly than they had earlier in the year. It appeared likely that the rate of growth in real output would step up in the fourth quarter if major work stoppages were limited in duration and extent and that inflationary pressures would continue. Expectations had diminished that a surcharge on Federal income taxes, as recommended by the President, would be enacted before the year-end.

Both nonfarm employment and industrial production declined in September, largely as a result of strikes. The unemployment rate rose to 4.1 per cent from 3.8 per cent in August, mainly because of an unusually large increase in the number of women in the labor force. However, continued tightness in over-all labor market conditions was indicated by other evidence, including a decline in the unemployment rate for adult men to an extremely low level and a rise in the index of help-wanted advertising. Against the background of tight labor markets and recent rapid increases in consumer prices, it appeared likely that settlements in current wage negotiations would be of a nature to maintain upward pressures on costs.

In the fourth quarter business inventories were expected to increase modestly—as they had in the third quarter—and further advances were anticipated in most major categories of final demand. Growth in consumer expenditures had been smaller than expected in the third quarter; estimates of retail sales for July and August, particularly at nondurable goods stores, had been

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

revised downward sharply, and the advance estimate for September showed little improvement. However, it appeared likely that consumer spending would increase considerably in the fourth quarter, when the rate of growth in disposable income was expected to rise further unless retarded by extended major strikes or restrained by enactment of a tax increase. Further advances also seemed to be in prospect for residential construction, which had risen substantially in the third quarter, and for business fixed investment, which had turned up after declining moderately in the first half of the year. Growth in defense spending had slowed markedly after midyear, but a sharp rise in total Federal outlays was anticipated in the final quarter largely because of expected increases in civilian and military pay.

With respect to the U.S. balance of payments, substantial deficits had been recorded in each of the first three quarters of 1967 on the "liquidity" basis of calculation, and another such deficit appeared likely in the fourth quarter. The balance on the "official reserve transactions" basis had swung widely in recent quarters as a result of wide fluctuations in liabilities of U.S. banks to their foreign branches, but for the first three quarters of 1967 as a whole there had been a sizable deficit on this basis also. Sterling continued under pressure in foreign exchange markets, and on October 19 the Bank of England raised its discount rate from 5½ to 6 per cent.

On October 3 the Treasury auctioned $1.5 billion of tax-anticipation bills maturing in April and $3.0 billion maturing in June at average issuing rates of 4.93 and 5.11 per cent, respectively. Commercial banks initially absorbed almost all of the new issues, which carried 75 per cent tax-and-loan-account privileges. Bids for the June tax bills exceeded the amount offered by an unusually small margin. An announcement was anticipated on the day following this meeting of the terms on which the Treasury would refund securities maturing in mid-November, of which

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

$2.6 billion were held by the public. The Treasury was expected to raise some new cash in connection with that refunding.

System open market operations since the preceding meeting of the Committee had continued to be directed at maintaining steady conditions in the money market. Free reserves of member banks fluctuated widely in the 3 weeks ending October 18, but their average of about $265 million was little changed from that of the preceding 3 weeks. Both excess reserves and borrowings of member banks increased; borrowings averaged about $170 million, compared with $85 million in the preceding period. Rates on Federal funds and on bank loans to Government securities dealers rose somewhat in the first half of October, but after that they moved down again.

Interest rates on most short-term market instruments had advanced further since the preceding meeting of the Committee. The market rate on 3-month Treasury bills, at 4.58 per cent on the day before this meeting, was 18 basis points higher than 3 weeks earlier. In part this increase reflected the shift in the maturity dates of 3-month bills to January from the December dates that are attractive to many investors. It also reflected the increased bill supplies resulting from the Treasury's tax-anticipation bill offering in early October and the continued $100 million additions to the weekly bill offerings.

Bond yields had risen significantly further in recent weeks; yields on municipal bonds had advanced to their highest levels since the early 1930's, and those on corporate and long-term Treasury bonds to levels not reached since the early 1920's. These developments reflected diminishing confidence in financial markets that a tax increase would be enacted and a related heightening of expectations that monetary policy would become firmer. In this atmosphere investors were becoming more reluctant to acquire long-term securities and borrowers were increasingly tending to anticipate later needs. The volume of new corporate securities offered publicly in October was now expected

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

to be considerably larger than the reduced offerings of September, and the November calendar was growing rapidly. Flotations of municipal securities were expected to decline in October—partly because a number of issues had been postponed or reduced in size—but it appeared likely that the volume of such issues would increase again in November.

Interest rates on conventional mortgages on new homes remained at their advanced August level in September, and secondary-market yields on Federally underwritten mortgages rose for the fifth consecutive month. Although inflows of funds to nonbank depositary institutions continued large, in the third quarter as a whole they were below the record volume of the second quarter, after allowance for seasonal influences.

At commercial banks, loans on securities and loans to nonbank financial institutions increased markedly in September and apparently also in early October. Growth in business loans appeared to have stepped up somewhat in recent weeks from its earlier slow pace, but to a large extent the increased demands for such loans probably reflected needs to finance payments to the Treasury of corporate income taxes in September and of withheld taxes in early October. As to total bank credit, estimates of recent and current growth rates had been revised upward somewhat since the preceding meeting of the Committee. The bank credit proxy—daily-average member bank deposits—now was estimated to have risen at about a 10½ per cent annual rate from August to September and was projected to rise at a rate in the range of 12 to 15 per cent from September to October. The money supply, which earlier had been expected to grow relatively little in October, was now projected to rise in that month at an annual rate in the 7 to 9 per cent range.

Growth in both the bank credit proxy and the money supply was expected to moderate somewhat in November—to annual rates in the ranges of 7 to 10 per cent and 4 to 6 per cent, respectively—if money market conditions were unchanged. Al-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

though the outlook for business loan demands was particularly uncertain at present, on balance such demands appeared likely to remain moderate in both November and December.

The Committee decided that the forthcoming Treasury financing precluded any change in monetary policy at this time. Some members favored no policy change on other grounds also, including the continuing uncertainties regarding the probable outcome of the current congressional debate on fiscal policy measures. Also cited in this connection was the judgment that a considerable degree of restraint was already being imposed on potential borrowing and spending by the high levels to which long-term interest rates had risen. In addition, it was noted that further increases in market interest rates at this time might well have undesired effects on flows of funds to financial intermediaries and on the position of sterling in foreign exchange markets.

Other members indicated that in the absence of Treasury financing activity they would have been inclined to advocate some firming of monetary policy in an effort to slow the rapid growth of bank credit and the money supply. In their judgment, current and prospective inflationary pressures and the continued large deficits in the balance of payments argued strongly for such a course.

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

The economic and financial developments reviewed at this meeting indicate that, apart from the effects of strikes in the automobile and other industries, underlying economic conditions continue strong and prospects favor more rapid growth in the months ahead. Upward pressures on costs persist, average prices of industrial commodities have risen further, and the rate of increase in consumer prices remains high. While there recently have been large inflows of liquid funds from abroad through foreign branches of U.S. banks, the balance of payments continues to reflect a substantial underlying deficit. Bank credit expansion has continued large. The volume of new security issues is expanding again and interest rates

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

have risen further, reflecting in part increased uncertainties in financial markets concerning enactment of the President's fiscal program. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions, including bank credit growth, conducive to sustainable economic expansion, recognizing the need for reasonable price stability for both domestic and balance of payments purposes.

To implement this policy, while taking account of forthcoming Treasury financing activity, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the prevailing conditions in the money market; but operations shall be modified, to the extent permitted by Treasury financing, to moderate any apparent tendency for bank credit to expand significantly more than currently expected.

> Votes for this action: Messrs. Martin, Brimmer, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, Wayne, and Treiber. Vote against this action: Mr. Francis.

Mr. Francis dissented from this action because he favored seeking whatever degree of firming in money market conditions would be required to moderate substantially the growth in bank credit and the money supply by the end of the year. He agreed that Treasury financing operations would have to be taken into account to some extent in implementing such a policy. Nevertheless, he thought that the national interest called for greater monetary restraint now to curb inflationary pressures and to protect the foreign trade component of the U.S. balance of payments.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MEETING HELD ON NOVEMBER 14, 1967

1. Authority to effect transactions in System Account.

Although strikes recently had been retarding activity in some areas of the economy, real GNP was expected to increase more rapidly in the current quarter than it had in the third quarter. A still higher rate of economic growth and continued upward pressures on prices and costs appeared to be in prospect for early 1968, particularly if an income tax surcharge as proposed by the President were not enacted.

Recent weakness in various broad measures of business activity was largely a consequence, directly or indirectly, of work stoppages in the automobile industry and in some other industries. Industrial production was estimated to have declined slightly further in October. Retail sales decreased appreciably, according to the advance estimate, mainly because of a sharp reduction in automobile sales attributable to the limited availability of new cars. Total nonfarm employment rose relatively little; the net increase in manufacturing employment was held down by strikes, and Federal Government employment declined slightly because of a curb on hiring. With the labor force increasing more rapidly than usual, the unemployment rate rose further, to 4.3 per cent from 4.1 per cent in September. Residential construction activity, however, continued to rise strongly in October.

It appeared likely that final sales to both the private and Government sectors of the economy would increase more rapidly in the fourth quarter than in the third, but that the rate of business inventory accumulation would remain low. Growth in output, employment, and incomes was expected to be quickened in the early months of 1968 by business efforts to rebuild inventories depleted by strikes and by efforts of steel users to accumulate stocks as a hedge against a possible steel strike in the summer.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Moreover, it appeared that consumer spending would be stimulated in early 1968 by liberalization of social security benefits and by a Federal employee pay raise, as well as by continued sizable advances in industrial wage rates—including increases resulting from the rise in minimum wage rates on February 1, 1968, as provided by existing legislation.

Wholesale prices of industrial commodities increased further from mid-September to mid-October, according to preliminary estimates, but prices of farm products and foods declined, and the total wholesale price index edged down. The consumer price index rose somewhat less in September than it had in other recent months as food prices declined.

Further information confirmed earlier estimates that the deficit in the U.S. balance of payments on the "liquidity" basis of calculation was at a rate somewhat higher in the third quarter than in the first half of the year, and another large deficit appeared to be in prospect for the fourth quarter. The merchandise trade surplus declined in September from the high August rate, as imports increased while exports fell; in the third quarter as a whole the trade surplus was about the same as in the second quarter. On the "official reserve transactions" basis, a sizable surplus was recorded in the third quarter following substantial deficits in the first half of the year. This surplus was due primarily to large inflows of liquid funds to U.S. banks through their foreign branches. Net inflows of such funds continued after the end of September. Sterling was under heavy pressure in foreign exchange markets and on November 9, for the second time in 3 weeks, the Bank of England raised its discount rate by ½ of a percentage point, to 6½ per cent.

In its November financing—for which subscription books were open October 30—the Treasury refunded securities maturing November 15, including $2.6 billion held by the public, and raised $2.2 billion of new money. Two issues were offered—a 15-month, 5⅝ per cent note, and a 7-year, 5¾ per cent note—

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

of which private investors were allotted $3.2 billion and $1.6 billion, respectively. While the two notes were well-received initially—with the longer maturity, in particular, heavily oversubscribed—selling pressures developed soon after the books had closed and on the day before this meeting prices of both were quoted at discounts. It was announced on November 10 that $650 million of participation certificates of the Federal National Mortgage Association would be offered to the public on November 28. Apart from the continuing addition of $100 million to each weekly and monthly bill auction, this was expected to be the Government's last new cash financing in the calendar year 1967.

Open market operations since the preceding meeting of the Committee had continued to be directed at maintaining steady conditions in the money market. Net free reserves of member banks averaged about $200 million during the 3 weeks ending November 8, compared with a revised figure of about $240 million for the preceding 3 weeks. Excess reserves of member banks declined, particularly at country banks; borrowings also declined, to an average of $90 million from about $170 million in the preceding period. Average rates on Federal funds and on bank loans to Government securities dealers were a little lower than in September and the early weeks of October. Interest rates on short-term market instruments remained generally unchanged or rose slightly from their levels at the time of the preceding meeting of the Committee. The market rate on 3-month Treasury bills was 4.62 per cent on the day before this meeting, up 4 basis points from its level 3 weeks earlier.

After a brief interruption in late October, bond yields resumed their advance in all sectors of the capital market. Yields on long-term Government bonds at the time of this meeting were significantly above both the levels prevailing 3 weeks earlier and the highs reached in 1966, and those on intermediate-term Government issues were up sharply. Yields on new corporate and

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

municipal issues also advanced, the former to levels exceeding the previous peaks reached in mid-October. The renewal of upward pressures on bond yields reflected in part a heavy prospective volume of new offerings of corporate and municipal securities in November and anticipations of the large FNMA offering. Also contributing to the pressures were prospects of inflationary developments and growing expectations in financial markets that a tax increase would not be enacted this year and that monetary policy would become firmer. On the day before this meeting, a major corporate bond offering was postponed as a result of congestion and uncertainties in the capital market.

The incomplete data available suggested that secondary-market yields on Federally underwritten mortgages rose further in October—approaching the record level reached toward the end of 1966. It appeared that net inflows of funds to nonbank depositary institutions continued to moderate in October on a seasonally adjusted basis. By the end of September outstanding mortgage commitments of private lenders were virtually back to the postwar high of January 1966, but in recent weeks some individual lenders were reported to have reduced their new commitments.

Commercial bank holdings of Treasury and other securities rose considerably in October. Security loans and loans to nonbank financial institutions also increased relatively fast, but the advance in business loans was again quite moderate. The bank credit proxy—daily-average member bank deposits—increased at an annual rate of 12 per cent, a little faster than in the preceding month. Time and savings deposits expanded at an annual rate of 13 per cent in October, slightly above the September rate but well below the average rate of more than 17 per cent for the first 8 months of the year. The money supply, which had been virtually unchanged in September, increased at an annual rate of about 6.5 per cent in October.

The rate of expansion in bank credit was expected to slow in the last 2 months of the year if prevailing money market con-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ditions were maintained. It appeared likely that demands for business loans would remain moderate in view of prospects that changes in business spending on inventories and fixed capital would be small. The bank credit proxy was still projected to rise at an annual rate in the 7 to 10 per cent range in November, and a somewhat lower growth rate was anticipated for December. In November the money supply was expected to increase at an annual rate in the range of 6 to 8 per cent and time and savings deposits in the range of 9 to 11 per cent.

At this meeting the Committee heard reports on negotiations relating to international credit assistance to the United Kingdom in addition to reviewing conditions and prospects with respect to the domestic economy, the U.S. balance of payments, and the foreign exchange markets. After discussion the Committee agreed that no change should be made in monetary policy at this time, in view of the sensitive state of conditions in foreign exchange markets and of the international negotiations now under way. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting indicates that, while the direct and indirect effects of strikes have been retarding activity in some areas of the economy, prospects still favor more rapid economic growth in the months ahead. Although prices of farm products and foods have declined recently, upward pressures persist on industrial prices and costs. While there recently have been further inflows of liquid funds from abroad through foreign branches of U.S. banks, the balance of payments continues to reflect a substantial underlying deficit. Bank credit expansion has continued large. The volume of new private security issues has expanded further and interest rates remain under upward pressure, reflecting in part increased doubts in financial markets concerning enactment of the President's fiscal program. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions, including bank credit growth, conducive to sustainable economic expansion, recognizing the need for reasonable price stability for both domestic and balance of payments purposes.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the prevailing conditions in the money market, but operations shall be modified as necessary to moderate any apparent tendency for bank credit to expand significantly more than currently expected.

> Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, and Wayne. Votes against this action: None.

2. Amendment to authorization for System foreign currency operations.

The Committee amended paragraphs 1B(3) and 1C(1) of the authorization for System foreign currency operations, in each case effective as of the date of a determination by Chairman Martin that such action was in accordance with the position of the United States in the current international negotiations concerning credit assistance to the United Kingdom. In the amendment to paragraph 1B(3) the limit on authorized System Account holdings of sterling purchased on a covered or guaranteed basis was increased from $200 million to $300 million equivalent. In the amendment to paragraph 1C(1) the limit on outstanding forward commitments to deliver foreign currencies to the Stabilization Fund was increased from $200 million to $350 million equivalent, and language restricting the foreign currencies covered by the paragraph to currencies "in which the U.S. Treasury has outstanding indebtedness" was deleted.

Chairman Martin made the indicated determination on November 21, 1967, for the amendment to paragraph 1B(3) and on November 22, 1967, for the amendment to paragraph 1C(1). Accordingly, the respective amendments became effective on those dates. With these two amendments, the first paragraph of the authorization read as follows:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

to the extent necessary to carry out the Committee's foreign currency directive:

A. To purchase and sell the following 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 U.S. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:

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

B. To hold foreign currencies listed in paragraph A above, up to the following limits:

(1) Currencies held spot or purchased forward, up to the amounts necessary to fulfill outstanding forward commitments;

(2) Additional currencies held spot or purchased forward, up to the amount necessary for System operations to exert a market influence but not exceeding $150 million equivalent; and

(3) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to $300 million equivalent.

C. To have outstanding forward commitments undertaken under paragraph A above to deliver foreign currencies, up to the following limits:

(1) Commitments to deliver foreign currencies to the Stabilization Fund, up to $350 million equivalent;

(2) Commitments to deliver Italian lire, under special arrangements with the Bank of Italy, up to $500 million equivalent; and

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

(3) Other forward commitments to deliver foreign currencies, up to $275 million equivalent.

D. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such 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.

> Votes for this action: Messsr. Martin, Hayes, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, and Wayne. Votes against this action: None.

In his report on the negotiations now in process concerning international credit assistance to the United Kingdom, the Special Manager for foreign currency operations noted that one possible form of U.S. participation in such assistance was an undertaking by U.S. monetary authorities to acquire additional sterling. The previous authority to acquire sterling, including the authorization to acquire up to $200 million for System Account, had proved useful at times in the past in market operations undertaken by the Special Manager for purposes specified in the Committee's foreign currency directive. The Special Manager indicated that in his judgment an increase of $100 million in the limit on such holdings by the System was justified in light of possible future needs for similar market operations. Accordingly, he recommended that if in the current negotiations the United States were to undertake to acquire additional sterling, $100 million should be acquired for System account and the remainder for Stabilization Fund account.

The Special Manager also indicated that if the arrangements were concluded on the basis he had suggested the resources of the Stabilization Fund might be inadequate to meet all demands upon them from time to time in the future. Accordingly, he recommended the amendments to paragraph 1C(1) of the authori-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

zation described above to enable the System Account to "warehouse" part of the Treasury's holdings of sterling if that should prove desirable. Past operations undertaken under the terms of paragraph 1C(1) had been limited to the purpose of facilitating repayment by the Treasury of maturing bonded debt denominated in foreign currencies.

After discussion, the Committee concurred in the recommendations of the Special Manager and took the actions indicated.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MEETING HELD ON NOVEMBER 27, 1967

1. Authority to effect transactions in System Account.

On Saturday, November 18, 1967, the par value of the pound sterling was reduced by 14.3 per cent, from $2.80 to $2.40. The British authorities simultaneously announced a broad series of measures designed to reduce domestic demands and in general to facilitate the economic adjustments required to achieve a substantial improvement in the balance of payments of the United Kingdom. These measures included an increase in the discount rate of the Bank of England from 6½ to 8 per cent, its highest level in 53 years. On November 19 the Federal Reserve announced an increase in its discount rate from 4 to 4½ per cent, effective the next day. Today's meeting had been called for the purposes of reviewing the latest developments and making such revisions in the Open Market Committee's policy instruments as were needed in the light of recent events.

Following the British devaluation, all of the other major industrial countries comprising the "Group of Ten" announced promptly that the par values of their currencies would not be changed. The announcement for the United States took the form of a statement on November 18 by President Johnson, unequivocally reaffirming the U.S. commitment to the existing price of $35 per ounce for gold. Some countries did devalue after the British action, but together they accounted in 1966 for only about 6 per cent of world trade, less than Britain alone. Among the countries devaluing, Spain, Ireland, and Israel reduced the par values of their currencies by the same percentage as Britain had; New Zealand by more; and Denmark and Hong Kong by less.

Conditions in markets for foreign exchange and gold had been turbulent since the Committee's preceding meeting on November 14. Pressures on sterling had increased after publication that day

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

of British foreign trade figures for October, which indicated that a deficit of record proportions had been incurred. The pressures eased over most of the next 2 days, when there were rumors regarding negotiations for foreign central bank credit assistance to the United Kingdom, but they resumed late on Thursday, November 16. On Friday there were press reports that a devaluation of the pound was imminent, and the markets were flooded by offers of sterling. Demands for gold in the London market and other foreign centers increased substantially, and some central banks in continental Europe acquired sizable amounts of dollar reserves as a result of shifts by market participants from sterling into continental European currencies.

The British authorities declared a bank holiday for the Monday following devaluation. When foreign exchange trading resumed in London on Tuesday, November 21, spot sterling was quoted at its new ceiling rate of $2.42, where it remained for the rest of the week. Market demands for gold continued to mount, however, and reached unprecedented levels during the week. Continental central banks experienced only small changes in their dollar reserves during most of the week, but made sizable acquisitions on Friday.

On Sunday, November 26, the following statement was issued in Washington:

The Secretary of the Treasury and the Chairman of the Federal Reserve Board made available a communique issued in Frankfurt, Germany, today which reads as follows:

> The Governors of the Central Banks of Belgium, Germany, Italy, Netherlands, Switzerland, United Kingdom and the United States convened in Frankfurt on November 26, 1967.
>
> They noted that the President of the United States has stated:
>
> "I reaffirm unequivocally the commitment of the United States to buy and sell gold at the existing price of $35 per ounce."
>
> They took decisions on specific measures to ensure by coordinated action orderly conditions in the exchange markets and to support the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

> present pattern of exchange rates based on the fixed price of $35 per ounce of gold.
>
> They concluded that the volume of gold and foreign exchange reserves at their disposal guarantees the success of these actions; at the same time they indicated that they would welcome the participation of other central banks.

On the following day—the day of this Committee meeting—the market demand for gold was considerably below its levels during the preceding week.

In domestic financial markets both short- and long-term interest rates had fluctuated widely since the Committee's November 14 meeting. Yields initially declined, following the postponement of a large bond issue by a major U.S. corporation and the reports concerning negotiations for credit assistance to Britain. They advanced on Friday, November 17, however, in the wake of the mounting pressures on sterling and rumors of imminent devaluation. On Monday, November 20, both short- and long-term interest rates rose sharply in the initial reaction to the events of the preceding weekend. A large commercial bank increased its prime lending rate from 5½ to 6 per cent that day, and various other banks followed shortly.

The securities markets began to rally on Monday afternoon, and they strengthened further on the following 2 days. Factors underlying the rally included large-scale purchases of Government securities by the System, the postponement of a number of corporate and municipal bond issues, and an announcement that the House Ways and Means Committee would reopen hearings shortly on the administration's proposals for increased fiscal restraint.

Market interest rates rose sharply again on Friday, November 24, however, when uncertainties were increasing in foreign exchange and gold markets. Yields on municipal and seasoned corporate bonds advanced to new record levels, but yields on intermediate- and long-term Government securities did not re-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

attain the highs they had reached on the day before the Committee's preceding meeting. Most short-term yields had increased considerably, on balance, since that time; the market rate on 3-month Treasury bills, at about 4.90 per cent, was up approximately 30 basis points over the period. Major banks raised their offering rates on large-denomination CD's, and rates on CD's maturing in 3 months or more were now generally at the 5½ per cent ceiling established by Regulation Q.

The System conducted large-scale open market operations on the Monday after the devaluation of sterling and the announcement of the increase in Federal Reserve discount rates, with a view to facilitating orderly adjustments to the new circumstances brought about by these events. Early in the day the System placed bids with Government securities dealers for a substantial volume of securities maturing in more than 1 year. After purchasing $186 million of such securities it also bought $427 million of Treasury bills. These operations absorbed some of the overhanging supply of securities that might otherwise have been pressed onto an unreceptive market; and as sentiment improved, market conditions quickly became relatively normal. No further System operations were carried out in the market during the rest of the week, although on Friday $191 million of Treasury bills were purchased directly from foreign accounts.

Free reserves of member banks were at the relatively low level of about $90 million in the statement week ending November 22, despite the large volume of reserves provided by both the System's security purchases on Monday and by various international transactions. Interest rates on Federal funds and on bank loans to Government securities dealers, like other market rates, had fluctuated widely in recent weeks. By the Friday before this meeting, however, money market rates had moved into closer alignment with the new level of the discount rate; the effective rate on Federal funds that day, at 4½ per cent, was equal to the discount rate, and dealer loan rates also had risen.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

In considering the domestic open market policy to be followed in the period until its next meeting, the Committee took note of the various crosscurrents that were likely to be at work as a consequence of the increase in Federal Reserve discount rates and of recent events abroad, and of the continuing uncertainties with respect to international developments and their possible impact on domestic financial markets. At the conclusion of the discussion the following current economic policy directive was issued to the Federal Reserve Bank of New York:

System open market operations until the next meeting of the Committee shall be conducted with a view to facilitating orderly market adjustments to the increase in Federal Reserve discount rates; but operations may be modified as needed to moderate any unusual pressures stemming from international financial uncertainties.

Votes for this action: Messrs. Martin, Brimmer, Francis, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, and Ellis. Votes against this action: None.

2. Amendments to authorization for System foreign currency operations.

At this meeting the Committee amended its authorization for System foreign currency operations in a number of respects, against the background of the discussions by the central bank governors at their meeting in Frankfurt. The amendments included an increase in the limit, specified in paragraph 1C(3) of the authorization, on forward commitments by the System Account to deliver foreign currencies; and enlargements of the swap arrangements, specified in paragraph 2, with a number of central banks and the Bank for International Settlements. In a further action, related to the change approved in the size of the swap arrangement with the Bank of England, the limit on authorized System Account holdings of sterling purchased on a covered or guaranteed basis, specified in paragraph 1B(3), was reduced to the level prevailing prior to the amendment to that paragraph that was approved on November 14, 1967.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

With respect to the first of these actions, one of the agreements reached at the Frankfurt meeting was that the foreign central banks represented there, in collaboration with U.S. monetary authorities, would undertake coordinated operations in forward markets. In these operations the central banks would sell their own currencies forward against dollars, to discourage further large accruals of dollar reserves such as had occurred on the Fridays before and after the sterling devaluation and, if possible, to encourage some reflows from European currencies to the Euro-dollar market. The U.S. Treasury had agreed to cooperate in this program, and forward operations in certain currencies had already begun, with the System Account participating on the basis of the authority contained in paragraph 1C(3) of the authorization for System foreign currency operations. It was noted that the existing authority to undertake forward commitments up to $275 million equivalent might well prove adequate to the System's needs in this connection. However, the Committee concurred in the recommendation of the Account Management that the limit contained in paragraph 1C(3) be doubled, to $550 million equivalent, to provide against the possibility of larger needs.

The increases in a number of System swap arrangements, which were for the purpose of providing a broader margin of safety for the stability of the international monetary system, were approved on the understanding that enlargements of certain additional swap arrangements might be proposed subsequently. Paragraph 2 of the authorization was amended to change the size of the reciprocal currency arrangements with (1) the National Bank of Belgium, from $150 million to $225 million equivalent; (2) the Bank of Italy, from $600 million to $750 million equivalent; (3) the Netherlands Bank, from $150 million to $225 million equivalent; (4) the Bank of Sweden, from $100 million to $200 million equivalent; (5) the Bank for International Settlements (the arrangement providing for System drawings in

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

authorized European currencies other than Swiss francs), from $300 million to $600 million equivalent; (6) the Bank of England, from $1,350 million to $1,500 million equivalent; (7) the Bank of Japan, from $450 million to $750 million equivalent; and (8) the German Federal Bank, from $400 million to $750 million equivalent. On advice that negotiations looking toward the indicated increases had already been conducted with the first five foreign banks listed above, the corresponding changes in the authorization were approved effective immediately. The changes relating to the swap arrangements with the central banks of England, Japan, and Germany were approved on the basis that they would become effective upon a determination by Chairman Martin that preliminary negotiations had been satisfactorily completed. The Chairman made such a determination with regard to the swap arrangements with the central banks of England and Japan on November 28, and with regard to the arrangement with the German Federal Bank on November 30.

With respect to the amendment to paragraph 1B(3), an increase in the limit specified there on System holdings of sterling had been approved at the preceding meeting of the Committee, at a time when it appeared that the United Kingdom might find it possible to maintain the par value of the pound at $2.80. In light of the subsequent devaluation, the Committee concluded that any expansion of credit facilities between the Federal Reserve and the Bank of England would more appropriately take the form of an increase in the size of the swap arrangement between the two central banks. Accordingly, the language of the affected paragraph was restored to the form in effect before the November 14 action.

Votes for these actions: Messrs. Martin, Brimmer, Francis, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, and Wayne. Votes against these actions: None.

Subsequent to this meeting, on November 30, the Special Manager recommended that paragraph 2 of the authorization for

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

System foreign currency operations be further amended to change the size of the swap arrangement with the Bank of Canada from $500 million to $750 million equivalent. This recommendation was unanimously approved by available members of the Committee, namely, Messrs. Martin, Hayes, Brimmer, Maisel, Mitchell, Robertson, Scanlon, Sherrill, Swan, and Wayne.

As a result of these several actions, the first two paragraphs of the authorization for System foreign currency operations read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive:

A. To purchase and sell the following 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 U.S. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:

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

B. To hold foreign currencies listed in paragraph A above, up to the following limits:

(1) Currencies held spot or purchased forward, up to the amounts necessary to fulfill outstanding forward commitments;

(2) Additional currencies held spot or purchased forward, up to the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

amount necessary for System operations to exert a market influence but not exceeding $150 million equivalent; and

(3) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to $200 million equivalent.

C. To have outstanding forward commitments undertaken under paragraph A above to deliver foreign currencies, up to the following limits:

(1) Commitments to deliver foreign currencies to the Stabilization Fund, up to $350 million equivalent;

(2) Commitments to deliver Italian lire, under special arrangements with the Bank of Italy, up to $500 million equivalent; and

(3) Other forward commitments to deliver foreign currencies, up to $550 million equivalent.

D. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such 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.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	100
National Bank of Belgium	225
Bank of Canada	750
National Bank of Denmark	100
Bank of England	1,500
Bank of France	100
German Federal Bank	750

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Bank of Italy	750
Bank of Japan	750
Bank of Mexico	130
Netherlands Bank	225
Bank of Norway	100
Bank of Sweden	200
Swiss National Bank	250
Bank for International Settlements:	
System drawings in Swiss francs	250
System drawings in authorized European currencies other than Swiss francs	600

At this meeting the Committee also reviewed certain transactions in sterling that had been made during the preceding week by the Federal Reserve Bank of New York with a number of U.S. commercial banks. Specifically, the New York Bank had sold sterling from System Account holdings to the U.S. commercial banks, for delivery on Tuesday, November 21, and had concurrently repurchased forward an equivalent amount of sterling from each bank for delivery on Friday, November 24. Similar transactions were conducted for Treasury account, with sales for delivery on Wednesday and repurchases for delivery on Friday.

These transactions were carried out to enable the U.S. commercial banks to make deliveries of sterling on Tuesday and Wednesday, under contracts they had made on Friday, November 17. The commercial banks involved had originally entered into those contracts in order to balance their positions in sterling, in accordance with their customary practice, after accommodating commercial customers and correspondent banks that had desired to sell sterling forward. At the time they made the spot contracts, the commercial banks had expected to acquire the necessary ster-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ling in the market on Monday, November 20, but were unable to do so because the British authorities had declared that day to be a bank holiday.

The New York Bank took measures to insure that such transactions did not provide relief to any commercial bank to the extent that it was short sterling as a result of operations on its own initiative. In cases where the banks had over-all short positions in sterling as of Friday, November 17, an amount equal to that short position was deducted from the amount made available by the New York Bank, except where the short position could be explicitly justified by the bank in question.

The broad purpose of these transactions, from the System's point of view, was to avoid the disorder in the foreign exchange market that might have resulted from widespread defaults on foreign exchange contracts. The transactions were carried out with the concurrence of a majority of the Subcommittee authorized, under the terms of paragraph 6 of the authorization for System foreign currency operations, to act on behalf of the Federal Open Market Committee when necessary to enable the New York Bank to engage in foreign currency operations before the Committee could be consulted. After discussion at this meeting, the Committee unanimously approved, ratified, and confirmed these transactions, along with other System transactions in foreign currencies since the previous meeting.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MEETING HELD ON DECEMBER 12, 1967

1. Authority to effect transactions in System Account.

Evidence was accumulating of a resurgence in economic activity following settlement of strikes in the automobile industry and in other industries. It now appeared highly probable that growth in over-all activity would accelerate in early 1968 and that upward pressures on prices would persist as the effects of higher costs were reinforced by those of rapidly expanding demands.

Preliminary indications were that industrial output had rebounded in November, that employment had risen sharply in both manufacturing and other areas, and that the unemployment rate had declined to less than 4 per cent from 4.3 per cent in October. Retail sales had increased significantly, according to the advance estimate, and residential construction activity had continued to expand. Average prices of industrial commodities had advanced further from mid-October to mid-November, and numerous increases were announced in subsequent weeks. A sizable rise in the consumer price index in October brought its increase since March to an annual rate of over 3.5 per cent.

The business outlook for early 1968 appeared strong despite an anticipated slowing of the advance in Federal expenditures, including defense outlays. Consumer spending was expected to rise in pace with rapidly growing incomes. Although the latest Commerce–SEC survey of business capital spending plans indicated a slightly lower level of outlays in the second half of 1967 than that shown by earlier surveys, it suggested that plant and equipment expenditures would rise considerably in the first half of 1968. The rate of business inventory accumulation also was expected to increase substantially after the turn of the year, both because of the heightened pace of over-all activity and because of efforts to rebuild strike-depleted stocks of autos and to accumulate steel against the possibility of a strike in that industry. Outlays for residential construction appeared likely to continue

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

upward for a time, although the pace and duration of the advance was in doubt because of uncertainties regarding prospective supplies and costs of mortgage funds.

With respect to the U.S. balance of payments, available data for October and November suggested that in the fourth quarter the deficit on the "liquidity" basis of calculation would be larger than in the third quarter and that the balance on the "official reserve transactions" basis would revert to deficit from the surplus recorded in the third quarter. Part of the deterioration reflected the conversion in October and November of official British holdings of U.S. securities to assets of more liquid form. Part, however, reflected other factors, including a further weakening of the U.S. merchandise trade surplus in October. Continued large deficits seemed to be in prospect for early 1968.

Gold holdings of the U.S. Treasury were reduced by $475 million in the week ending December 6, mainly to settle the U.S. share of sales made by the gold pool in London during the first 2 weeks after the devaluation of sterling on November 18 and to cover U.S. sales to foreign central banks. Foreign demand for gold subsequently dropped sharply, but it turned up again on the day before this meeting following press reports that possible measures to restrict access to the London gold market were under discussion.

In foreign exchange markets spot sterling remained at its new ceiling rate of $2.42 until early December, when the rate weakened following a labor dispute involving British railway workers. Subsequently the sterling exchange rate fluctuated below the ceiling. Forward operations by some continental central banks, undertaken in cooperation with U.S. monetary authorities, had helped to minimize speculative movements into continental currencies and to stimulate short-term investment outflows from them.

System open market operations since the preceding meeting of the Committee had been directed at facilitating continuing

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

orderly adjustments to the increase in Federal Reserve discount rates, against the background of the massive international flows of funds that followed the devaluation of sterling. Operations were complicated by the need to offset the effects on member bank reserves of those flows and of the large reduction in the Treasury's gold stock. Money market conditions remained relatively stable, however, with the Federal funds rate fluctuating around the 4½ per cent discount rate. In the 2 weeks ending December 6 free reserves averaged about $240 million and member bank borrowings about $105 million, compared with averages of $210 million and $125 million, respectively, in the preceding 4 weeks.

Interest rates on most types of market securities had risen after the increase in Federal Reserve discount rates and the devaluation of sterling. Most recently, many rates had advanced further as the waning likelihood that a tax increase would be enacted this year strengthened market expectations of greater monetary restraint. Since the preceding meeting of the Committee interest rates had increased on such short-term instruments as bankers' acceptances, finance company paper, and CD's; some banks were now offering the 5½ per cent ceiling rate on CD's of relatively short maturity. In early December the market rate on 3-month Treasury bills reached 5.01 per cent—its highest level in 1967—but it subsequently declined and on the day before this meeting was 4.90 per cent, about the same as 2 weeks earlier.

In the capital markets yields on intermediate- and long-term Treasury securities had moved irregularly lower in recent weeks, but those on municipal and corporate bonds, particularly the former, had risen further. The rise in corporate bond yields was moderated by postponements and cutbacks of scheduled new issues, which reduced the November volume of public offerings to little more than half the total expected earlier. Upward interest rate pressures appeared to be persisting on home mortgages.

Commercial bank credit increased less rapidly in November

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

than in other recent months, with bank acquisitions of municipal and Federal agency issues accounting for much of the rise. Holdings of Treasury securities and loans on securities both declined, and growth in business loans, while somewhat faster than in the two preceding months, was still moderate. The bank credit proxy —daily-average member bank deposits—increased at an annual rate of about 8.5 per cent in November, compared with average annual rates of 11 per cent in September and October together and 13.5 per cent in the first 8 months of the year. Growth in total time and savings deposits was maintained in November at the 12 per cent average annual rate of the two preceding months by substantial bank sales of short-maturity CD's; expansion in other time and savings deposits moderated further. The pace of growth in private demand deposits and the money supply increased somewhat—the latter to an annual rate of about 7.5 per cent—as Government deposits declined.

With continued expansion in over-all economic activity in prospect, demands for business loans were expected to strengthen in December and January. However, growth in total bank credit was expected to slow further in December; it was anticipated that the funds available to banks would be limited by run-offs of CD's, a large volume of which matured around the midmonth tax date. The bank credit proxy was projected to rise at an annual rate in the range of 2 to 5 per cent in December if prevailing money market conditions were maintained. Faster growth appeared likely in January, when it was anticipated that banks would be the initial purchasers of a large proportion of the tax-anticipation bills the Treasury was expected to issue then. It was thought likely that a slight firming of money market conditions would have relatively little effect on bank credit growth in December, but that it would reduce the growth rate in January from what would otherwise be expected, in part by causing some further attrition in outstanding CD's.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The Committee decided that open market operations in the period until its next meeting should be directed at moving slightly beyond the firmer conditions that had developed in the money market partly as a result of the increase in Federal Reserve discount rates. The Committee also agreed that operations should be modified if necessary to moderate any significant deviation of bank credit from current expectations, particularly in an upward direction, or any unusual liquidity pressures that might develop in financial markets.

It was noted in the discussion that events of recent weeks had shifted the balance of conflicting considerations in favor of a firming of monetary policy. Efforts to achieve a measure of fiscal restraint through enactment of a surcharge on income taxes had proved unavailing in the 1967 session of Congress. Prospects for accelerated growth in economic activity and for the continuation of inflationary pressures had heightened following the settlement of major strikes. The balance of payments situation had deteriorated further and pressures on the U.S. gold stock had increased. At the same time, the constraint on monetary policy resulting from the pressures on sterling in foreign exchange markets had been relaxed, although not completely removed, by the devaluation of the pound; and the constraint imposed from time to time by Treasury financing activity was absent for the time being.

It was for these reasons that the Committee decided to seek firmer money market conditions at present. The decisions to move toward only slightly firmer conditions—and to provide for modification of operations in the event that unusual liquidity pressures developed—reflected in part continuing concerns about possible adverse effects of higher interest rates on financial intermediaries, especially around the year-end dividend- and interest-crediting periods when such institutions were particularly exposed to withdrawals of funds. Various other considerations were cited as grounds for caution in increasing monetary restraint at this

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

time. These included the fact that the growth rate of bank credit had moderated in November and was expected to decline further in December; the judgment that the current high levels of interest rates were already imposing a considerable degree of restraint on borrowing and spending; and the fact that pressures on sterling had not completely dissipated following the devaluation.

In the course of the Committee's discussion a number of members expressed the view that serious consideration should be given to an increase at an early date in member bank reserve requirements against demand deposits, as a further step in a gradual and orderly firming of monetary policy. At the conclusion of the discussion the following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting indicates that industrial output and employment have rebounded following strike settlements in the automobile and other industries, and that prospects have heightened for more rapid expansion of over-all economic activity in the months ahead. Both industrial and consumer prices have continued to rise at a substantial rate. The imbalance in U.S. international transactions has worsened, partly because of weakening in the export surplus since midyear. Foreign purchases of gold have been large following the devaluation of the pound sterling. Bank credit expansion has lessened, with diminished bank buying of Government securities and continued moderate loan growth. Most interest rates have risen further in reaction to the British devaluation and Bank rate increase, the rise in Federal Reserve discount rates, and waning expectations of enactment of the President's fiscal program. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resistance of inflationary pressures and progress toward reasonable equilibrium in the country's balance of payments.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to moving slightly beyond the firmer conditions that have developed in money markets partly as a result of the increase in Federal Reserve discount rates; provided, however, that operations shall be modified as needed to moderate any apparently significant deviations of bank credit from current expectations or any unusual liquidity pressures.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Votes for this action: Messrs. Martin, Hayes, Brimmer, Francis, Mitchell, Robertson, Scanlon, Sherrill, Swan, and Wayne. Vote against this action: Mr. Maisel.

Mr. Maisel dissented from this action in part because he thought the directive was susceptible to an interpretation under which growth in member bank reserves and bank deposits would be slowed too abruptly, and perhaps succeeded by contraction. He favored seeking growth rates in reserves, deposits, and bank credit considerably below the average rates thus far in 1967, but still high enough to facilitate expansion in GNP at a somewhat faster rate than had prevailed on average in the first three quarters of the year. He noted that whether or not interest rates would rise further under the course he advocated would depend upon the strength of market demands for funds in relation to the supplies that would be available under such a Committee policy.

Mr. Maisel also thought that the statement of the Committee's general policy stance contained in today's directive had far too narrow a focus; in particular, he objected to the omission of reference to the basic policy goal of facilitating sustainable economic expansion. This omission resulted from the substitution of language stating that it was the Committee's policy "to foster financial conditions conducive to resistance of inflationary pressures and progress toward reasonable equilibrium in the country's balance of payments" for the language of other recent directives stating that it was the Committee's policy "to foster financial conditions, including bank credit growth, conducive to sustainable economic expansion, recognizing the need for reasonable price stability for both domestic and balance of payments purposes."

2. Amendments to authorization for System foreign currency operations.

At this meeting the Committee ratified the action taken by mem-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

bers on November 30, amending paragraph 2 of the authorization for System foreign currency operations to change the size of the swap arrangement with the Bank of Canada from $500 million to $750 million equivalent.

> Votes for ratification of this action: Messrs. Martin, Hayes, Brimmer, Francis, Maisel, Mitchell, Robertson, Scanlon, Swan, and Wayne. Votes against ratification of this action: None.

Subsequent to this meeting, on December 14, 1967, the Special Manager recommended that paragraph 2 of the authorization be further amended to change (1) the size of the swap arrangement with the Bank for International Settlements providing for System drawings in Swiss francs, and (2) the size of the arrangement with the Swiss National Bank, each from $250 million to $400 million equivalent, effective immediately, to supplement the enlargements of the System's swap network that had been approved on November 27 and November 30. The recommendation was unanimously approved by available members of the Committee, namely, Messrs. Martin, Hayes, Brimmer, Daane, Francis, Maisel, Mitchell, Robertson, Scanlon, Swan, and Wayne. (This action was ratified by the Committee at its following meeting, on January 9, 1968.)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

OPERATIONS OF THE SYSTEM OPEN MARKET ACCOUNT

The following two reports describe the actions taken during 1967 to carry out the policy directives of the Federal Open Market Committee.

The report on operations in domestic securities was prepared by Alan R. Holmes, 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 outlines the factors that the Manager takes into account in the day-to-day provision of bank reserves.

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. The Federal Reserve has been buying and selling foreign currencies since early 1962 as part of the efforts to defend the dollar and strengthen the world payments system. All of 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.

The report on operations in foreign currencies begins on page 276.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

REVIEW OF OPEN MARKET OPERATIONS IN DOMESTIC SECURITIES IN 1967

Open market operations in domestic securities during 1967 were aimed at implementing three consecutive phases of monetary policy:

—a step-up of monetary stimulation during the opening months of the year when the over-all business situation was weakening;

—the maintenance of generally steady conditions in the money market from spring until late fall, while the economy gradually strengthened, liquidity continued to be rebuilt, and interest rates in the capital markets rose sharply; and finally

—a moderate move toward monetary restraint in the final weeks of the year to resist growing inflationary pressures and protect the dollar internationally.

The first phase covered the period from the beginning of the year through May 1. Open market operations, a reduction in member bank reserve requirements, and a cut in the Federal Reserve discount rate all were used hand in hand during this interval to ease money market conditions. This easing, and the accompanying growth in bank credit, helped to combat the effects of weakening tendencies present in the economy. There were, of course, various shadings around this general stance. Indeed, during the final month of the interval open market operations were directed more at ratifying the easier conditions that came to the money market with a cut in the discount rate announced on April 6 than at independently inducing still further ease.

For purposes of exposition, the second policy phase is divided into two parts or subperiods: one covering the period May 2 through September 11, and the other September 12 through November 13. About the same money market condi-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

tions were maintained through the two subperiods. In the first subperiod these conditions were accompanied by increasing signs of renewed economic expansion, very heavy demands for funds in the capital markets as corporations and others continued to rebuild depleted liquidity positions, and a rapid expansion of bank credit. As this subperiod wore on, price increases became more numerous.

By early September, when the second subperiod began, there was considerable sentiment in the Federal Open Market Committee that the weight of economic evidence called for some move toward monetary restraint. For a variety of reasons, however, policy was unchanged for a while longer. These reasons included the uncertainties associated with the strike in the automobile industry and congressional deliberations over the administration's proposed tax surcharge, as well as the threats to financial intermediaries and to the weakening position of the pound sterling posed by the already high rates of interest prevailing in the open market. Even-keel considerations associated with Treasury financing operations in early and late October contributed to the no-change posture.

The final phase covers the interval November 14 through December 31. The beginning of this period marked roughly the onset of the tremendously increased pressures and uncertainties that beset the foreign exchange and gold markets late in the year. Within a week, over the November 18-19 weekend, sterling had been devalued, and the Federal Reserve had increased the discount rate in defense of the dollar. Open market operations sought to facilitate orderly market adjustments to the new discount rate through the first 4 weeks of the period, and then sought somewhat firmer conditions in the market after the December 12 meeting of the Committee. A few weeks later the Federal Reserve took still further steps to resist inflationary pressures and defend the dollar by raising reserve requirements of member banks. Then on January 1, 1968, the President announced an extensive balance of payments program, including

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

a tightening of the System's guidelines for voluntary restraints on international financial flows.

Viewed as a whole, open market operations during 1967 were conducted in a somewhat less strained domestic financial environment than in 1966. The former year had been marked by major shifts of funds among financial sectors and by strains in financial markets as interest rates reached levels not seen in a generation. Long-term interest rates rose even higher in 1967; but over-all, the markets performed very well in handling a record demand for capital funds. As in 1966, the nervousness that continued to exist was related mostly to insufficient fiscal restraint—with bond prices tending to rise or fall as prospects for the tax surcharge waxed or waned. Short-term interest rates rose sharply in the second half of the year, and at the year-end they were at levels that raised questions about banks' ability to compete for funds under existing Regulation Q ceilings.

Although the general financial environment was less strained in 1967 than in 1966, a wide variety of domestic and international developments over the year had profound effects on market expectations and psychology. These developments in turn affected contingency planning in the Federal Reserve System and actual day-to-day operations in the market. During the year the markets were affected not only by recurrent shifts in sentiment regarding the likelihood of congressional action on the tax bill but also by uncertainties over congressional action on the Treasury debt ceiling.

Treasury debt management operations were also important. Such operations involved not only the four regular quarterly refundings but also four operations to raise new cash, several increases in the amounts of regular weekly and monthly bill auctions, and wide swings in Treasury balances at the Reserve Banks. Government trust accounts also engaged in quite extensive market transactions. Finally, there were the operations for foreign accounts. Foreign transactions had major effects on domestic reserve availability, the Treasury's cash position, and the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

U.S. securities markets. Coordination of the System's operations with these transactions in the period following the devaluation of sterling required especially close cooperation among the Open Market Account and the foreign account operations of the New York Reserve Bank and the operations of the debt management and foreign divisions of the Treasury Department.

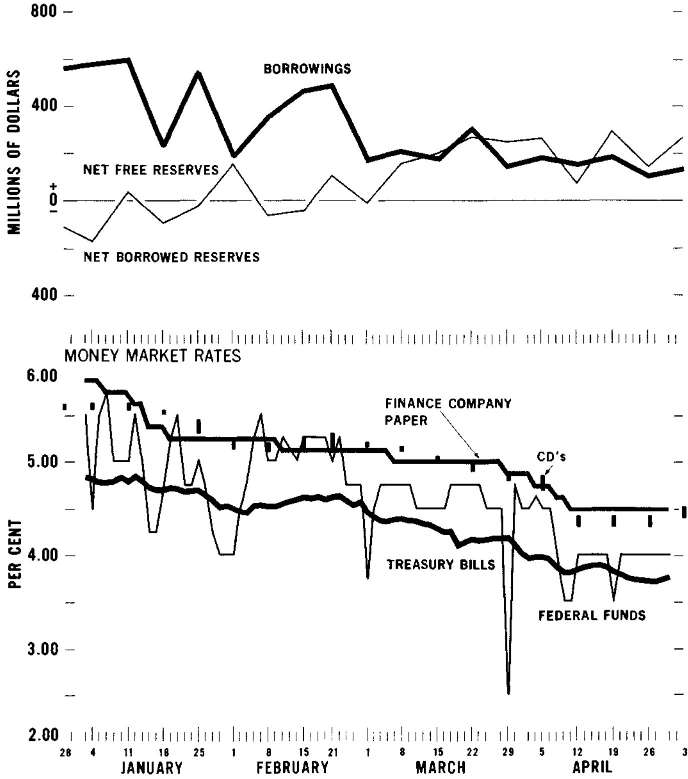
January 1-May 1:
Monetary Policy Eases to Combat Emerging Weakness in the Economy

Federal Reserve policy during the first 4 months of 1967 was directed at combating the effects of weakening tendencies in the economy. The pace of business expansion was already moderating when the year began, though in view of prospects for a sharp increase in fiscal stimulus in the months ahead, most forecasts looked for renewed economic vigor by midyear. In anticipation of such a strengthening, the President in his State of the Union Message on January 10 proposed enactment of a 6 per cent income tax surcharge for individuals and corporations to become effective on July 1. But meanwhile, what had appeared at first to be only slowdowns in many business indicators turned into actual declines as the first quarter progressed, reflecting for the most part the effects of a sharp drop in the rate of inventory accumulation.

To counter the effects of economic weakening, the Federal Reserve quickly stepped up monetary stimulation through a combination of actions that brought a rapid extension of the easing of System policy that had begun in late 1966. To be sure, there was a pause for a generally even-keel posture for a time in February while the Treasury's quarterly financing operation was under way, and another financing was in process as the period closed. In addition, some unexpected shortfalls in nationwide net reserve availability around mid-February and mid-March temporarily generated some unintended firmness in money market conditions.

But over the first 4 months as a whole, open market opera-

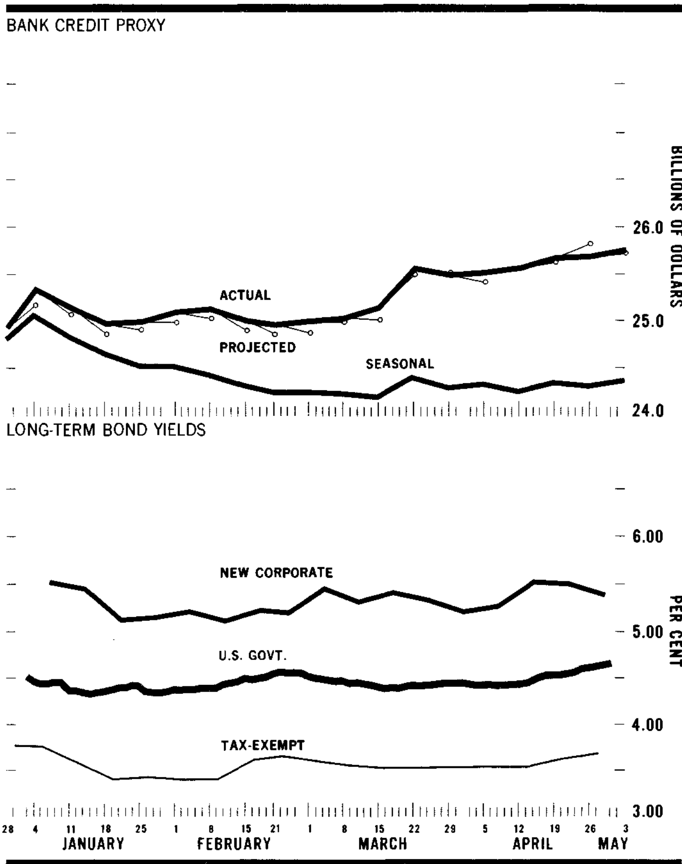
Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis



Finance company paper, 90-day, offering rate. Treasury bills, 3-month issues, daily bid rate. Federal funds, effective rate. New corporate issues, Aaa

tions provided about $1.4 billion (net) of reserves to the banking system, more than offsetting reserve drains caused by movements in various factors. In addition, on February 28, the Board of Governors announced a forthcoming reduction in reserve requirements against savings deposits and certain types of time deposits. This action released about $850 million of reserves to the banking system in two steps in March. Then on April 6,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis



basis. CD's, 3-month, secondary market rate. Tax-exempt bonds, rate on 20-year issues.

after short-term interest rates in the open market had fallen substantially, 10 of the Federal Reserve Banks announced reductions in their discount rates from 4½ to 4 per cent. (The other two Federal Reserve Banks took similar action shortly thereafter.) During the period the administration also requested action by the Congress to restore two special inducements to business investment—one, the 7 per cent investment tax credit and two, permis-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

sion to use accelerated depreciation schedules—that had been suspended in late 1966.

Under the stimulative thrust of the open market operations, nationwide net reserve availability in the banking system expanded from net borrowed reserves averaging $165 million in December 1966 to about zero in the first 2 months of 1967 and then to free reserves averaging in the $100 million to $300 million range by early May. (See top left-hand panel of Chart 1.) While the distribution of these added reserves within the banking system was somewhat uneven, a ready flow of funds through the Federal funds market quickly rechanneled the reserves to banks that needed them and at generally declining rates. Major money market banks thus had increasingly less difficulty in covering their deep basic reserve deficits that persisted throughout the period, partly because of heavy lending to securities dealers. The Federal funds rate dropped, with a few interruptions, from around 5½ per cent in late 1966 to 4½ per cent toward the end of March, and then to 4 per cent following the reduction of the discount rate in early April. Member bank borrowing from the Reserve Banks fell fairly steadily over the period, from an average of about $560 million in December 1966 to around $100 million by early May.

There were also extensive flows of savings into financial institutions during the period. Time and savings deposits at commercial and mutual savings banks and shareholdings at savings and loan associations increased by nearly $15.1 billion over the first 4 months of the year. The increase included a net rise of $2.9 billion in negotiable certificates of deposit at reporting commercial banks; this brought outstanding CD's back to the peak reached in mid-August 1966.

These and other flows had quick and pervasive effects throughout the financial system. In particular, they facilitated (and reflected) a massive rebuilding of liquidity in all sectors of the economy from the depleted levels reached during the monetary squeeze of 1966. Savings and loan associations, for example,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

used a good part of the increase in their savings capital to repay nearly $2.2 billion (net) of borrowings from the Federal home loan banks, and they also replenished their holdings of cash and Treasury bills.

The ready availability of funds for investment in large denomination CD's led commercial banks to reduce steadily their offering rates on new CD's and also to make large repayments of funds that had been borrowed in the Euro-dollar market during the second half of 1966 when the 5½ per cent Regulation Q ceiling had made it difficult for banks to compete for domestic funds. By early May offering rates on CD's were well down from the 5½ per cent ceiling available on all maturities at the beginning of the year to a range of 4 to 4½ per cent. Meanwhile, aggregate balances due to foreign branches of the major banks fell by almost $1.2 billion from the level on the last Wednesday of 1966.

There was also a rapid expansion of credit during the period, especially at commercial banks. Loans and investments at all commercial banks rose by $13 billion (seasonally adjusted) during the first 4 months of the year. The pace of bank credit expansion rose to an annual rate of nearly 15 per cent in the first quarter before abating in April. More than half of this expansion represented purchases by banks of Government and other securities, which helped to rebuild their liquidity. Furthermore, the banks maintained very sizable portfolios of short-term loans to Government securities dealers. Loans to nonfinancial businesses increased somewhat over the period, partly under the impetus of the continuing acceleration of payment schedules for corporate income and social security taxes. But the really heavy borrowing by businesses during this period—and throughout the year—was through the capital markets. Indeed, many corporations used the funds they obtained in the market to repay bank loans.

Finally, along with the already mentioned decline in rates on CD's, there was a fairly steady and mutually reinforcing down-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

trend in all short-term interest rates during the period; the only major hesitation occurred in February. Rates posted by the major New York City banks on call loans to U.S. Government securities dealers dropped very sharply, from a range of 6–6¾ per cent in early January to 4–4¾ per cent at the end of the period. Rates on finance company and commercial paper and bankers' acceptances fell, in steps, by a total of about 1¼ percentage points. During the second half of March expectations of further declines in Treasury bill rates were so strong that a downward-sloping yield curve emerged in the bill market, and rates on 6- and 12-month bills fell by as much as 9 and 17 basis points below the rate on 3-month maturities.

Along with these declines in market rates, and in light of the not-overly exuberant demand for bank loans, major banks across the country lowered the rate on "prime" business loans from 6 to 5½ per cent during the period. One large bank moved to the lower rate on January 26, in the wake of the initial steps toward monetary ease in the opening weeks of the year. Most others, however, moved first to 5¾ per cent and did not reduce their rates to 5½ per cent until around March 22, after the easing in Federal Reserve policy had proceeded further.

Only in the longer-term markets were the effects of the easing of monetary policy outweighed by other forces. In these markets yields had already fallen considerably during the final months of 1966, and this trend was extended for a time during the early weeks of the new year. But with demands for capital, both current and in prospect, mounting sharply, upward yield pressures soon returned. By the end of the period yields on corporate and municipal bonds were up about 8 to 25 basis points from their late-January lows, and in some cases they were even a little higher than those prevailing at the start of the year.

Open market operations. Implementing the easing in System policy involved extensive open market operations during the January 1–May 1 interval. Operations sought in general to inject reserves into the banking system a little ahead of expected

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

needs. They were often complicated, however, by shortfalls of reserves below projected levels—frequently because the rapid expansion of bank credit persistently caused member bank required reserves to rise faster than expected; in addition, float occasionally fell to unusually low levels.

Reserve shortfalls were particularly marked on the first several days of the year, again in mid-February and mid-March, and in the statement weeks ending April 12 and 26. On each of these occasions the System repeatedly used repurchase agreements to counter the unintended firmness developing in the money market. In fact, repurchase agreements were arranged on 41 of the 83 business days of the interval under review, and on several days they were arranged twice when the reserve injection from the first round proved to be insufficient to relax conditions in the money market. The System also made sizable outright purchases of Treasury bills, and in March and April it bought Treasury coupon-bearing issues. Purchases of Treasury bills toward the middle and the end of April helped to preserve comfortable conditions in the money market and eased some of the nervousness that emerged in the securities markets during the period.

Reserve bulges resulting from swings in float and from other factors had to be absorbed at regular intervals, but most of these absorptions were accomplished without substantial sales of securities by the System. The scheduled maturity of outstanding repurchase agreements provided an automatic means of absorbing reserves when needs had run their course, and in a number of regular Treasury bill auctions the System arranged in advance for some reserve absorption a few days later through the redemption of part of its holdings of maturing bills.

Cash transactions to absorb reserves were undertaken on only five occasions during the period. Two of these involved the use of matched sale–purchase transactions—a technique initiated during 1966 to absorb reserves temporarily—and two others involved sales of a moderate amount of Treasury bills to foreign accounts. The only outright sale of bills by the System in the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

open market occurred on April 11, when a bulge in reserves was causing particularly easy conditions in the money market.

In total, the System purchased $10.8 billion of Treasury and Federal agency securities under repurchase agreements during the period, and $11.2 billion of such agreements were terminated, as shown in the table. Repurchase agreements against

SYSTEM OPERATIONS IN GOVERNMENT SECURITIES DURING 1967

(In millions of dollars)

Type of operation	Jan. 1–May 1	May 2–Sept. 11	Sept. 12–Nov. 13	Nov. 14–Dec. 31	Total
Outright purchases:					
Treasury bills:					
From market	[1] 3,624	[1] 2,795	[1] 1,674	601	[1] 8,694
From foreign accounts	607	1,022	270	897	2,796
Coupon issues	218	611	139	186	1,154
Special certificates of indebtedness	149	240	......	....	389
Outright sales:					
Treasury bills:					
To market	[1] 701	[1] 1,775	[1] 270	....	[1] 2,746
To foreign accounts	161	648	26	....	835
Coupon issues	....	....	....	....	....
Redemptions:					
Treasury bills	1,864	1,129	329	416	3,738
Special certificates of indebtedness	149	240	....	....	389
Repurchase agreements:					
Government securities:					
Purchases	10,362	3,090	2,097	1,243	16,792
Sales	10,699	3,380	1,901	1,307	17,287
Federal agency obligations:					
Purchases	466	80	89	79	714
Sales	493	87	84	46	710
Net change	+1,359	+579	+1,659	+1,237	+4,834
Matched sale-purchase transactions:					
Sales	495	635	170	....	1,300
Purchases	495	635	170	....	1,300

[1] See "Memorandum" item at bottom of table for amounts of matched sale-and-purchase transactions included in this total.

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

bankers' acceptances were often a helpful supplement to these operations, and nearly $1 billion of such agreements were arranged and terminated over the period as a whole. On an outright basis the System purchased more than $4.2 billion of Treasury bills over the period, including about $600 million directly from foreign accounts, while sales and redemptions of maturing

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

bills totaled $2.7 billion. Included in these total outright transactions in Treasury bills were $495 million of matched sale–purchase transactions.

Finally, the four operations in Treasury coupon issues during the period resulted in total purchases of $218 million of such securities, of which $79 million were issues maturing after 5 years. These operations marked the beginning of a somewhat more active role played by the System in the coupon sector during the year, following the reduced activity in 1966. In addition to providing a portion of the reserve needs of the banking system, these purchases of coupon issues helped investors switch into corporate or municipal securities, or mortgages, and thus facilitated the large flows of funds that were needed to meet the heavy demands placed on the capital markets during the year.

The pattern of prompt, and at times rather extensive, reserve injections to offset reserve shortfalls and counter persisting tautness in the money market was established in the first few days of the year. Inventories of Government securities dealers had climbed to more than $5 billion, and heavy borrowing by dealers to finance these positions was adding to pressures on reserve positions of major money market banks. Rates on loans to dealers at banks in New York City rose as high as 6¾ per cent, and many major banks were bidding aggressively for Federal funds to cover their needs. When the flow of Federal funds proved somewhat limited, even at rates of 5½ to 5¾ per cent, banks turned to the Federal Reserve discount window and borrowed there in large volume.

In combating this tautness in the money market, the System injected a total of $1.5 billion of reserves on the first four business days of the year, January 3–6. The operations involved mostly the use of repurchase agreements, with a total of $991 million of Treasury and Federal agency securities and $135 million of bankers' acceptances purchased under such agreements.

Open market operations were more limited during the rest of January. Nationwide net reserve availability expanded as cur-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

rency outside banks and member banks' required reserves dropped following their year-end bulges, and Federal funds were generally in good supply at rates of about 5 per cent. Even lower rates emerged toward the end of the month, when float and free reserves bulged in the wake of a blizzard in the Chicago area that closed a number of banks and interrupted the normal schedule of check collections. Securities dealers maintained sizable positions, but they had little difficulty in securing credit from banks, and member bank borrowings from the Federal Reserve averaged somewhat less than in earlier weeks.

Termination of most of the repurchase agreements outstanding on January 9 and 10 absorbed part of the early influx of reserves. Additional absorptions during the month were accomplished by redemptions of $439 million of maturing Treasury bills, by two operations involving matched sale–purchase transactions, and by outright sales of some bills to foreign accounts. Interspersed among these absorptions were a few temporary injections of reserves through repurchase agreements, and also some outright purchases of bills, to relieve occasional stresses that emerged in the money market. One of these occurred on January 18 when a large money market bank with a sizable reserve deficiency asked securities dealers that had loans on its books to seek financing elsewhere. On that day the System arranged $289 million of overnight repurchase agreements to facilitate the relocation of financing, and the dealers eventually met the rest of their needs at other money market banks.

Operations became more extensive again in February, as the System often found it necessary to counter unintended firmness in the money market arising out of renewed shortfalls of reserves below expectations. Adding to the complications affecting its operations was the persistently uneven distribution of reserves within the banking system and the interruptions to normal flows and bank behavior in the money market around the time of the February holidays. The major money market banks were still in deep basic reserve deficit, as they continued their extensive

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

lending to Government securities dealers and also built up their investment portfolios. Banks outside the money centers, on the other hand, were in fairly comfortable reserve positions, but they tended to be cautious in managing their reserves and in the statement weeks ended February 15 and 22 held large amounts of excess reserves.

The needed injections of reserves proceeded fairly smoothly in the opening days of February as the System made some outright purchases of Treasury bills and then arranged some repurchase agreements on February 6 and 7. A bulge in float caused by a severe snowstorm in the Northeast also added to reserve availability. By its operations the System preserved a generally even keel in the money market while the Treasury's refunding was in process. Rates on Federal funds did rise as high as 5½ per cent on February 6 and 7 and borrowings from the Reserve Banks expanded, but the Federal funds market eased over the next several days, with trading mostly at 5 per cent.

The System arranged further repurchase agreements on February 10 to run over the ensuing partial holiday weekend. This raised estimated free reserves for that statement week to a seemingly satisfactory level. The Federal funds market tightened after the long weekend, however, as reserves fell short of expected levels, and Federal funds traded as high as 5¾ per cent. To head off further firming in the money market, the System moved early on Wednesday, February 15, to purchase $550 million of Treasury and Federal agency issues under overnight repurchase agreements. But firmness in the money market persisted, and later that morning the System made additional repurchase agreements totaling $241 million.

Further, though somewhat less massive, injections of reserves through repurchase agreements and through some outright purchases were made on each of the next six business days, as Federal funds trading consistently opened at a 5¼ per cent rate. After each of these operations, projections pointed to relatively high levels of free reserves, and conditions in the Federal funds

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

market tended to ease for a time. Actual reserve availability fell persistently short of the projections, however, and as each day wore on, the money market generally firmed again, and at the end of the day member banks turned to Federal Reserve discount windows to borrow large amounts of reserves.

The shortfalls in reserves from estimated levels during this period were generally quite large, ranging to more than $700 million on 2 days. In addition to continuing strength in required reserves, these shortfalls reflected considerably lower than normal levels of float, which tended to follow a somewhat erratic pattern around the February holidays. Predicting the level of float became even more hazardous for a short time after the change on February 20 in check-clearing procedures—a change that reduced float on Mondays to levels more than $1 billion below previously normal amounts.

In total, over the February 15–24 period, the System bought nearly $2.8 billion of Treasury and Federal agency securities and bankers' acceptances under repurchase agreements, while terminations of such contracts amounted to only about $2.3 billion. Toward the end of this interval, outright purchases of Treasury bills from foreign accounts and in the market about offset redemptions of maturing bills. Despite these operations, the persistently firm conditions prevailing in the money market led some participants to fear that the trend toward further monetary ease had run its course. These fears were dispelled later in the month, however, when the System made no effort to counter the relatively easy conditions that finally emerged in the money market.

By that time, dealers' financing needs had declined sharply in the wake of extensive sales of securities to the System and other official accounts, and pressures on reserve positions of banks in the money centers had eased. Meanwhile, excess reserves accumulated by country banks spilled into the money market, and Federal funds traded at progressively lower rates. The announcement by the Board of Governors on February 28 about

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the reduction in reserve requirements against savings deposits and the first $5 million of time deposits at member banks reinforced the view that monetary policy was likely to maintain a relatively easy posture.

Open market operations during March were also fairly frequent and sizable. In seeking to maintain generally comfortable conditions in the money market, the System injected reserves either through repurchase agreements or outright purchases, or both, on 13 of the 16 business days in the March 2–23 period. On three occasions during this interval it arranged repurchase agreements twice on the same day. Over-all, these injections provided $786 million (net) of reserves during this interval.

A sharp decline in the Treasury's balances at the Reserve Banks around mid-March also supplied a large amount of reserves to the banking system during this period. Uncertainties surrounding the projections of the Treasury's balance tended to complicate somewhat the conduct of System operations, but the use of repurchase agreements to make temporary injections of reserves provided the flexibility needed to deal with the situation. On Friday, March 10, the System facilitated management of the Government's cash balances through a seasonal low by purchasing directly from the Treasury a special certificate of indebtedness in the amount of $149 million. The certificate was redeemed 3 days later on Monday, March 13. System purchases of $101 million of Treasury coupon issues on March 3 and 22 also provided reserves during this period.

Free reserves expanded to an average of about $235 million in March, and member banks reduced their borrowings from the Reserve Banks to a daily average of about $200 million. The general increase in net reserve availability and the timeliness of System actions enabled the money market to accommodate without difficulty the heavy demands placed upon it during March. These included the churning that occurs around the corporate dividend and tax payment dates, the settlement on March 13 of a cash offering of $2.7 billion of Treasury tax-anticipation

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

bills, and settlements throughout the month on a large volume of corporate and municipal offerings. Federal funds traded generally at 4½ to 4¾ per cent during March, and call loans at banks in New York City were usually available to Government securities dealers at rates of 5 to 5½ per cent. Meanwhile, other short-term interest rates were generally declining. Treasury bill rates, for example, fell by about 45 to 70 basis points from the previous month's highs—on February 23—to the end of March.

Open market operations were reduced in scale for a brief period in the latter part of March, when a spillover of previously accumulated excess reserves eased conditions in the money market. But another round of reserve injections occurred over the March 30–April 5 interval. These injections, which involved both outright purchases and short-term repurchase agreements, offset the end-of-month decline in float and helped to preserve comfortable conditions in the money market amid the churning around the quarterly statement publishing date and the April 1 property tax date in Cook County, Illinois. Included in these injections were further purchases, in two operations, of $117 million of Treasury coupon issues, which were the last System purchases in the coupon sector until after the Treasury had completed its May refunding.

Following the reduction in the discount rate announced on April 6, trading in Federal funds immediately adjusted to a 4 per cent rate and remained there—or occasionally below—over the rest of the interval under review here. Dealer loan rates posted by the New York City banks declined to a range of 4–4¾ per cent, and other short-term rates also continued to decline during April.

Open market operations in the weeks immediately following the cut in the discount rate sought to promote conditions in the money market that would validate the new structure of interest rates. The first several days after the rate reduction saw a few quick reversals of direction in operations. Some temporary reserve needs were met on Friday, April 7, through the use of re-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

purchase agreements that would mature after the weekend. When money market conditions threatened to become easier than desired on April 10 and 11, however, the System allowed these and other outstanding repurchase agreements to mature without replacement, and on the latter day it sold $206 million of Treasury bills in the market. As it turned out, reserves fell short of expectations, and on Wednesday, April 12, the Account Manager injected $289 million of reserves through overnight repurchase agreements.

Operations over the remainder of the period provided a net of $756 million of reserves, with needs met generally as they arose. Outright purchases of $697 million of Treasury bills on 3 days around mid-April not only helped to preserve a comfortable tone in the money market but also helped to stem some nervousness that had arisen in the securities market in the wake of the continued heavy calendar of new issues.

In the final weeks of the interval, operations were affected by even-keel considerations as market participants turned their attention to the Treasury's May refunding, the terms of which were announced on April 26. Repurchase agreements arranged that day countered the firmness in the money market that had arisen in the wake of another shortfall of reserves. Further repurchase agreements and some outright purchases of Treasury bills on the final 3 days of the interval preserved this comfortable tone in the money market and helped to allay some of the nervousness in the securities markets. Part of the repurchase agreements arranged on May 1 were against "rights" issues involved in the Treasury refunding—contributing to a reasonable availability of financing for such issues taken by the nonbank dealers until the issues were exchanged on May 15.

Securities markets. As noted earlier, developments in the securities markets followed divergent patterns during the period, with short-term interest rates generally declining by a percentage point or more while long-term yields were under upward pressure after the end of January. Sharp swings in expectations and

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

general market psychology—developments that were to assume increasing significance as the year wore on—accentuated movements in prices and yields within the period. The more basic factors shaping the general trends, however, were the very heavy demands for funds that were pressed on the longer-term markets and the sizable flows of some of these and other funds into short-term investments. While motives for such developments varied among borrowers and investors, the outcome represented a considerable rebuilding of liquidity throughout the financial system.

Flotations of new issues by corporations and by State and local governments in the capital market totaled nearly $12.7 billion during the January–April period, 18 per cent more than the record volume in the corresponding months of 1966. A good part of these funds were absorbed rather quickly in meeting current needs. Corporations, for example, had to make particularly heavy payments for taxes as well as for dividends and plant and equipment. However, by borrowing in the capital market, corporations were able to make these payments without further depleting their liquidity, and many of them had sufficient funds left over to repay bank loans and to rebuild holdings of liquid assets. Similarly, State and local governments invested—at least temporarily—a sizable portion of their tax receipts and the proceeds from their capital issues in Treasury bills and other short-term instruments.

Financing activities of the Federal Government also had differential effects on the demands and supplies in the long- and short-term sectors of the market. During the January–April period Federal agencies sold to the public a total of $3.4 billion of new issues with maturities of more than a year; of this amount nearly $2.3 billion represented participation certificates sold by the Federal National Mortgage Association and the Export-Import Bank. Meanwhile, the supply of short-term Federal agency paper was being reduced, as savings and loan associations repaid their borrowings from the Federal home loan banks and these banks in turn redeemed, without replacement, about $1.8 billion of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

maturing notes. Finally, redemptions of maturing Treasury tax-anticipation bills in March and April more than offset increases in other bill issues; hence the supply of outstanding Treasury bills decreased by $600 million over the period.

The combination of heavy demand for Treasury bills—including buying by the System, banks, corporations, and public funds—and the eventual shrinkage in the supply of bills produced a good tone in the bill market through most of the period. The general downtrend in bill rates was interrupted for a time in February, when firmer money market conditions and worries about the course of Federal Reserve policy prompted some aggressive professional selling. Demand expanded as rates moved higher, however, and as easier money market conditions reappeared toward the end of the month, bill rates resumed their earlier downtrend. Banks bid aggressively for the $2.7 billion of June tax-anticipation bills auctioned on March 7, and they held a considerable portion of their awards well beyond the March 13 payment date. Dealers too were aggressive bidders in most of the regular weekly and monthly auctions during March and April as they sought to replenish their positions in the face of the continuing demand.

By early April the rate on 3-month bills had fallen below 4 per cent, or more than ½ percentage point below the then current discount rate. Following the April 7 cut in the discount rate, bill rates initially moved down by another 10 to 25 basis points. Emerging nervousness in the longer-term markets spread temporarily to the bill sector around mid-April, but a better tone was soon restored following a general increase in demand, including sizable purchases by the System to meet reserve needs. At the end of the period, 3-month bills were auctioned at an average rate of 3.777 per cent, 105 basis points lower than in the last weekly auction of 1966. The average issuing rate on new 6-month bills, at 3.907 per cent, was also a full percentage point less than that in the final auction of 1966.

In the capital markets, yields generally declined in January,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

rose in February, and then edged a little lower in March before climbing toward new highs in April. The buoyancy prevailing in these markets at the beginning of the year reflected a number of factors. Initially, the most important element was the evident trend toward an easier monetary policy. The Board of Governors' announcement on December 27, 1966, rescinding its letter of September 1 regarding accommodation at the discount window was taken as confirmation of this trend. To this was added an optimistic response to the President's State of the Union Message on January 10, with its proposal for a 6 per cent surcharge on corporate and individual income taxes. Market sentiment was further strengthened on January 26 in the wake of a reduction in the discount rate of the Bank of England from 7 to 6½ per cent and a cut in the prime lending rate of major U.S. banks.

Under these various influences, prices of securities rose and their yields declined sharply during most of January. An exceptionally large volume of new corporate, municipal, and Federal agency issues came to market during the month—setting the trend that was to follow over the months ahead—but most of the offerings were enthusiastically received by investors at generally declining yields. Included in the Federal agency issues sold to the public were three issues, totaling $600 million, of participation certificates offered by the FNMA on January 5. (An additional $500 million of these issues were sold to Government trust accounts.) These were the first such certificates to be issued since June 1966, and the offering marked the end of the administration's temporary suspension of such sales in effect since the period of monetary pressure in August 1966. Each of the three issues, maturing in 5, 10, and 15 years, respectively, was well received at a yield of 5.20 per cent.

At the end of January the Treasury successfully refunded $7.5 billion of coupon issues maturing on February 15. It offered for cash $5.5 billion of 15-month notes and $2.0 billion of 5-year notes, both priced to yield about 4.85 per cent. The buoyancy prevailing in the markets after the cuts in the British discount

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

rate and the prime rate of U.S. banks carried through the opening of the books for the Treasury financing on January 30, and the offerings were heavily oversubscribed. Large subscriptions for the short notes received only 10 per cent allotments, and allotments for the longer issue amounted to only 7 per cent, the lowest allotment ratios in a Treasury financing in some time.

Market sentiment changed rather sharply over the next several days, as fears arose that yields had fallen about as far as they would, in view of the heavy financing calendar of prospective corporate, municipal, and Federal agency issues and predictions of a pick-up in economic activity later in the year. The unintended firmness that emerged in the money market around this time despite the System's aggressive injections of reserves added to these worries. An offering of $500 million of participation certificates by the Export-Import Bank on February 7 showed the effects of the general deterioration. Interest in both the 4- and 15-year maturities of these certificates was restrained, and prices of the issues soon declined.

In this atmosphere a number of corporate and municipal borrowers rushed to add their issues to the calendar of offerings before yields rose much further. This, along with some outright selling of outstanding issues, added to upward pressures on yields, and the markets became congested for a time. Inventories of corporate and municipal bond dealers expanded, with the Blue List of advertised tax-exempt issues rising to more than $650 million by mid-February. In the Government sector dealers became fairly aggressive sellers in order to pare inventories that had just been swelled by awards of the Treasury's new notes. By mid-February dealers' positions in Treasury notes and bonds had declined to about $1 billion, roughly the same as the level prevailing before the refunding.

The atmosphere in the securities markets improved around the end of February, with the return of easier money market conditions—later augmented by the reduction in reserve requirements against savings deposits and certain time deposits,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

announced on February 28. In the meantime, there had been a sharp improvement in the technical position of the market following extensive Treasury operations on February 24 in connection with efforts to keep the Federal debt from exceeding its legal ceiling. These operations, which were undertaken while legislation to raise the statutory debt ceiling was moving slowly through the Congress, involved switching the investments of several Government trust funds and a Federal agency out of special Treasury issues and into outstanding marketable Treasury securities. The special issues were then redeemed by drawing down the Treasury's cash balances—thus lowering the total national debt subject to the debt ceiling. The market purchases that were executed through the System's Trading Desk involved the buying of nearly $500 million of bills and coupon issues; additional amounts of bills were purchased directly by one of the Federal agencies.

The more buoyant atmosphere in the capital markets was sustained throughout March by a succession of developments, most of which led market participants to expect further easing in credit conditions. These included further reductions in the Dutch and British discount rates; the cut from 5¾ to 5½ per cent in the prime rate of most commercial banks—matching the rate established by one major bank in January; higher levels of free reserves; generally comfortable money market conditions; widespread declines in short-term interest rates; and reports of further weakness in many economic indicators.

In this environment record amounts of new corporate and tax-exempt public offerings—together with large offerings of the International Bank for Reconstruction and Development and of FNMA participation certificates—were generally well received in March. The participation certificates (of which $750 million were offered to the public and $150 million issued to Government trust funds) were sold on March 22 at yields that were 10 to 20 basis points below those in the January offering. Yields on Treasury issues and tax-exempt bonds declined over

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the course of the month, although investors' resistance increased as municipal yields declined. Indeed, the Blue List of advertised tax-exempt offerings climbed by more than $150 million during March to nearly $800 million. In the corporate market bond yields showed little tendency to change during March, despite the record volume of new public offerings. Part of the absorption of this volume reflected takedowns of the new issues by dealers in the hopes of being able to sell them at higher prices later. Thus, as in the municipal market, there were fairly large inventories of corporate bonds on dealers' shelves as March drew to a close.

The reduction in the Federal Reserve discount rate in early April was greeted enthusiastically in the capital markets. Immediately following that action, underwriters of both corporate and tax-exempt bonds made good progress in distributing the unsold balances of recent offerings. The demand was not sustained, however, and the markets became heavy again for a time around mid-April. As the calendar of new offerings continued to mount and signs of renewed strength in economic activity multiplied, market participants again began to think that monetary policy was not likely to ease much further. Investors were selective, and many new corporate and municipal offerings encountered resistance. In the market for Federal agency issues, on the other hand, an excellent reception was accorded the offering on April 19 of $400 million of Export-Import Bank participation certificates. This offering consisted of a 3-year issue yielding 4.80 per cent and a 7-year issue yielding 5⅛ per cent.

Toward the end of April prices of Government securities began to adjust downward in expectation that the Treasury's operation to refund the May maturities might involve a pre-refunding of other issues as well. In that refunding, the terms of which were announced on April 26, holders of issues maturing in May and June were offered the opportunity to exchange into either 15-month notes yielding 4.29 per cent or 5-year notes yielding 4.75 per cent, and holders of August maturities were permitted

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

to exchange only into the longer notes. The announcement of the refunding terms was followed by a sharp, further downward adjustment of prices, but a generally improved tone had emerged by the time the subscription books opened on May 1.

The upward pressure on capital market yields in the closing weeks of the period brought the level of such yields well above the lows reached around the end of January, and in many cases to levels even above those prevailing at the end of 1966. Thus the average yield on long-term Treasury bonds on May 1 was 4.66 per cent, 32 basis points above the year's low in the second half of January. New Aa-rated utility bond issues with 5 years of call protection were trading to yield 5.70 per cent after release from syndicate pricing restrictions at the beginning of May; this compared with a yield of 5.54 per cent offered on a similar issue when it was sold in early January and 5.05 per cent on one sold near the end of January. And finally, the Bond Buyer's index of yields on 20 tax-exempt bonds was up to 3.79 per cent in the first week of May; this compares with the January–February low of 3.40 per cent and 3.77 per cent at the end of December 1966.

May 2-November 13:
Steady Conditions Maintained in the Money Market While Economic Expansion Resumes and Interest Rates Rise Sharply

Stimulated by both monetary and fiscal policies, prospects for renewed business expansion seemed to be improving toward the end of April. Against this background, open market operations, in carrying out Federal Reserve policy, did not seek any further easing of money market conditions. Rather, generally steady money market conditions were maintained throughout the succeeding 6½ months, a period in which large demands for credit were reflected in rising interest rates. For purposes of exposition, this period is broken down into two subperiods.

ECONOMIC RECOVERY (May 2–September 11)

Signs that the economy was expanding more rapidly multiplied over the summer months, and by late July price increases were becoming more numerous. The U.S. balance of payments re-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

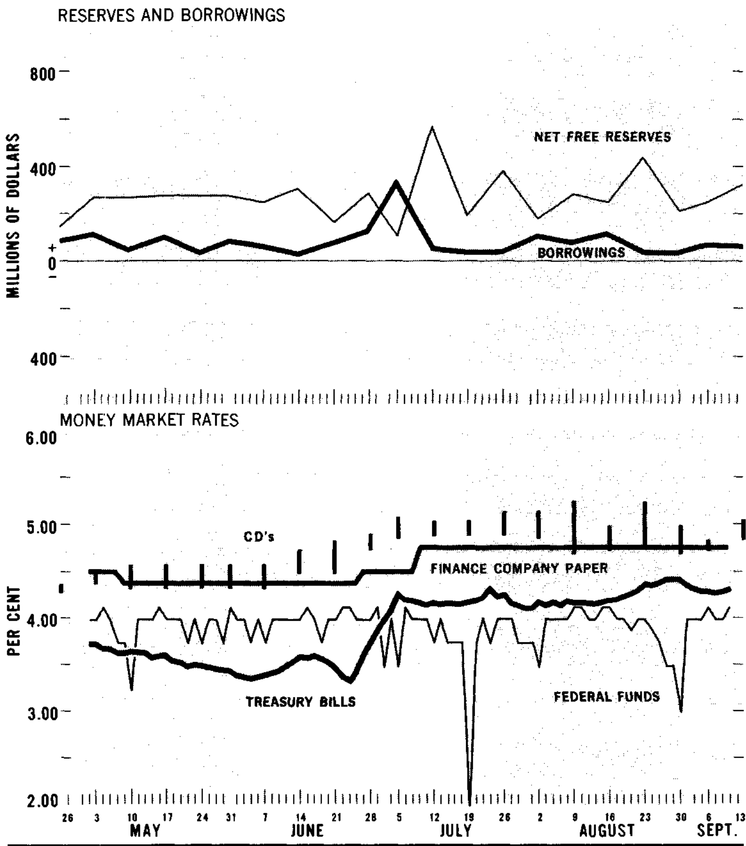
mained in substantial deficit, and the pound sterling came under renewed pressure following the outbreak of hostilities in the Middle East on June 5. In domestic financial markets corporations and State and local governments continued their unprecedented rush for capital funds, with consequent further upward pressures on long-term interest rates. At midyear, short-term interest rates moved up very sharply as the Treasury's net redemption of maturing debt came to an end and the Treasury began to borrow large amounts of funds to finance the Federal deficit.

As the summer wore on, there was growing evidence of the need for a tax increase to restrain inflationary pressures, reduce the Treasury's need to borrow, and prevent the recurrence of money market pressures like those in the summer of 1966. On August 3 an administration message to the Congress formally requested enactment of a 10 per cent tax surcharge effective October 1 for individuals and retroactive to July 1 for corporations. The proposed tax increase, which exceeded the 6 per cent surcharge called for in the State of the Union Message in January, was favorably received throughout the financial community. Buoyancy in the securities markets was cut short, however, by the reappearance of concern about the size of the Treasury's cash needs—even with the surcharge—and by growing uncertainties about congressional passage of the bill. Hearings on the proposed tax began in mid-August, but action on the tax bill remained uncertain through the rest of the period.

Conditions in the money market were generally steady and comfortable during the May to mid-September period. Federal funds traded generally in a narrow band around the 4 per cent discount rate—though more often below that rate than above it. Member bank borrowings from the Reserve Banks were nominal on most days and for the period averaged about $100 million. Free reserves averaged around $280 million daily over the interval. But there was considerable variation in the week-to-week averages of free reserves after mid-June as shown in top left panel of Chart 2—reflecting unusually wide swings in country

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

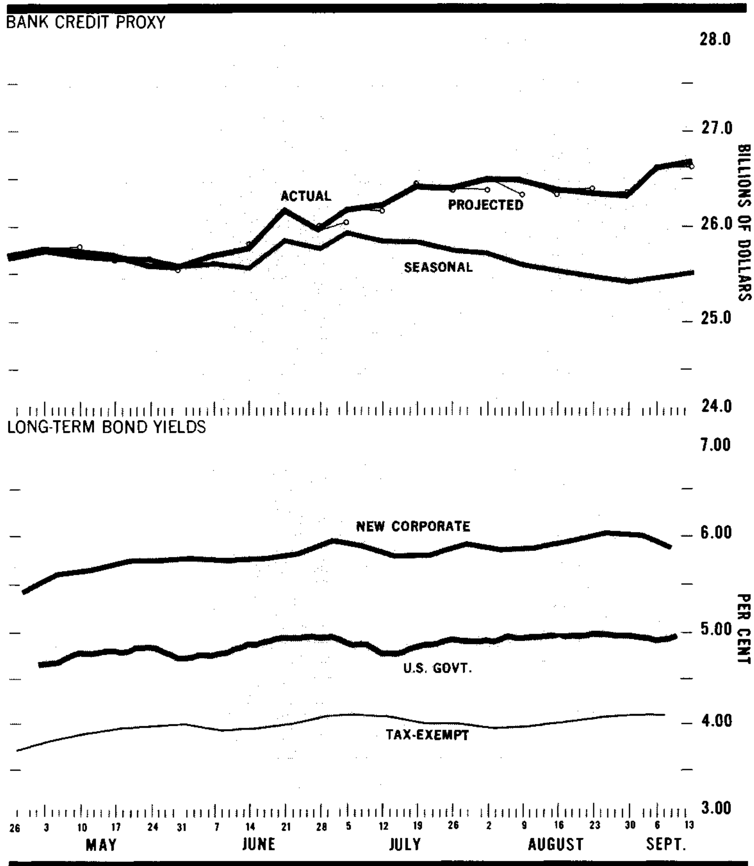
2 | MAY 2 - SEPTEMBER 11, 1967



For notes see pp. 212-13.

bank holdings of excess reserves. Over the 12 weeks from mid-June through early September, free reserves averaged about $375 million in the first half of each biweekly reserve-settlement period for country banks and about $185 million in the second half of those periods. Money center banks generally remained in deep basic reserve deficits through midyear, but their reserve positions eased considerably in succeeding months as deposit growth and a renewed build-up of Euro-dollar balances outstripped growth in bank credit.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis



The steady conditions in the money market helped to facilitate a continued substantial flow of credit and deposits through financial intermediaries and credit markets during the period, though not without rising interest rates in the face of the heavy demand for funds. Further efforts to rebuild liquidity continued to motivate, and to lay claim to a part of, these flows.

While the very heavy flow of corporate bond issues met the bulk of business borrowing needs over the period, demand for bank loans did pick up for a while around mid-June. Moreover,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

such loans remained outstanding somewhat longer into July than in past years—reflecting largely the further acceleration of payment schedules for corporate income taxes. Meanwhile, banks continued to build up their holdings of attractive-yielding tax-exempt bonds, and after midyear they played a major role in underwriting new Treasury offerings. Holdings of Government securities by all commercial banks rose by $4.9 billion during July and August combined. These acquisitions, along with the delay in loan repayments mentioned above, pushed the expansion in total bank credit to a seasonally adjusted annual rate of more than 20 per cent during the 2-month period. This was considerably above the moderate pace prevailing during the spring.

Partly in anticipation of the demands for credit around mid-June, banks began to bid a little more aggressively for CD's at the very start of the period under review here and then increased their rates on CD's sharply further amid the general upward pressures on short-term rates after mid-June. By mid-September major banks were reportedly paying 5⅜ per cent or more on longer-term deposits. Outstanding CD's rose by more than $2 billion from early May through the end of August, before a sizable net run-off occurred in early September. Major money center banks also began bidding more aggressively for Euro-dollar balances after mid-June, and total liabilities due by head offices of U.S. banks to their foreign branches rose by more than $1 billion from mid-June to late August before falling off slightly in early September.

Operating considerations. Open market operations were considerably more limited in volume in the May to mid-September period than they had been earlier in the year and were especially light after the middle of July. Complications arising out of unexpected shortfalls of reserves occurred less often than in preceding months, and fluctuations in the various factors affecting the supply of and demand for bank reserves seldom caused any marked disturbance in the over-all balance of forces already prevailing in the money market. Day-to-day operations tended to

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

focus on keeping the Federal funds rate around 4 per cent and borrowing from the Reserve Banks at nominal levels. After mid-June free reserves were allowed to fluctuate in a wide range from week to week to accommodate the sharply increased fluctuations in excess reserves.

While conditions in the money market were the immediate focus of day-to-day operations, two somewhat broader considerations also influenced operations. One consideration was related to the heavy atmosphere often prevailing in the securities markets. On several occasions when the market was particularly unsettled, operations were tailored so as to avoid adding to existing pressures on securities prices and interest rates. In addition, purchases of coupon-bearing issues were made to meet part of the emerging needs for reserves, in line with instructions included in the Open Market Committee's policy directives issued on May 23 and June 20.

These purchases—in addition to supplying reserves—helped to relieve persistent upward pressures on long-term interest rates, which it was feared might slow the economic upturn, especially in the housing sector. In carrying out such operations, no effort was made to establish any particular pattern of yields. In all, $611 million of Treasury coupon-bearing issues were purchased during the interval. Of this amount $180 million represented issues due in 5 to 10 years; and $85 million, issues maturing in more than 10 years. However, there were no purchases of coupon issues for fairly extended periods when the need to supply reserves was temporarily absent, when the availability of such issues diminished, or when a financing by the Treasury was in process.

The other broader consideration influencing open market operations involved concern within the Open Market Committee over the acceleration in the growth of bank credit and the money supply around midyear following the relatively moderate expansion in the spring. While even-keel considerations were predominant at the time, the Committee voted at its July 18 meeting to

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

restore a "proviso" clause to the current policy directive, instructing the Account Manager to modify open market operations—insofar as Treasury financing activities would permit—to moderate any apparent tendency for bank credit and money to expand more than expected.

Proviso clauses, of varying form, had been included in each current policy directive voted by the Committee from the spring of 1966 through the first four Committee meetings of 1967. They had proved very helpful in facilitating a prompt easing in System policy late in 1966 amid the first signs of the slowing in economic activity. When the Committee voted at its meeting on May 2, 1967, to adopt a generally steady policy stance, the proviso was dropped and was not introduced again until July. As it turned out, deviations from the expectations subsumed in subsequent proviso clauses were generally not of a magnitude to call for implementing the clauses. Even so, the presence of the proviso clause provided a useful focal point for assessing credit developments as they unfolded.

Open market operations. Over the period as a whole, System operations supplied $579 million of reserves, net, to meet additional needs for required reserves and to offset the modest net drains of reserves stemming from movements in other factors. Outright purchases of marketable Treasury issues totaled more than $4.4 billion, including $611 million of coupon-bearing securities, while sales and redemptions of Treasury bills were nearly $3.6 billion. Matched sale–purchase transactions accounted for $635 million of the outright sales and purchases during the period. Some $3.2 billion of repurchase agreements against Treasury and Federal agency securities were made, and $3.5 billion of these and other contracts matured or were terminated during the period. In June and September the System again purchased special certificates of indebtedness from the Treasury—for overnight or over a weekend—to facilitate management of the Treasury's cash balances at their seasonal low.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The period under review here began while the Treasury's May refinancing was in progress. Open market operations during the first 2 weeks of May were conditioned by the weakness in the markets for coupon securities as the Treasury's new issues were being subscribed for and then absorbed. Against this background, operations sought to counter quickly the firming tendencies in the money market at the beginning and again around the middle of May, with a cautious absorption of a redundancy of reserves in the easy money market that emerged in between. Most of the reserve injections involved use of repurchase agreements to counter pressures caused by increases in financing needs of Government securities dealers; two rounds of such agreements were arranged on May 3 when firmness in their money market persisted. Outright operations to absorb the redundancy of reserves were limited to sales of $107 million of Treasury bills, mostly to foreign accounts; in addition, some maturing bills were redeemed, and some outstanding repurchase agreements matured.

After the injections on May 15 and 16, most of the immediate reserve needs of the banking system were satisfied, and money market conditions began to ease. Projections pointed to further needs over the period ahead, however, and the System began a series of outright operations that ultimately supplied a net of $604 million of reserves over the following 3 weeks—through June 7. Four operations in coupon issues provided a little more than half of the over-all net reserve injection during this period. Operations on June 5, the day hostilities broke out in the Middle East, helped to moderate price declines in the nervous atmosphere prevailing in the securities markets.

The System made intermittent purchases of Treasury bills in the market and from foreign accounts, and at the end of May it bought some Government securities under short-term repurchase agreements to meet temporary needs around the Memorial Day holiday. Money market conditions remained quite steady, with Federal funds consistently trading in a narrow range around

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

4 per cent; and member bank borrowings from the Federal Reserve Banks were nominal on every day except the day after the holiday.

The operations in coupon-bearing issues following the May 23 Committee meeting took place in somewhat unsettled markets. There was some speculation in the press, following this meeting, that the System would be seeking to buy a substantial amount of coupon securities in the weeks immediately ahead, possibly with some kind of rate objective in view. But as purchases of bills and coupon issues proceeded roughly hand in hand, market participants gradually came to realize that the operations were designed primarily to meet seasonal reserve needs, with purchases of various maturities coincidentally reducing the overhang of intermediate- and longer-term Government issues in the market, and thus facilitating flows of funds in the capital markets.

For the period under review here operations were largest between mid-June and mid-July, when the System first provided for seasonal reserve needs and subsequently absorbed a reflux of reserves after the July 4 holiday. This period also marked the beginning of the sharply increased variations in demands for excess reserves by country banks. The complications for operations stemming from these shifts were at times accentuated by unexpected shortfalls or bulges in nationwide reserve availability and by the interruptions in normal reserve flows around the quarterly statement date, June 30, and the Independence Day holiday. Accumulations of reserve needs did lead to some pressures in the money market and to heavy borrowings from the Reserve Banks on June 29 (the day before the statement date) and on July 3 (before the holiday), but a comfortable atmosphere prevailed over most of the remainder of this time period.

The major reserve-supplying operations during the interval began on Friday, June 16, when the System conducted go-arounds of the market to purchase sizable amounts of bills and coupon issues. Reserves fell below expectations, however, and by

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the end of the statement week some firmness was threatening to emerge in the money market. A redeposit by the Treasury of $1 billion into tax and loan accounts of its large depositaries, or "C" banks, on Wednesday, June 21, and System purchases of $472 million of Government securities under 1- and 2-day repurchase agreements met a good part of the accumulated reserve needs, but even so, member bank borrowings from the Reserve Banks rose that night to $411 million.

Three operations in coupon issues and large purchases of bills in the market and from foreign accounts supplied $1.4 billion of reserves, net, over the June 22–July 7 period. These injections were supplemented on occasion by use of repurchase agreements against Government securities and bankers' acceptances. The large amounts of bills available from foreign accounts were particularly helpful in meeting these substantial reserve needs at a time when dealers' positions were becoming depleted. On July 5, when dealers' inventories were very low, the Account Manager sought to broaden the avenues of reserve injection by offering to arrange repurchase agreements against any Government securities that dealers either already had in position or might acquire under repurchase agreements with investors. Buying by the System during this period helped to moderate pressures in the Treasury bill market as bill rates shot upward in anticipation of heavy Treasury borrowing in the weeks ahead.

This wave of reserve injections was completed by Friday, July 7, and after an unexpected bulge in nationwide reserve availability over the ensuing weekend, the System reversed direction and on July 10 began to absorb the emerging redundancy of reserves in a gradually easing money market. Bill rates had stopped rising by that time, but some nervousness persisted in the securities markets. At first, therefore, the System confined its operations to sales of a small amount of bills to foreign accounts. Then, as the bill market remained steady and reserve excesses became evident, the System sold $590 million of bills outright in the market on July 12 and 14, and on the following Monday

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

it sold $295 million of bills under matched sale–purchase transactions. Even though average free reserves declined in the July 19 statement week, Federal funds traded at progressively lower rates, as previously accumulated excess reserves at country banks spilled into the money centers.

Operations were extremely limited over the rest of the period. The System supplied some reserves through outright purchases of Treasury bills during the period July 18–24, but over the following month its only actions involved two reserve injections —through repurchase agreements—and periodic reserve absorptions through redemptions of maturing Treasury bills totaling $450 million. Conditions in the money market remained fairly steady through this period. Federal funds traded generally at 3¾ or 4 per cent, and borrowings from the Reserve Banks were nominal, while average free reserves continued to fluctuate from week to week in line with shifts in country banks' excess reserves.

The money market did show somewhat more than usual ease in the final weeks of August as the basic reserve positions of money center banks improved and nationwide reserve availability bulged beyond expectations. Some of the redundant reserves were absorbed through use of matched sale–purchase transactions on August 25 and 29 and sales of maturing bills on the latter date. But in view of the considerable nervousness that prevailed in the securities markets while new Treasury notes issued in the August refunding and in a cash financing in late August were still being digested, no further actions were undertaken. Federal funds traded at rates as low as 2 per cent during the final week of August, but most trading was at higher rates.

Seasonal reserve needs immediately surrounding the Labor Day weekend were met initially through outright purchases of Treasury bills and coupon issues; these were supplemented a few days later by use of repurchase agreements. Then, as currency flowed back into banks after the holiday and float bulged, the System allowed the outstanding repurchase agreements to mature and also sold $353 million of Treasury bills in the market and to

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

foreign accounts on the final 3 days of the period. The money market had taken on a somewhat firmer tone following the undue ease at the end of August, but Federal funds traded in good volume at rates around 4 per cent and member bank borrowings from the Reserve Banks remained nominal.

Capital markets. Interest rates moved substantially higher on balance over the May 2–September 11 period. Short-term rates showed the sharpest net increases—reflecting the large volume of Treasury borrowing in the short-term area after midyear, following sizable redemptions of Treasury debt in preceding months. In the long-term markets yields rose by 30 to 50 basis points net over the interval, with the dominant force being an unprecedented demand for funds by corporations in the summer. Under this pressure yields on new Aa-rated utilities with 5 years of call protection rose from 5.70 per cent at the beginning of May to a peak of 6.20 per cent at the end of August, before edging a few basis points lower in early September. Borrowings by State and local governments were also quite heavy over the period, and the Bond Buyer's index of yields on 20 tax-exempt bonds rose from 3.79 to 4.07 per cent. Yields on long-term Government bonds rose from 4.66 to 4.96 per cent.

The effects of the heavy volume of new offerings in the capital markets were compounded by the steady stream of announcements of forthcoming new issues that were being added to an already heavy calendar. In all, $13.3 billion of new corporate and tax-exempt bond issues were floated during the 4½ months under review here, compared with the previous record volume of $9 billion for the similar period in 1966. Offerings of new corporate bonds averaged more than $2.2 billion a month over the summer, with public offerings accounting for more than half of the total. Offerings of new tax-exempt issues slackened a little in July and August, but still totaled $4.7 billion for the interval as a whole.

Included in the tax-exempt total were more than $250 million of industrial revenue bonds, as more and more municipalities

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

used this type of financing to attract new industry. During 1967 as a whole more than $1.3 billion of industrial revenue bonds were sold, compared with only $500 million of such issues in 1966. This type of financing accounted for almost 10 per cent of all tax-exempt offerings during the year, compared with less than 5 per cent a year earlier. The relative impact on long-term tax-exempt financing was even greater because the industrial revenue issues were largely of a long-term character.

In the face of the continuously heavy calendar, most of the new corporate and tax-exempt offerings met with mediocre or poor initial response on the part of investors. Even as yields rose, investors generally saw little reason to hurry to commit funds. Meanwhile, underwriters were under some pressure to keep their inventories cleared out so as to be prepared for the next wave of new issues. Hence underwriting syndicates were often terminated quickly, and price and yield adjustments were often quite large. On some issues they ranged up to 40 basis points.

Because of this readiness to adjust prices flexibly, markets never became really congested with huge amounts of unsold inventories on dealers' shelves. Indeed, the Blue List of advertised tax-exempt issues declined rather steadily over the period, from the year's high of more than $800 million at the end of April to around $600 million during June and only $400 million during August and early September. The corporate market reportedly showed a similar trend, but comparable data on dealer inventories are not available.

There were, of course, some temporary respites from the general upward pressure on yields during the period. One such breather occurred around the end of May, when investor demand was sparked by speculation, as noted earlier, that the System was about to embark on extensive operations to buy Treasury coupon issues with a view to twisting the yield curve. Strong demand reappeared in July, amid rumors that the administration was about to propose a tax increase and that any further build-up of troops in Vietnam might be smaller than had been expected. The

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

actual proposal of the tax surcharge on August 3, also noted earlier, sparked a brief rally in the markets, but it was short lived. Finally, there was some improvement in the markets around the end of August, amid discussion of possible peace feelers following the election in Vietnam and a reassessment of the economic outlook in view of a possible strike in the automobile industry.

For the most part, however, these improvements in the markets tended to reflect somewhat exaggerated reactions to each of the successive sparks. When the initial fire died, market participants returned to their previous worries about the course of the war in Vietnam and its implications for the economy and for Treasury borrowing needs, along with the discouraging uncertainties about prospects for fiscal restraint even after the formal proposal of the tax surcharge. Tensions in the Middle East in early June were another source of worry for a while.

Most long-term yields by the end of June were either close to or above their peaks of August 1966. After a brief decline in early July, yields on corporate bonds moved to successive new highs throughout August, and Treasury bond yields gradually returned to their peaks. Yields on tax-exempt issues declined from early July through early August as the new-issue calendar lightened somewhat; they then rose only gradually amid the general pressures in August—reflecting in part an increased relative attractiveness of tax-exempt bonds in the wake of the administration's proposal for a tax surcharge. At the end of the period yields throughout the long-term markets were generally 10 to 15 basis points higher than at their peaks in August 1966.

Treasury finance. The turnaround in Treasury debt operations after midyear was quite sharp. In the first 6 months of 1967 the Treasury had retired nearly $7.4 billion, net, of marketable debt; its last action during that period was to redeem $5.5 billion of maturing tax-anticipation bills in June. Then over the next 2½ months, through the end of the period reviewed here, the Treasury borrowed more than $7.7 billion of new money; two-thirds of this total matured in 15 months or less. (Additional borrowing

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

within the calendar year totaled $8.6 billion of direct Treasury debt, plus the sale to the public of $650 million of participation certificates by the FNMA).

Before the onset of this heavy borrowing program, a continuing demand for Treasury bills from a wide variety of investors who were rebuilding liquidity or seeking a temporary haven for their funds, combined with increasing scarcities of bills, had pushed rates on short-term bills down fairly sharply. Bill rates moved up somewhat in early June, as corporations sold bills to meet their quarterly dividend and tax payments. But the decline soon resumed under the weight of sizable reinvestment demand from holders redeeming the maturing tax bills and from commercial banks preparing for their midyear statements. By June 23 the rate on 3-month bills was down to 3.33 per cent bid, its low for the year. Meanwhile, rates on longer-term bills had already begun to rise in expectation of future pressure. On June 23 there was a spread of 50 basis points between rates on 3- and 6-month bills. This was the widest spread since September 1966.

Bill rates shot upward in the days that followed as heavy dealer offerings were pressed on the market in anticipation of an imminent financing announcement. By June 28, when the Treasury announced the first step in its borrowing program, the rate on 3-month bills had already risen 43 basis points from its low point, and it rose another 60 basis points through the morning of July 5 when the actual financing began. Rates on longer bills also increased—by about a percentage point—over this 10-day interval.

The Treasury announcement outlined plans to raise $6.2 billion of new money in the bill market over a period of time. The program included sale of $4 billion of new tax-anticipation bills on July 5, along with additions of $100 million to each regular weekly auction of 3-month bills and to the monthly auctions of 1-year bills. The higher rate levels reached by the time of the tax-anticipation bill auction proved attractive, and the bidding for these bills and for bills in several succeeding weekly auctions was fairly strong.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Bill rates fluctuated around their higher levels for a while, rose further in August amid a heavy atmosphere in the coupon sector, and after a brief decline around the first of September were moving upward again at the close of the period. In the auction on September 11, 3-month bills were sold at an average rate of 4.360 per cent, 59 basis points higher than at the beginning of the interval and more than a full percentage point above the low reached in late June. The rate on 6-month bills was up to 4.951 per cent on September 11, more than a percentage point higher than at the start of the period.

The Treasury conducted three coupon financing operations during the period, and Federal agencies sold to the public $1.7 billion of issues maturing in more than a year, including $650 million of new participation certificates by the Federal National Mortgage Association. While each of the Treasury's issues and the FNMA certificates were fairly well subscribed for, they all weakened in secondary markets, amid a general deterioration in over-all market sentiment.

In the May financing, for example, which was in process as the period under review here began, public subscriptions totaled more than $4.7 billion, including $2.7 billion for the 5-year, 4¾ per cent notes. The large amount of August maturities turned in by the public was taken as an encouraging sign, because the operation reduced the size of that month's refinancing to more manageable proportions.

But conditions in the market soon began to deteriorate as apprehensions grew over anticipated Treasury financing needs, especially in the light of reports of the possibility of further escalation of the Vietnam war. Dealers became restive with their enlarged holdings, and as they pressed offerings on the market, prices of new and outstanding issues fell. Purchases of coupon issues by Government investment accounts on May 8 and 9, and by the System on May 17 in the course of meeting banks' seasonal needs for reserves, absorbed some of the heavy supply of securities overhanging the market, but prices continued to decline through May 23.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

One of the factors contributing to the nervousness in the coupon sector around this time was the Treasury's request at hearings on the Federal debt limit on May 15 for two revisions in the legislation affecting the 4¼ per cent interest rate ceiling on long-term Treasury issues. Specifically, the Treasury requested (1) a redefinition of Treasury notes—to which the interest ceiling does not apply—extending their maximum maturity from 5 to 10 years and (2) authority to sell up to $2 billion of bonds without regard to the interest ceiling.

As was the case with the debt limit legislation enacted in February, debate on the new debt limit and interest ceiling bill extended almost until the last minute before the expiration of the existing debt limit on June 30. Passage of the new debt ceiling saved financial markets from severe dislocations that might have ensued had the Treasury been required to reduce its outstanding debt by paying off maturing issues in cash as they came due. As finally approved, the legislation set the maximum maturity of notes at 7 (rather than 10) years, but it included no provision for sales of bonds outside the interest ceiling.

The FNMA offering of participation certificates on June 15 consisted of $350 million of 5¼ per cent, 27-month certificates and $300 million of 5½ per cent, 5-year certificates, both priced at par. (Treasury trust accounts took an additional $250 million of the two issues.) The yields—in both cases 50 basis points higher than those offered on certificates in March—seemed initially to have attracted a fairly good interest on the part of investors. When the certificates were released from syndicate pricing restrictions on June 20, however, their prices dropped sharply below par. In fact, the 5-year certificates immediately began to trade at a discount to yield 5.70 per cent.

In its August refunding the Treasury offered for cash $9.6 billion of new 15-month, 5¼ per cent notes discounted to yield 5.30 per cent. (Through over-allotments, the Treasury actually acquired $300 million of new money in this operation as well as the amount needed to redeem maturing issues.) The offering attracted a routine interest, and larger public subscriptions re-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ceived 35 per cent allotments, about in line with market expectations. The new issue traded briefly at its original offering price during the period of short-lived buoyancy in the markets following the President's tax message on August 3, but by the payment date, August 15, it was trading at a discount of 3/64 from the offering price.

The final Treasury borrowing during the interval, announced on August 17, was a cash offering of $2.5 billion of new 5⅜ per cent, 3½-year notes discounted to yield 5.40 per cent. Subscription books were open on August 22, and payment was made on August 30. Commercial banks were permitted to pay for the issue by credits to Treasury tax and loan accounts. Many market participants had hoped that the Treasury would offer a higher-yielding note in the 5- to 7-year area. As in the refunding earlier in the month, interest proved routine, and larger public subscriptions received 38 per cent allotments. Prices of outstanding intermediate-term issues had adjusted lower immediately after the terms of the new offering were announced, and they continued to drift somewhat lower over the next week in a generally dull market environment. By payment date the new issue was trading at a discount of 5/64 from the offering price.

MOUNTING INFLATIONARY PRESSURES (September 12–November 13)

In some ways the autumn was a time of transition both for the economy and for views on monetary policy. Whereas a number of business indicators showed weakness during September and October as a result of strikes in the automobile industry and elsewhere, underlying economic conditions apart from the strikes strengthened. The heavy demand for credit resulted in a sharp further rise in interest rates during the period, as the securities markets responded to evidence of mounting inflationary pressures and the seemingly dim prospects for early enactment of the proposed income tax surcharge. Credit expansion slowed from the rapid pace of the summer, but it was still large. Meanwhile, the underlying U.S. balance of payments situation worsened.

Federal Reserve policy continued to be aimed at maintaining

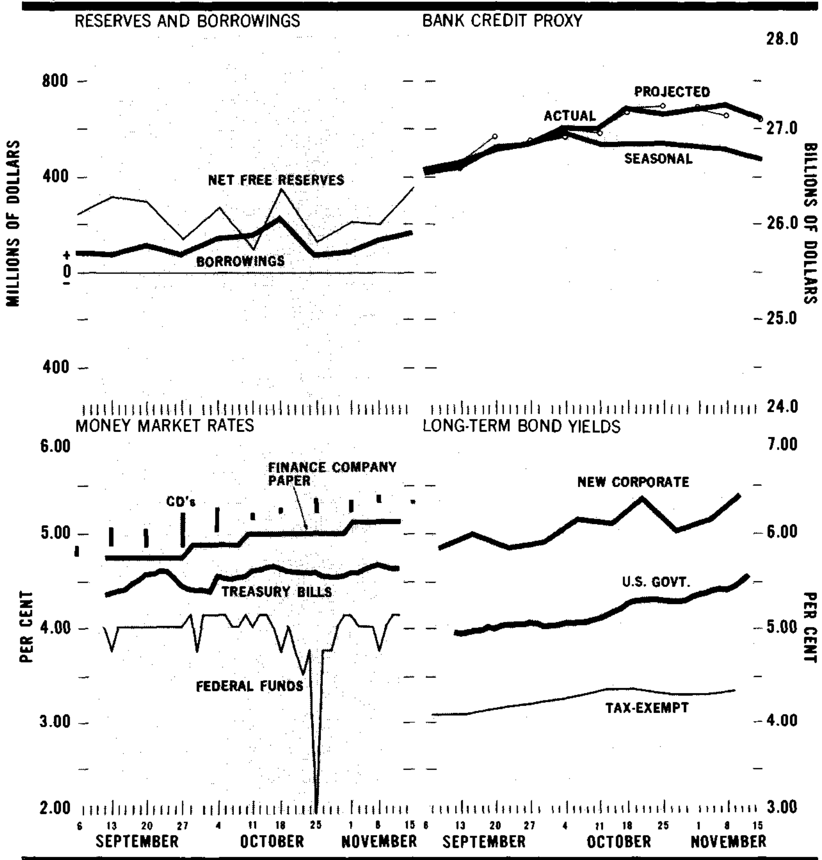
Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

generally steady conditions in the money market over this period. There was growing concern in the Open Market Committee over evidences of inflationary pressures, the recent rapid rates of growth in money and credit, and continued large deficits in the U.S. balance of payments. However, the uncertain effects and duration of the strikes, continuing hope for action on the tax proposal, and concern about the effects of rising interest rates on domestic financial intermediaries and on the position of sterling in foreign exchange markets were seen as arguing against a policy shift. "Even keel" considerations came into play for a time in early October, when the Treasury auctioned $4.5 billion of tax-anticipation bills, and then again in the final weeks of the interval, when the Treasury carried on a sizable cash financing to refund securities maturing on November 15 and to raise additional new money.

Day-to-day conditions in the money market continued to fluctuate during this period in the same general range as during the summer. The variations reflected largely shifts in the distribution of reserves between money center banks and those in outlying areas. The effects of these shifts were accentuated somewhat during October by unexpected shortfalls, and also bulges, in nationwide net reserve availability. Federal funds traded generally around 4 per cent during the period. The funds rate was a little above this level in early October when reserve availability repeatedly fell short of expectations, but it was somewhat lower later in the month when accumulated excess reserves spilled into the money centers. Member bank borrowings from the Reserve Banks averaged about $125 million over the period, well within the range of earlier variation, while the average level of free reserves declined a little, reflecting a somewhat more efficient use of reserves by the banking system (upper left panel of Chart 3).

As in the preceding several months, developments in the securities markets during the period were in sharp contrast with these generally comfortable conditions in the money market. Long-term yields rose with little interruption from their already

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis



For notes see pp. 212-13.

high level by a total of more than ½ of a percentage point—in some cases to the highest levels in about a century. Short-term interest rates increased by ⅛ to ⅜ of a percentage point. By mid-November rates for CD's due in 9 months or longer had reached the 5½ per cent ceiling, as banks sought to maintain their outstanding CD's in the face of heavy maturities. Banks also added to their borrowings of Euro-dollars following losses of such funds in late August and early September. By mid-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

November, balances due to foreign branches of the major banks had risen to a new record of $4.6 billion, about $600 million above the August peak.

The bidding for CD's and Euro-dollars was related more to expectations of future developments than to a need to meet a heavy current demand for bank credit. Indeed, loan demand at banks over the September dividend and tax payment dates was a little weaker than bankers had expected. In fact, demand remained on a generally moderate level over the rest of the period under review here as corporations continued to tap the capital markets for a good part of their financing needs. Against this background, banks tended to hold for a somewhat longer period than usual the large amounts of tax bills won in the auction in early October, and they also built up their holdings of other securities. Thus, even though expansion of total bank credit slowed to about half of the very rapid pace experienced during the summer, the annual rate of growth was more than 8.5 per cent over the September–November period.

Open market operations. The day-to-day implementation of open market policy proceeded fairly smoothly over the period. As it turned out, the Committee's instructions to the Manager to moderate any tendency for bank credit to expand significantly faster than expected did not require any change in the general stance of maintaining steady money market conditions, because the pace of credit expansion proceeded about as expected. The only large-scale operations came around mid-October, when the System again made extensive use of repurchase agreements to counter the effects of repeated shortfalls of reserves below expectations. Outright purchases of Treasury bills in the market and from foreign accounts around the end of October met the month-end reserve needs of banks and helped to moderate heavy pressures that had suddenly reappeared in the securities markets after the close of subscription books for the Treasury's November refunding.

In its efforts to accommodate biweekly variations in demands

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

for excess reserves by country banks, the System continued to permit fairly wide week-to-week fluctuations in average free reserves. During the interval free reserves of these banks tended, on the average, to drop by about $160 million from the first to the second week of a reserve settlement period for country banks, before rising again in the first week of the next settlement period. The absorption of reserves from the first to the second week of these periods was often accomplished by timely movements in market factors; hence the System's actions over this interval too were weighted mostly on the purchase side of the ledger.

Over the period as a whole, the Federal Reserve injected nearly $1.7 billion of reserves, net, into the banking system. This amount roughly met the reserve need stemming from increased required reserves and offset the reserve drains caused by increases in currency in circulation, gold outflow, and the restoration of Treasury balances at the Reserve Banks from a seasonal low to more normal levels. The injections proceeded in essentially three waves: in late September; temporarily around mid-October; and from late October through the end of the period.

Operations were fairly limited during the first week and a half of the interval, as the money market readily accommodated on its own the churning that occurred around the corporate dividend and tax payment dates. Some reserves were absorbed in the temporarily easy money market at the very start of the period through sales of maturing Treasury bills and the use of matched sale–purchase transactions, but no further operations were necessary for a week. Pressures on reserve positions of money center banks were less than many had expected, despite the banks' losses of CD's and some expansion of bank credit. The moderate deficits that developed were easily covered in the Federal funds market at rates around 4 per cent.

In the last third of September the Account Manager proceeded in fairly routine fashion to provide reserves through outright purchases of Treasury bills and coupon issues along with repurchase agreements against bankers' acceptances. These injections, which

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

totaled more than $1 billion over the September 21–29 interval, offset the drains in reserves caused by a rise in Treasury balances at the Reserve Banks after the September tax payment date. Money market conditions remained generally steady through the month-end.

The money market firmed somewhat on subsequent days, however, following a reserve shortfall over the last weekend in September. No undue strains were apparent initially, in part because major banks in New York City had already stockpiled enough reserves to cover most of their moderate needs for the statement week. Interest in the Treasury's auction of $4.5 billion of tax-anticipation bills on October 3, moreover, seemed generally satisfactory, although as it turned out, bidding for the bills maturing in June 1968 was more restrained than had been expected.

But by Wednesday, October 4, retention of excess reserves by country banks, combined with the cumulative effects of earlier reserve shortfalls, threatened to produce additional firmness in the money market. To head off this pressure, the Treasury permitted its balances with the Reserve Banks to decline, and the System injected more than $400 million of reserves through outright purchases of Treasury bills and through purchases of bankers' acceptances under repurchase agreements.

Further injections of reserves through repurchase agreements against Government securities and bankers' acceptances were undertaken on six of the following seven business days in an effort to counter the persisting firmness in the money market. This firmness, and a general rise in interest rates in domestic short-term markets, was accompanied by a little more aggressive bidding for funds in the Euro-dollar market by some major U.S. banks, with consequent repercussions on the already weakening position of the pound sterling. By mid-October, balances due to foreign branches of U.S. banks had risen by more than $200 million from their end-of-September level. (The British discount rate was raised from 5½ to 6 per cent on October 19 and then

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

to 6½ per cent on November 9.) In all, operations to counter this money market firmness involved the purchase of more than $1.5 billion of obligations under repurchase agreements over the October 5–16 interval. But reserves repeatedly fell short of expectations, and trading in Federal funds generally remained at rates around 4⅛ per cent.

The accumulated effects of the earlier reserve injections and of the heavy borrowings from the Reserve Banks finally began to cause an easing in the Federal funds market by Tuesday, October 17, and over the next week the funds rate was persistently below 4 per cent. In view of the earlier firmness in the money market and of the nervousness in the securities markets as the Treasury's November refunding drew near, the System took no overt action to head off the easing. Instead, the System sold a few Treasury bills to foreign accounts, terminated maturing repurchase agreements without replacement, and redeemed some maturing Treasury bills.

Meanwhile, with country banks' excess reserves falling sharply, average free reserves dropped to the lower end of the range of recent fluctuation, but conditions in the Federal funds market remained quite comfortable. Short-term interest rates declined a little during this period, and banks began to acquire domestic funds through CD's—thus easing a little of the pressure in the Euro-dollar market. The more comfortable money market environment also helped to dispel fears that had arisen among some market participants that a change in Federal Reserve policy was already under way and contributed to the better atmosphere that was also emerging in the securities markets.

Needs for additional reserves reappeared around the end of October. Meanwhile, a weak atmosphere had developed throughout the securities markets on October 31. This considerably undermined interest in the Treasury financing, for which the subscription books had been opened on the previous day. To meet banks' needs for reserves and to moderate the heavy pressures in the securities markets, the System bought about $110 million of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Treasury bills from foreign accounts over the October 30–November 2 interval, and it purchased $491 million of bills in go-arounds of the market.

Further injections of reserves from November 2 through the end of the period involved the purchase of $703 million of Government securities under short-term repurchase agreements. While unexpected shortfalls of reserves on several days reduced nationwide net reserve availability to levels a little below those initially anticipated, the money market remained generally comfortable, and most of the trading in Federal funds was at rates around 4 per cent.

Securities markets. A weak atmosphere pervaded the securities markets during almost all of the period under review here. This reflected largely the increasing discouragement among market participants about prospects for any significant fiscal action to restrain inflationary pressures and to reduce Treasury borrowing needs. Early in the period more and more market participants began to think that the Federal deficit would probably be large even if the proposed tax surcharge were enacted by the Congress. By the end of the period, most remaining hopes for the proposal itself had been undercut by two developments—one, the announcement of the House Ways and Means Committee on October 3 that it was setting aside further deliberations on the tax surcharge until some agreement could be reached on reductions in expenditures; and two, reports over the final weekend in October that the Congress would soon adjourn without passing the tax surcharge.

Given the dimming prospects for fiscal restraint, market participants came increasingly to believe that monetary policy would begin to tighten soon. Discouragement over the lack of any signs of peace in Vietnam contributed to the weak market atmosphere, and as the period wore on, there was also growing concern about the worsening position of the pound sterling.

Against this background, borrowers tended to accelerate their financing schedules, and investors tended to wait to buy

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

new issues in the secondary market until initial offering prices had been cut and yields raised. Yields on longer-term issues ratchetted upward at a rate of about 5 to 10 basis points a week during the period. The only major interruption to this general trend occurred for a time near the end of October when yields finally reached a level that did attract some investment demand. Although renewed deterioration in the markets had occurred by October 31 and had continued into November, some signs of hope emerged late on November 13, the final day of the period, following rumors of a possible brightening of prospects for peace and the cancellation of a large corporate issue scheduled for the following day.

Government financing activities during the period contributed to, and were affected by, the heavy market atmosphere. Rates on bills maturing within 3 months moved up by about 15 to 25 basis points over the first week and a half of the interval—reflecting in part the growing apprehension over the possibility of a very large offering of new tax-anticipation bills in the near future. On Friday, September 22, the Treasury announced an offering of $4.5 billion of such bills in early October and also indicated that it would continue to add $100 million to the weekly bill auctions for another 13 weeks. As a result, the size of each weekly auction rose to $1.5 billion for 3-month bills, but for 6-month bills remained at $1 billion. Bill rates rose further on the following Monday in reaction to the announcements, but little selling pressure was apparent. And as demand expanded toward the end of the month—in part from banks that were preparing to publish their quarterly statements and in part from the System Open Market Account—rates declined toward the levels prevailing at the start of the period.

In the auction of the new tax-anticipation bills on October 3, bidding was fairly strong for the $1.5 billion issue due in April 1968 as banks sought to capture tax and loan credits that they could use to pay for their purchases. On the other hand, bidders showed much less interest in the $3 billion issue due in June

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

1968, and tenders for it totaled only $3.3 billion, one of the narrowest "covers" in an auction in some time. The average issuing rate on the June issue, at 5.108 per cent, was somewhat above expectations in the market, and some tenders were accepted at rates as much as 10 basis points higher to cover the issue.

Despite the weak interest in the auction, rates on outstanding bills remained fairly steady for a time before moving higher around mid-October when several short-term issues of Federal agencies were poorly received and some selling of bills appeared. By October 16 the weekly auction rates for 3- and 6-month bills had reached 4.676 and 5.165 per cent, respectively. Rates fluctuated a little below these levels over the next several weeks, but by the end of the period they had risen again. In the auction of November 13, 3- and 6-month bills were sold at average issuing rates of 4.648 and 5.155 per cent, about 29 and 20 basis points, respectively, above the rates prevailing at the end of the preceding period.

Almost $3.4 billion of new Federal agency issues came to market during the period at generally rising yields. Within a few days after these issues had been sold, most of them—even those accorded fairly good initial receptions—were being traded at discounts from their original offering prices. Two Federal land bank issues—one maturing in 27 months and the other in 5 years—had particularly poor secondary market performances. The issues were priced on October 10 to yield 5.75 and 5.88 per cent, respectively, 11 basis points above yields available on similar maturities in the secondary market the day before.

By the time the issues came to market a day later, even these yields were considered relatively unattractive. Initial trading in both issues in the secondary market took place at discounts of 3/8 of a point below original offering prices. This in turn reinforced the poor market sentiment, and in particular it discouraged investor interest in two other short-term issues offered by the Federal home loan banks 2 days later. In early November the FNMA

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

revealed plans for a public offering of $650 million of new participation certificates later in the month (with an additional $350 million to be sold to Government trust accounts). While this addition to an already heavy calendar of offerings caused some apprehension in the markets, the announcement was fairly well received for two reasons—one, that it was accompanied by an indication that this would be the last Government financing of the year; and two, that the public portion of the offering was smaller than many market participants had expected.

The one period of major relief in the capital markets during the interval occurred just before and during the early stages of the Treasury's November refunding operation. The increasing caution and lack of demand that was apparent before this improvement set in had led some market participants to worry about the capacity of the markets to accept anything but a short-term obligation in the financing. As demand for capital market issues finally did emerge, however, and the general atmosphere improved, the Treasury took the opportunity—in addition to refunding its November maturities—to raise $2 billion of new cash and also to seek some significant extension in debt maturity. The terms of the financing, announced on October 25, offered for cash about $10.7 billion of 5⅝ per cent notes due in 15 months and about $1.5 billion of 5¾ per cent notes due in 7 years. The 7-year issue was the first to be offered under the more liberal definition of notes contained in legislation that had been passed by the Congress in late June.

The long note attracted real enthusiasm among market participants and was heavily oversubscribed when the books were opened on October 30. Larger subscriptions received allotments of only 7.5 per cent. Interest in the 15-month notes was routine, and large subscriptions were allotted at a 36 per cent rate. In these circumstances most participants expected that both notes would be traded at slight premiums in the secondary market.

As it turned out, conditions in the market deteriorated rather abruptly the day after the books for the refunding had closed.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

There were several reasons for this. On October 30, while the books for the new Treasury notes were still open, a major steel company had announced plans to sell a large bond issue in the near future, and similar announcements by other would-be borrowers followed quickly. Meanwhile, participants became increasingly discouraged about prospects for enactment of the proposed tax surcharge following reports that Congress might adjourn soon. The Treasury's two new issues did begin to trade at small premiums when the market opened on October 31, but later in the day investors and dealers who had subscribed for the long-term notes just the day before began to sell these notes in large amounts. As this selling pressure persisted, the price of the new 7-year notes eventually fell to a discount of more than half a point on November 13, raising its yield to 5.85 per cent.

This performance added to the factors that were weighing on the market, and prices of most Treasury issues fell sharply and rather steadily over the rest of the period. By the close of the markets on November 13, yields on 3- to 5-year Government securities averaged 5.89 per cent—49 basis points higher than at the start of the period—and the average yield on long-term Treasury bonds had risen by 59 basis points to 5.55 per cent.

In the corporate bond market about $3.7 billion of new issues (including private placements) were offered during the mid-September to mid-November period. While this was a third less than the extremely large volume of new offerings during the summer, it was still heavy by any other standard. The calendar was kept full, for new offerings were added to the schedule as fast as already scheduled offerings actually came onto the market. The upward ratcheting of corporate yields during the period is illustrated in the experience of several new Aa-rated utility issues, all with 5 years of special call protection. At the beginning of the period, an issue of this type came to market yielding 6.10 per cent. By early October an issue yielding 6.20 per cent

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

was accorded only a fair reception, and 2 weeks later an issue yielding 6.375 per cent was accorded an even poorer reception.

Demand finally emerged for an issue yielding 6.44 per cent, which was sold on October 18. As the whole market improved over the next several weeks, yields declined somewhat and unsold balances in older accounts were pared. By the end of the period, however, after the market atmosphere had deteriorated again, new Aa-rated electric utility issues were being offered at yields around 6.55 per cent. By way of comparison, at the peak of interest rates during the credit squeeze of 1966, such issues were offered at yields no higher than 6.05 per cent.

The market for convertible corporate bonds was affected during the period by the Board of Governors' announcement on October 20 of a number of proposals governing the use of credit in securities transactions, including the extension of margin requirements to loans for purchasing convertible bonds. Offerings of such bonds had become very sizable in recent months. In fact, they amounted to 27 per cent of total corporate debt offerings in the third quarter compared with only 12 per cent for all of 1966.

In the wake of the Board's announcement, many scheduled offerings of convertible issues were postponed, some were reduced in size, and prices of some bonds already outstanding dropped as much as 13 points in secondary market trading. Other markets were not affected particularly by the announcement, and by the end of the period many of the convertible issues postponed earlier had come to market or were back on the calendar, albeit under somewhat more generous terms than would have been given earlier.

Offerings of tax-exempt bonds totaled a little more than $2 billion over the period. This pace of financing was a little higher than that in the late summer. Initial receptions were generally poor, and subsequent adjustments in yields tended to be quite sharp. On the whole, however, the adjustments were sufficient to attract buyers, for dealers' inventories remained moderate

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

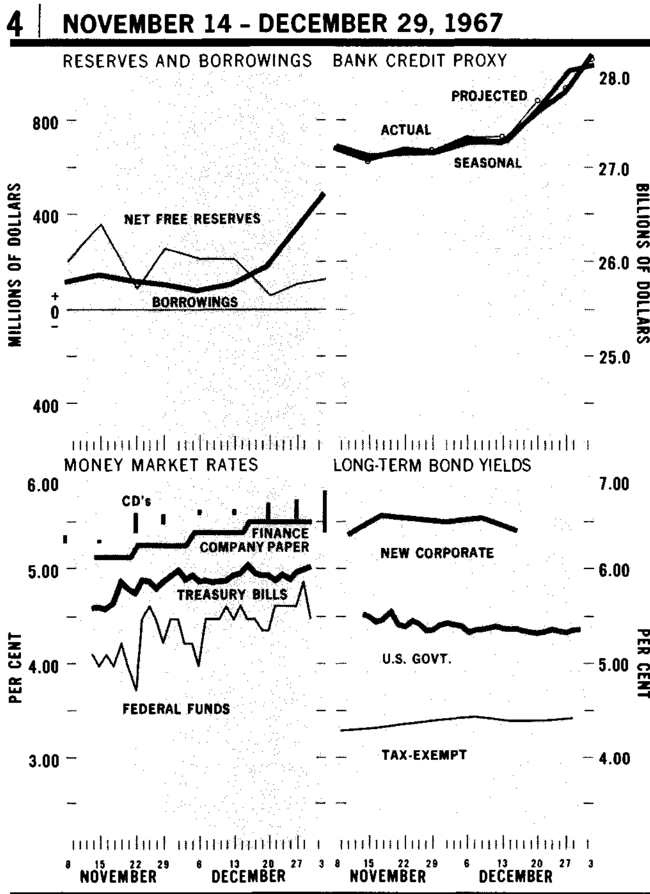
throughout the period. By the end of the interval the Bond Buyer's index of yields on 20 tax-exempt bonds was up to 4.31 per cent, 24 basis points higher than in mid-September and 7 basis points above the 1966 high.

November 14–December 31: Monetary Policy Firms to Defend the Dollar and Resist Inflationary Pressures

Connections among financial markets at home and abroad came into sharp focus in the final 6 weeks of 1967 as sterling, gold, and the dollar alternately felt waves of pressure that generated considerable nervousness in domestic securities markets. Tremendous uncertainties pervaded all markets on the days immediately surrounding the devaluation of sterling and related British actions on November 18 and the increase in the Federal Reserve discount rate from 4 to 4½ per cent announced the following day. Extensive open market operations in Government securities early on Monday morning, November 20, helped to preserve the orderly functioning of the domestic securities markets that day. New uncertainties over succeeding days were handled by the markets without unusual difficulty.

Around mid-December open market operations were aimed at moving slightly beyond the firmer money market conditions that had developed following the increase in the discount rate. Then on December 27 the Board of Governors announced an increase in reserve requirements against certain demand deposits to become effective around the middle of January 1968. These steps were taken to resist the resurgence of inflationary pressures and contribute toward achievement of reasonable equilibrium in the country's balance of payments. In the meantime, Congress adjourned without enacting the proposed tax surcharge, and business activity was picking up following settlement of strikes that had affected output earlier in the fall. Prices were rising at a substantial rate. Deterioration in the U.S. export surplus since

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis



For notes see pp. 212-13.

midyear had contributed to a considerable worsening of the balance of payments situation.

Federal funds traded in good volume around the 4 per cent discount rate during the first 4 days of the interval, and mostly at 4½ per cent or below for a time thereafter. Member bank borrowings from the Reserve Banks averaged around $100 million, about the same as in preceding weeks, while average free

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

reserves continued to fluctuate in a range of $100 million to $300 million. In the final 2 weeks of the year, however, rates on Federal funds were more often around 4⅝ per cent, and member bank borrowings averaged around $200 million. Free reserves dropped to about $100 million on the average (upper left panel of Chart 4).

The remarkable performance of the domestic securities markets over the period, in the face of all the unsettlements from international and domestic events, was a strong testimony to their underlying vitality. In addition to the nervousness stemming from pressures in the exchange markets, from the rise in the discount rate, and from the moderate tightening in open market policy, participants in the markets faced the fact that prospects for early enactment of the proposed tax surcharge and for general fiscal restraint had become increasingly dim. Meanwhile, the volume of new security issues remained substantial until a seasonal lull began in mid-December, and additional large financings by the Treasury were expected after the end of the year.

Even though there were some fairly sharp gyrations in securities prices on individual days, markets as a whole remained quite orderly. Short-term interest rates showed a net increase for the period, but most of the rise occurred immediately after the increase in the discount rate. Many long-term yields, on the other hand, declined on balance over the period. Indeed, as the period wore on, considerable sentiment began to develop that the heaviest pressures on the markets had passed, and investors began to put more of their funds into issues with longer maturities to obtain the high yields available on such issues.

The rise in short-term market yields during the period reduced further the ability of banks to compete for funds under the 5½ per cent interest rate ceiling for time and savings deposits. Moreover, market rates appeared to be moving into critical areas in relation to ceiling rates on savings accounts. Inflows of funds to savings and loan associations and mutual savings banks were

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

at a reduced pace in the final weeks of the year, but these institutions did not lose funds net.

Commercial banks raised their offering rates on new CD's soon after the increase in the discount rate, and as the period progressed, the 5½ per cent ceiling became available on CD's of any maturity. At the higher rates banks were able to build up their outstanding CD's during the latter part of November, but during the corporate dividend and tax payment period in mid-December they experienced heavy net runoffs. Over the period as a whole, outstanding CD's were about unchanged.

Banks also built up their Euro-dollar balances early in the period under review here to a new peak of more than $4.8 billion on November 22. As rates in the Euro-dollar market reached higher levels, however, the banks withdrew from bidding for longer maturities, and by the last Wednesday of the year their total outstanding balances due to foreign branches were down to $4.2 billion.

On Monday, November 20, in the wake of the increase in the discount rate, a large commercial bank in Chicago raised its lending rate to prime business borrowers from 5½ to 6 per cent, and most other banks soon followed. Loan demand at the banks was fairly heavy around mid-December as corporations borrowed to finance their dividend and tax payments, but banks met most of these demands by selling Government securities. As a result, total bank credit remained largely unchanged over the period. Even so, the expansion over the year as a whole amounted to $35 billion, or 11 per cent, almost double the rate in 1966.

Days around the devaluation. Rumors that a large credit package was being arranged to assist the British in their continued defense of the pound had considerable calming effect on domestic and international markets on the opening days of the period under review here. Indeed, these rumors, along with postponement of a large issue of industrial bonds scheduled for offering on November 14 and renewed hopes for peace negotiations in Vietnam, generated one of the sharpest rallies of the year in

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

prices of long-term securities during the first 3 days of the interval. Most unsold corporate issues still in syndicate were quickly taken up, a large volume of tax-exempt offerings was quickly distributed, and dealers' inventories of Treasury issues maturing in more than a year were sharply reduced. Prices of some Treasury issues rose by nearly 2 points over the first 3 days of the period—that is, through Thursday, November 16—and Treasury bill rates moved down by as much as 10 basis points. This atmosphere evaporated on Friday, November 17, however, when pressures on sterling increased sharply amid talk of possible devaluation over the weekend. Prices of some U.S. Treasury bonds fell by more than 5/8 of a point that day, prices of corporate and tax-exempt bonds also eased, and rates on Treasury bills rose by as much as 7 basis points.

With generally comfortable conditions prevailing in the money market during this period, open market operations were limited. The System did purchase $225 million of Treasury and Federal agency securities under repurchase agreements on Thursday, November 16, when large demands by dealers for financing exerted pressure on reserve positions of major money center banks. But this did little more than offset terminations of outstanding agreements over the 4 days November 14–17.

Following the devaluation of sterling, the Board of Governors announced on Sunday, November 19, an increase in the Federal Reserve discount rate. The announcement indicated that the System "had taken actions to assure the continued orderly functioning of U.S. financial markets and to maintain the availability of reserves to the banking system on terms and conditions that will foster sustainable economic growth at home and a sound international position for the dollar."

The Account Manager and some of his associates met that same afternoon—November 19—to work out detailed operating plans to forestall the emergence of disorderly conditions in the Government securities markets that might develop if offerings of dealers and investors inundated the market when trading resumed

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the following morning. Prior to this time broad contingency plans to deal with situations of this type had been discussed among Treasury and Federal Reserve officials. Operations followed the general outline of plans presented earlier to the Federal Open Market Committee.

Dealers' aggregate positions were not unduly large at the time, although a number of dealers still held notes acquired in the Treasury's November financing. It was recognized that dealers with net long positions would probably try to preserve their capital by withdrawing from the "buy" side of the market and that they might well push their own inventories on the market before prices fell too far—thereby aggravating the price decline and adding to the potential disruption of the market. Government securities dealers were contacted during that afternoon and were read the full text of the Board of Governors' announcement of the increase in the discount rate.

Open market operations began early on Monday morning, November 20. In line with the plans that had been worked out, the System at 9:15 a.m. placed bids with Government securities dealers for a sizable part of their coupon issues due in more than a year at prices that were somewhat below the average of dealers' bid prices at the close of the market the preceding Friday. Most of the bids were accepted, and the System purchased $121 million of issues due in 1 to 5 years and $65 million of issues due in more than 5 years.

After this operation had been completed, the System initiated a regular go-around asking dealers for offerings of all Treasury bills. In this operation the dealers offered about $1.2 billion of bills to the System at rates ranging generally from 20 to 30 basis points above those prevailing at Friday's close. The System's purchases totaled $427 million, mostly in issues due in more than 3 months. The bills were purchased for delivery on Tuesday, November 21, and delivery of the coupon issues was scheduled for the following day in order to minimize the immediate impact of the operations on member bank reserves.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Prices of Treasury coupon issues did drop sharply when the market officially opened, and by 11 a.m. some intermediate-term Treasury issues were down by as much as 7/8 of a point from the close on the preceding Friday. Some longer-term issues were off by as much as 1 5/8 points. Meanwhile, a number of corporate and municipal issues scheduled for offering over the next several days were postponed. A recently offered Aa-rated corporate issue was released from pricing restrictions and its price dropped more than 3 points, raising its yield from 6.55 to 6.83 per cent.

The Dow-Jones index of industrial stock prices fell by 14.96 points on heavy volume in the first half hour of trading, and around 11:30 a.m. a major bank raised its prime lending rate from 5 1/2 to 6 per cent. In short-term markets, in addition to the upward adjustments that were made in Treasury bill rates, dealers in bankers' acceptances raised their rates by generally 1/4 percentage point during the morning, and some major banks reportedly paid 5 1/2 per cent on new CD's maturing just beyond the year-end.

Most of these price declines and rate increases were defensive, however, for trading was light, except in the stock market. Dealers in Treasury issues, with their positions pared by the System's operations, were able and willing to absorb the moderate amount of securities offered by other customers. In this generally constructive atmosphere, prices began to stabilize late in the morning and during the afternoon moved well up from their lows. The postponement of $300 million of scheduled corporate and tax-exempt offerings contributed to the turnaround in prices of Government securities. Prices of some long-term Treasury bonds recovered about 3/4 of a point in this rally, and coupon issues generally recouped about half of their early morning losses. The markets for corporate and tax-exempt bonds and the stock market also rallied from their lows.

In the bill market, the quick stabilizing of bill rates paved the way for a very good interest in the regular weekly auction

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

of 3- and 6-month bills held that afternoon. Average issuing rates on these issues were set at 4.989 and 5.517 per cent, respectively, up 34 and 36 basis points from those set in the auction the preceding week but within the range of offering rates on similar bills in the System's go-around conducted early in the morning.

After trading activity in the market had become generally routine, with prices well up from their lows, reports reached the market late on that Monday afternoon that the House Ways and Means Committee would soon reopen hearings on the administration's proposed tax surcharge. In this environment, and with the markets in a strong technical position, prices rallied sharply on the next 2 days. Some long-term Treasury issues recorded gains of as much as 2 points, and by the close on Wednesday, November 22, a few were at their highest levels since the end of October. The yield on the Aa-rated corporate issue, referred to above, declined from its peak of 6.83 per cent to 6.61 per cent. Meanwhile, in some cases, rates on Treasury bills fell by more than 20 basis points from their Monday highs.

In view of the quick and orderly adjustment of the markets to the changed circumstances brought by devaluation and the rise in the Federal Reserve discount rate, and then of the rally amid the renewed hopes for a tax increase, the System took no further action for several days after its two operations early on Monday. With the reserve injections stemming from those operations, and with the effects on reserves of sizable foreign transactions, money market conditions were generally comfortable, and Federal funds traded at progressively lower rates.

Sharply increased pressures in the gold markets on the Friday after Thanksgiving Day brought renewed caution in the U.S. securities markets. Prices of Treasury coupon issues fell again, by as much as 1¼ points, and bill rates rose by as much as 15 basis points. Meanwhile money market conditions were generally comfortable, with Federal funds trading in a good volume at rates around 4½ per cent. But estimates of reserve availability

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

were very uncertain in view of potentially large swings in transactions by foreign accounts as a result of their activity in the foreign exchange and gold markets. As the morning wore on, orders from foreign accounts to sell Treasury bills accumulated to a total of $191 million. Rather than press these bills on an unreceptive market, the Manager purchased them directly for the System Account.

The Federal Open Market Committee met on the following Monday, November 27. After reviewing developments over the preceding 2 weeks, the Committee directed that open market operations "be conducted with a view to facilitating orderly market adjustments to the increase in Federal Reserve discount rates; but operations may be modified as needed to moderate any unusual pressures stemming from international financial uncertainties." Operations over succeeding days continued to be complicated by considerable uncertainty surrounding the magnitude, timing, and direction of transactions in gold, foreign exchange, and securities accompanying massive international flows of funds. Many of these transactions had sizable effects on Treasury cash balances and domestic reserve availability. As it turned out, however, pursuit of the Committee's objective proved consistent with maintenance of net reserve availability and member bank borrowings in the range of recent experience.

Repurchase agreements against Government securities were used twice in late November to inject reserves to counter special pressures in the money market. In addition, in view of the continuing nervous state of the Treasury bill market, the System bought $502 million of bills being sold by foreign accounts in the period from November 27 through December 5. The System then withdrew for a time, and the money market remained comfortable.

An outflow of $475 million of gold on December 5 and the effects of various other foreign transactions drained reserves in volume around this time, but these were offset by a rise in float and a decline in Treasury balances at the Reserve Banks. In

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the case of the Treasury balances, however, the decline was not so large as in other periods prior to the receipt of corporate tax payments, since a part of the continuing flow of dollars to foreign central banks was placed in special Treasury issues. By November 29, Treasury obligations held at the Federal Reserve Bank of New York in custody for foreign accounts had risen to $9.4 billion, up $1.4 billion from the level in mid-November. Federal funds trading during this period was mostly at rates of 4½ per cent or less, and member bank borrowings from the Reserve Banks were minimal on most days. Free reserves in the 2 weeks ended December 13 averaged $208 million.

In the securities markets, worries about international developments gradually faded after the pressure in the gold markets on November 24 subsided. Hopes for a tax increase were buoyed further on Monday, November 27, in the wake of an administration proposal to cut expenditures, but they were dashed soon afterward when the Chairman of the House Ways and Means Committee indicated that a tax increase would not be passed during 1967. Meanwhile, rumors of a possible further rise in the Federal Reserve discount rate to reduce the differential between U.S. and foreign rates added to nervousness in short-term markets around the first of December.

Against this background, the rate on 3-month Treasury bills reached 5.01 per cent on December 1, then edged lower through December 8 in the face of broad demand and dwindling market supplies. A strong technical position in the longer-term area of the Treasury market and the large volume of "tax-swapping" activity tended to overshadow psychological developments, and prices of coupon issues moved up fairly steadily after the nervousness that developed on November 24 had died down. Meanwhile, an excellent reception was accorded the public offering on November 28 of $650 million of participation certificates by the FNMA. Both the 26-month issue yielding 6.35 per cent and the 20-year issue yielding 6.40 per cent sold out quickly and moved to premium prices. The corporate and tax-exempt markets also

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

experienced a gradual improvement in tone as the holiday lull drew near, though yields in both markets continued to edge higher, in contrast to developments in the Treasury coupon market.

Operations to implement firmer policy. Open market operations over the last 3 weeks of December sought to bring about slightly firmer conditions in the money market as directed by the Federal Open Market Committee at its meeting on December 12. In the process of offsetting seasonal drains and of avoiding undue strains in the money market, the System provided reserves somewhat sparingly, and its injections did not meet fully the increase in seasonal demand for excess reserves. Free reserves were permitted to contract to an average of around $100 million in the final weeks of the year. Partly reflecting year-end churning, member bank borrowings from the Reserve Banks rose to an average of about $340 million. Rates on Federal funds moved up from around 4½ per cent in the first half of December to around 4⅝ per cent after December 21.

No further open market operations were undertaken until December 20. An outflow of currency from the banks and a rise in required reserves in the wake of the credit demands around the dividend and tax payment dates drained reserves. Meanwhile major banks continued to lose CD's, and they also experienced a decline in their Euro-dollar balances. Nevertheless, the money market remained fairly comfortable as the reserves that were available tended to be concentrated at money center banks.

Beginning on December 20, the System undertook a series of operations that injected $541 million of reserves, net, into the banking system during the remainder of the year. It purchased some Treasury bills from foreign accounts, and on December 26 it bought bills in the market. It supplemented these injections by gross purchases of $588 million of Government and Federal agency securities under repurchase agreements on 3 days of the interval to relieve temporary deficiencies amid typical year-end

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

churning. Some $90 million of reserves were also injected through repurchase agreements with dealers in bankers' acceptances.

Additional reserves were provided for a while in the week between the Christmas and New Year holidays by permitting the Treasury's balances at the Reserve Banks to decline to a low level. These various reserve injections, however, offset only part of the further reserve drains during the period, including the effect of a $450 million gold loss on December 28, when the United States made settlement for its share of net sales by the London Gold Pool in December.

Money center banks moved into a deeper basic reserve deficit during this period, as they normally do, and the continuing lower level of nationwide net reserve availability imparted the additional degree of firmness sought in the money market. The money market became quite firm on Thursday, December 28. Federal funds were traded that day at rates as high as 5 per cent, and borrowings from the Reserve Banks rose to $1.8 billion as many banks sought to acquire in advance the reserves they expected to need over the year-end statement publishing date in order to eliminate or minimize the need to show "bills payable" on their statements. The following day, however, which was the final business day of the year, the money market was more comfortable in somewhat curtailed activity, and member bank borrowings dropped back to about $140 million.

Securities markets at year-end. Short-term interest rates fluctuated in a fairly narrow range over the final weeks of the year. Treasury bill rates moved upward around the middle of December when some concern reemerged over international developments, but rates then declined for a while amid strong year-end demand from banks, corporations, and foreign accounts. Evidence of tightening in System policy and the prospect of the sale by the Treasury of a large amount of tax-anticipation bills in early January resulted in a somewhat cautious atmosphere in the bill market on the closing days of the year.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Rates on outstanding bills showed little change, but the caution did affect bidding in the final auction of the year, which had been advanced to Friday, December 29, because the following Monday was the New Year holiday. Bills with 3- and 6-month maturities were sold in that auction at average rates of 5.103 and 5.593 per cent, respectively. These rates were a little below the highs reached in mid-December but were 11 and 8 basis points above the rates in the auction immediately after the devaluation of sterling. Over the year as a whole, the 3- and 6-month bill rates showed increases of 28 and 68 basis points, respectively.

In the capital markets the shift in investor sentiment that seemed to be emerging in the early weeks of December developed further as the year drew to a close. There was an increased willingness to commit funds at high current interest rates rather than wait out the numerous domestic and international uncertainties that had weighed on the market in earlier months. Indeed, concern over the international position of the dollar, the absence of congressional tax action, and increasing evidence of a shift in monetary policy tended to be relegated to the background. The pick-up in activity in the Treasury market reflected in part year-end switching operations for tax purposes—much of which extended maturities—and a fair amount of outright demand. In the corporate and tax-exempt markets the seasonally light calendar contributed to the better tone, but reports of sizable direct placements with life insurance companies suggested that a more basic desire to buy at current yields was also at work.

In this general atmosphere, prices of Treasury notes and bonds continued to move upward in the final weeks of the year. At the year-end yields on 3- to 5-year issues and on long-term Treasury bonds were down to 5.80 and 5.36 per cent, respectively. These were about 10 and 20 basis points below their levels in mid-November, but still were 95 and 87 basis points above the levels at the end of 1966. Meanwhile the 20-year issue of FNMA participation certificates that had been sold on November 28 at

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

a yield of 6.40 per cent advanced to a premium bid of 2 points by the end of the year—reducing its yield to 6.23 per cent.

In the corporate and municipal markets, new-issue activity was very light, and prices of outstanding issues rose in line with the improvement in the Treasury sector. After the turn of the year, an issue of Aa-rated utility bonds with 5 years of call protection sold out immediately at a yield of 6.50 per cent, in comparison with the 6.80 per cent yield available on two smaller issues in early December. This was 96 basis points higher than had been offered on such issues in early January 1967. The Bond Buyer's index of yields on 20 tax-exempt bonds closed the year at 4.44 per cent, a little below its early December high, but still up 67 basis points from the level prevailing at the beginning of the year.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

REVIEW OF OPEN MARKET OPERATIONS IN FOREIGN CURRENCIES

The foreign exchange and gold markets were subjected to unprecedented stresses in 1967. The crisis in the Middle East beginning in late spring, the persistent weakness of sterling that culminated in the devaluation of the British pound on November 18, the subsequent speculative rush into gold through the London market, and the worsening of the deficit in the U.S. balance of payments generated massive movements of funds across the exchanges and in the Euro-dollar market. These disturbances posed a serious threat to the stability of the international monetary system, and they were contained only through sustained and concerted cooperation among the major world monetary authorities.

To help meet these pressures, the Federal Reserve and the U.S. Treasury expanded their foreign exchange operations and related transactions. Operations were undertaken with the Bank for International Settlements (BIS) to ease pressures in the Euro-dollar market through placement of official funds during the crisis in the Middle East, and again later in the year. At the height of the Middle East crisis, the Federal Reserve also operated to ease pressures in the sterling market and made substantial use of its swap facilities to deal with the large precautionary flows of funds into Switzerland and other continental centers.

Following the devaluation of the pound sterling in November, the focus of speculation shifted toward gold and against the dollar. Speculation took the form of record buying of gold in London and shifts of funds into continental currencies. The United States unequivocally reaffirmed its commitment to maintain the official price of gold at $35 an ounce, and acting jointly with other members of the Gold Pool, it continued to stabilize the market price through sales of gold in the London market. At the same time, to deal with speculative demand for continental cur-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

rencies, a number of continental central banks offered their currencies forward—for their own account or on behalf of U.S. authorities—to reinforce confidence in existing parities.

Despite the shock to the international financial system caused by Britain's decision to devalue, the repercussions were lessened by the readiness of other countries to support the new sterling parity and to continue to cooperate in the gold and exchange markets. No other major industrial nation devalued its currency. Moreover, more than $1.5 billion of new international credits were made available to the United Kingdom in addition to the $1.4 billion standby that Britain had obtained from the International Monetary Fund (IMF), as that country embarked on a new austerity program to strengthen its basic international position. The U.S. Treasury and the Federal Reserve participated in these new credits, just as they had provided support for the pound prior to devaluation.

A number of important steps were taken in 1967 to strengthen the ability of the international monetary system to deal with speculative shifts of funds and flows generated by swings in countries' international payments. In May the Federal Reserve negotiated new reciprocal currency arrangements with the central banks of Denmark, Mexico, and Norway. In July, against the background of the Middle East conflict, the System increased its existing Swiss franc swap facilities with the Swiss National Bank and with the BIS and also increased its facility with the BIS under which resources have been provided for BIS operations in the Euro-dollar market.

At the end of November, after the devaluation of sterling had touched off heavy speculation, the Federal Reserve announced an increase of $1.75 billion in its swap lines with eight central banks and the BIS, and before the year ended it had arranged a further increase totaling $300 million in its Swiss franc swap facilities with the Swiss National Bank and the BIS. This broadening and enlargement of the reciprocal currency arrangements brought the total swap network to $7.08 billion, an increase of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

TABLE 1
FEDERAL RESERVE RECIPROCAL CURRENCY ARRANGEMENTS

Other party to arrangement	Amount of facility (in millions of dollars equivalent)	
	Dec. 31, 1966	Dec. 31, 1967
Austrian National Bank	100	100
National Bank of Belgium	150	225
Bank of Canada	500	750
National Bank of Denmark	.....	100
Bank of England	1,350	1,500
Bank of France	100	100
German Federal Bank	400	750
Bank of Italy	600	750
Bank of Japan	450	750
Bank of Mexico	.....	130
Netherlands Bank	150	225
Bank of Norway	.....	100
Bank of Sweden	100	200
Swiss National Bank	200	400
Bank for International Settlements:		
Dollars/Swiss francs	200	400
Dollars/authorized European currencies other than Swiss francs	200	600
Total	4,500	7,080

more than $2.5 billion during the year. In addition to this strengthening by central banks of short-run defenses against disequilibrating capital movements, the basis was laid for the longer-term provision of liquidity when the members of the IMF at their annual meeting agreed in principle on a plan for creating Special Drawing Rights (SDR's) in the Fund.

Early in 1967 the dominant feature in the foreign exchange markets was the strong recovery of the pound. Aside from favorable seasonal influences, the strengthening reflected underlying improvement in the U.K. balance of payments. The recovery was further bolstered by inflows into sterling from the Euro-dollar market following a substantial easing of U.S. monetary policy.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Moreover, with economic activity somewhat sluggish in most major continental European countries with payments surpluses—notably in Germany—monetary authorities in those countries eased their policies considerably to provide domestic liquidity conditions favorable to renewed business expansion. In the process they stimulated further short-term outflows of funds. These outflows from the Continent not only reinforced the move into sterling but also helped to limit the increase in official dollar holdings that might otherwise have resulted from the large deficit in the U.S. balance of payments.

Early in the year the Federal Reserve acquired sufficient foreign exchange in the market, from central banks, and through third-currency swaps to repay fully the $280 million equivalent of swap drawings outstanding at the end of 1966 in Dutch guilders, German marks, Italian lire, and Swiss francs. Thus by February all of the Federal Reserve's credit lines under the swap facilities reverted fully to a standby basis. The Bank of England also reduced its commitments under the Federal Reserve swap line and liquidated other sizable special credits from the Federal Reserve and the U.S. Treasury, as well as credits from other central banks. By early March it had repaid the last of its swap drawings from the Federal Reserve.

During May, however, the market for sterling began to weaken as the U.K. trade position deteriorated. The subsequent outbreak of hostilities in the Middle East brought sterling under heavy pressure. Precautionary withdrawals from the Euro-dollar market added to the strains normally associated with midyear window-dressing by continental commercial banks. These dual pressures were immediately countered by coordinated action by central banks. In early June the U.S. authorities, in consultation with the Bank of England, initiated purchases of spot sterling in New York on a short-term swap basis—buying pounds spot against forward sales. By June 5 they had purchased a total of $113 million. In addition, by June 7 the BIS had drawn a total of $143 million from the Federal Reserve to place in the Euro-dollar market, thereby relieving pressures in that sector.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Nevertheless, the jolt to confidence from the Middle East crisis and the adverse impact on the U.K. balance of payments of the closing of the Suez Canal left the pound in a seriously weakened position. A succession of progressively larger trade deficits—reaching extreme levels by October as a result of a strike on the British docks—had a demoralizing effect on the market, and confidence in the pound deteriorated. With discounts on forward sterling widening, the pull of interest rates in the Euro-dollar market added to the drain on U.K. reserves. In June and during the remainder of the year the Bank of England relied heavily on international credit facilities—including those with the Federal Reserve and the U.S. Treasury, the Basle group of central banks, and the BIS—to bolster its reserve position prior to the devaluation, and then subsequently to reinforce the new exchange parity.

The continuing U.S. payments deficit and sizable transfers of funds among countries as a result of international tensions and of the backwash of intensifying pressure on sterling led the Federal Reserve to reactivate some of its central bank credit facilities beginning in May. It initiated drawings in Belgian francs that month and drew further amounts subsequently as inflows into Belgium continued intermittently through November. In June and July the System made large drawings in Swiss francs in order to absorb $390 million that poured into the Swiss National Bank during May and June during the Middle East crisis. The swap line with the Netherlands Bank was reactivated in July with a small Federal Reserve drawing. During the autumn the System made additional drawings on the Netherlands Bank and also drawings on the central banks of Germany, Italy, and Switzerland to cover dollars that moved into their reserves during the sterling crisis and during the period of speculation against the dollar that followed in the wake of devaluation.

By December 27 Federal Reserve commitments under the swap lines had risen to $1.8 billion equivalent. Although some

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

progress was made in reacquiring foreign exchange near the end of the year, when the earlier, heavy speculative flows into Germany and Belgium were partially reversed, commitments at the year-end still exceeded $1.7 billion. In addition, the U.S. Treasury at the end of the year had a sizable commitment in guilders under special swaps arranged with the Netherlands Bank in November.

During the year the U.S. Treasury also increased its total indebtedness in securities denominated in Swiss francs and Belgian francs. In addition, its liabilities in the form of foreign-currency-denominated securities were increased substantially by the issuance in July and October of the first two of four quarterly instalments of $125 million equivalent each of special nonliquid securities scheduled to be sold to the German Federal Bank in conjunction with the German Federal Government agreement to offset part of the costs of stationing U.S. troops in Germany.

Apart from those obligations, U.S. authorities by the end of the year had accumulated forward commitments to the market in Swiss francs, Netherlands guilders, and Belgian francs totaling $115 million as a result of operations conducted on their behalf through the central banks concerned. These forward obligations were incurred as part of coordinated central bank operations during November and December, when speculative pressures were acute. At the same time, the German Federal Bank sold a very large amount of dollars on the basis of market swaps with its commercial banks in late November and December—thus helping to ease pressures in the Euro-dollar market. The BIS reinforced this operation at the end of November by placing in the Euro-dollar market $38 million drawn from the Federal Reserve; this raised total placements in November to $106 million. In December the BIS drew an additional $240 million from the Federal Reserve for placement in the Euro-dollar market. As a result, dislocations and pressures in the Euro-dollar market were held to a minimum during this period of unusual stress and uncertainty.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

TABLE 2

FOREIGN CURRENCY TRANSACTIONS OF THE FEDERAL RESERVE, 1967

(In millions of dollars equivalent)

Currency	Transactions under swap lines					Third-currency swaps		Other transactions			
	Drawings	Repayments	Disbursements of swap-acquired balances	Acquisitions of funds for repaying swaps				With U.S. Treasury		With others[1]	
				From U.S. Treasury	From others	Purchases and reacquisitions	Sales and repayments	Purchases	Sales	Purchases	Sales
Operations initiated by the System:											
Belgian franc	211.2	105.4	211.2	60.4	45.0	......	......	......	......	10.0	21.9
Pound sterling	......	......	......	......	......	37.3	37.3	......	50.0	147.1	195.6
German mark	350.0	140.0	307.3	......	107.3	......	......	......	......	20.1	......
Italian lira	500.0	15.0	500.0	......	13.4	......	......	......	......	......	......
Dutch guilder	170.0	35.0	170.0	......	34.8	......	......	......	......	......	18.8
Swiss franc	830.0	270.0	830.0	37.3	195.4	[2] 37.3	37.3	36.1	......	......	32.8
Total	**2,061.2**	**565.4**	**2,018.5**	**97.7**	**395.9**	**74.6**	**74.6**	**36.1**	**50.0**	**177.2**	**269.1**
Swap operations initiated by others:											
Pound sterling	1,650.0	950.0	......	......	......	......	......	......	......	......	......
German mark (by BIS)	837.0	691.0	......	......	......	......	......	......	......	......	......
Total	**2,487.0**	**1,641.0**	......	......	......	......	......	......	......	......	......

[1] Includes forward as well as spot transactions; excludes Italian lira forward operations.
[2] Used to repay swap drawing.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The remainder of this report gives a detailed review of Federal Reserve operations in sterling, German marks, Italian lire, Swiss francs, Netherlands guilders, and Belgian francs.

Sterling. During the first quarter of 1967 there was a relatively strong demand for sterling. Confidence improved as a result of some underlying improvement in the U.K. balance of payments. Seasonal factors were favorable, and for the first time in a year there was a significant covered incentive in favor of U.K. local authority sterling deposits over comparable investments in the Euro-dollar market. The reversal of year-end repatriations of funds to the Continent and progressive relaxation of monetary policy in the United States, Germany, and other countries produced reflows of funds into sterling from the Euro-dollar market where interest rates on short-term funds had been reduced sharply.

With inflationary pressures on the British economy considerably reduced, and with interest rates declining in major international markets, the Bank of England reduced its discount rate on January 26 from 7 per cent to 6½ per cent, in line with objectives expressed jointly by Treasury officials of major industrial nations at a meeting the previous weekend. Nevertheless, with the discount on forward sterling well under 1 per cent per annum, British interest rates remained relatively attractive to short-term investment funds on a covered basis. Under these circumstances, pounds were being bought in very substantial volume, and the spot rate rose to $2.7960 by February 1, its highest level since mid-March 1966.

As confidence in sterling improved and the sizable adverse payments leads and lags that had built up in 1966 began to unwind, the Bank of England gained a very large amount of dollars. It used the bulk of these dollars to repay short-term indebtedness to central banks; by early March it had liquidated all its commitments under swap drawings on the Federal Reserve and had repaid other special credits from the U.S. Treasury and the Federal Reserve. At their peak in August 1966 these credits

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

had totaled $750 million, but by the end of 1966 they had been reduced to $510 million, of which $350 million was outstanding under the Federal Reserve swap line. Announcement in early March that these credits had been repaid, and also of substantial repayments of short-term credits to other central banks, confirmed to the market the degree of recovery that had already taken place and triggered further buying of pounds that persisted through the end of the month.

During March, official word of renewal of the credit lines with nine central banks and the BIS contributed to a surge of short covering that was reinforced by unexpectedly good fourth-quarter figures on the balance of payments, a cut in the Bank of England's discount rate from 6½ per cent to 6 per cent, and the British Government's decision to continue to restrain price and wage increases for another year after the lapse of the wage freeze in June. As an exceptional amount of dollars flowed in, the Bank of England continued its practice of using such receipts to repay debt to other central banks, and by the end of March it had liquidated all of its short-term debts except for a small amount of credits linked to changes in overseas sterling balances. In early April the U.K. authorities reported that after such repayments Britain's official reserves had increased by $90 million in March, to $3,259 million. For the first time in several months the market responded positively to a reserve announcement, and the Bank of England continued to gain substantial amounts of dollars.

By April 11 sterling had moved up to $2.7990, following the discount rate reductions in the United States and Canada and a further decline in yields on dollar investments. Moreover, the absence of tax concessions in the British Government's budget reduced market fears that that Government was moving toward a more expansionary economic policy. The market was also impressed by Chancellor Callaghan's reiteration that Britain would repay its $818 million debt to the IMF due at the end of the year under the 1964 drawing, and also $80 million owed to

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Switzerland as a result of credit extended that same year. The continuing demand for pounds boosted the spot rate above par for the first time in over a year, and the Bank of England was able to announce a reserve increase of $146 million in April.

As early as April, however, renewed concern had begun to be felt in some quarters over the trend in the U.K. foreign trade position. Moreover, by early May the covered interest rate incentive began to turn against short-term sterling investments. Shortly after the May 4 announcement by the Bank of England of the third cut of ½ percentage point in its discount rate, to 5½ per cent, Euro-dollar rates began to firm—despite cuts in discount rates in Belgium and Germany and an easier monetary policy in France. On May 11 it was anounced that Britain's seasonally adjusted trade deficit had increased to $115 million equivalent in April, as exports showed signs of leveling while imports remained relatively high. This imbalance followed a trade deficit of $36 million equivalent in March, after virtual balance the month before. A few days later the market was confronted by President de Gaulle's sharply negative, press conference remarks regarding Britain's application to join the Common Market. The riots in Hong Kong were also disturbing to the market.

The cumulative effect of these events produced the first significant net selling of sterling in 1967—requiring sizable support by the Bank of England as spot sterling declined to less than $2.7960 near the end of May. Nevertheless, the British authorities proceeded with their plans to prepay $405 million to the IMF on May 25 and to repay fully the Swiss debt incurred in 1964.

On June 1 market expectations of an imminent outbreak of hostilities in the Middle East sparked a burst of selling of pounds. Apprehension of war affected the pound both directly and through the Euro-dollar market, where precautionary withdrawals of funds and the usual pressures that are associated with midyear window-dressing created a sudden squeeze and a sharp rise in interest rates. These dual pressures were immediately met by coordinated central bank actions in both the foreign exchange

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and Euro-currency markets. On June 1 the U.S. authorities purchased a total of $92.9 million equivalent of pounds in the New York market on a swap basis (buying spot against forward sales), with purchases distributed evenly between System and Treasury accounts. That same day the BIS began to place in the Euro-dollar market funds drawn under its swap arrangement with the Federal Reserve.

Pressures on sterling stepped up sharply in early June with the outbreak of fighting between Israel and Egypt, the closing of the Suez Canal, and the Arab countries' interruption of the flow of oil to Britain and the United States. The Bank of England provided substantial support in the forward market to avoid the tendency toward wider forward discounts and to forestall spot sales, thereby limiting spot exchange losses. Moreover, in New York on June 5 the U.S. authorities again bid for sterling on a 1-month swap basis and purchased an additional $20 million equivalent.

At the same time interest rates in the Euro-dollar market began to rise sharply—by as much as ½ percentage point per annum in less than a week. The BIS met these pressures through continued placements of funds drawn under the swap line with the Federal Reserve. By June 7, when a cease-fire resolution by the United Nations served to reduce tensions somewhat, the BIS had placed a total of $143 million of funds drawn from the System, together with funds received from other central banks. These operations produced a definite easing in Euro-dollar rates, and with the cessation of actual hostilities, market covering of short positions in sterling boosted the spot rate for sterling by some 30 points to $2.7932, and the Bank of England recouped its losses of the preceding few days.

As June progressed, however, market anxieties were revived by rumors of major withdrawals from sterling by Arab countries, and by midmonth the pound had declined to $2.7912. Moreover, the market became concerned over the probable adverse consequences of the Middle East crisis for the U.K. balance of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

payments. Reports of additional shifts of Arab-held sterling balances to Paris triggered heavy selling, and the Bank of England extended substantial support in holding the rate at just under $2.7900 in the latter part of June.

The early July announcement by the Bank of England of a $120.4 million decline in reserves in June, to $2,834 million, met with some disappointment in the market. The decline would have been larger if the Bank of England had not reactivated its swap line with the Federal Reserve by drawing $225 million. As the summer wore on, market doubts about the future of sterling increased and there were bursts of heavy selling. The Bank of England sustained very large losses of reserves around mid-July, following the announcement of a large increase in the trade deficit for June, and by the end of July spot sterling had declined to $2.7858.

A favorable reaction to the report in mid-August of a sharp swing in the U.K. trade balance in July—to a small surplus from the large deficit in June—provided a brief respite from the continuing pressures on the pound. Moreover, market tensions associated with discussions of proposals to increase international liquidity were relaxed somewhat after it was announced on August 26 that an agreement along general lines had been reached by the Group of Ten and that a plan to strengthen the international monetary system was ready for submission to the IMF at its annual meeting in September. Nevertheless, the U.K. reserve position underwent further erosion during August as a result of market support operations early in the month, and again at the end of the month when the market reacted adversely to reflationary measures announced by the Government.

News that Arab leaders had agreed to allow the resumption of oil shipments to the West provided a more favorable background for the announcement in early September that the reserve loss in August had been small. The announcement was well received by the market. Nevertheless, there was some further selling of sterling, and the continuing pull of interest rates in the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Euro-dollar market drew funds out of sterling investments. To cushion the reserve impact of these losses, the Bank of England drew further on the Federal Reserve during the third quarter—bringing its commitments under the swap line to $650 million. It also made use of its credit arrangements with other central banks.

There was a sharp escalation in the pressure on sterling in October as market confidence deteriorated further, particularly after doubts about the viability of the $2.80 parity were expressed in a report by the European Economic Community (EEC) on the British application to join the Common Market. Moreover, market sentiment was not bolstered by the announcement of a $103 million equivalent Swiss franc loan extended to the U.K. Government by several Swiss commercial banks.

As a result the pound was vulnerable to the news that Britain's trade balance had deteriorated sharply in September; the seasonally adjusted deficit of $146 million was the largest in 15 months. As expected, the closing of the Suez Canal had raised the cost of imports of fuel oil, and exports had been hurt by the dock strike in Britain in the latter part of September. But the figures appeared to confirm a weakening trend in exports. In the heavy selling of sterling that ensued, the Bank of England sustained very large losses, in both the spot and forward markets, in defending the spot rate, which by October 12 had dropped to $2.7824.

Faced with mounting speculative pressures in the market and a sizable covered incentive in favor of Euro-dollars, the Bank of England raised its discount rate by ½ percentage point to 6 per cent on October 19. In a coordinated move to prevent a rise in Euro-dollar rates from offsetting the increase in British interest rates, the BIS, after consultation with the Federal Reserve, made modest placements in the Euro-dollar market of funds drawn under its swap facility. However, the increase in the discount rate disappointed many observers, who had been expecting

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

an increase of a full percentage point, and heavy sales of sterling in the market resumed—requiring very substantial support by the Bank of England in both spot and forward markets.

In an effort to stabilize quotations for spot sterling in New York, the U.S. Treasury initiated purchases of sterling on October 19 at rates just under $2.7830 and continued to buy through Monday, October 23. In these operations it bought a total of $47.1 million equivalent of pounds. The evidence of strong official support calmed the market, and the spot rate firmed during the last week of October. Nevertheless, an undercurrent of uneasiness remained, and there was a fairly steady flow of offerings of forward pounds, which the Bank of England met.

The announcement on November 2 of a $75.6 million equivalent reserve gain in October, after the $103 million equivalent Swiss loan had been taken into the reserves, had little additional impact on a market in which funds had begun to move out of sterling. The next day rumors of an impending devaluation of sterling dramatically increased the selling pressure in pre-weekend trading. A very gloomy atmosphere continued after the weekend, and with growing pressures in the forward market, on November 9 the Bank of England, for the second time in 3 weeks, raised its discount rate by ½ percentage point—to 6½ per cent. Again the BIS backed up the move with operations in the Euro-dollar market by making additional drawings on the Federal Reserve swap line. But the market was unimpressed and sales of sterling continued large, with many sectors increasingly ready to believe the rumors of an impending devaluation of the pound.

The announcement on November 14 that the trade deficit in October had amounted to $300 million equivalent, the largest ever recorded, further undermined the pound and indicated, indirectly, how difficult it would be to strengthen the pound from its then-current level. In this highly charged atmosphere the market reacted favorably to rumors that negotiations were in progress for a new $1 billion loan from central banks to tide the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

United Kingdom over its difficulties. Traders anticipated confirmation of the rumors, and on November 16 their short covering pushed the sterling rate up to $2.7848.

That afternoon, however, Chancellor Callaghan refused in Parliament to confirm or deny that negotiations were in progress. Thereupon, the market immediately began to suspect that the rumored negotiations were not progressing smoothly and that new credit would not be forthcoming. By the next day financial markets throughout the world had concluded that devaluation was not only inevitable but also imminent, and the market was inundated as holders of sterling rushed to sell before the weekend.

On Saturday, November 18, Chancellor Callaghan announced the British Government's decision to devalue the pound by 14.3 per cent to $2.40. The next day, in an address to the nation Prime Minister Wilson explained his government's decision as a move designed to permit the United Kingdom to solve its basic balance of payments problem without unnecessarily constricting domestic economic growth. He stressed that:

> It would have been possible to ride out this present tide of foreign speculation against the pound by borrowing from central banks and governments abroad—banks and governments to whom I pay tribute for their help and cooperation over these past years.
>
> In our view it would have been irresponsible to go on dealing with these successive waves of speculation by borrowing for short periods at a time, without attacking the root cause of the speculation.

In order to stiffen the defense of the new parity, the Bank of England raised its discount rate to 8 per cent per annum (the highest level in 53 years) and redirected bank credit toward exports, while the government announced curbs on consumer instalment credit and programmed cuts in government spending and an increase in the corporation tax. Prime Minister Wilson set as the target of his government's policy a very significant improve-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ment in the country's balance of payments designed to bring the external accounts into substantial surplus by the second half of 1968. A $1.4 billion standby drawing on the IMF was formally requested. In addition, the U.K. Government reported that negotiations for an additional $1.5 billion of credit facilities with foreign monetary authorities were in progress.

When markets in London reopened on Tuesday, after a special bank holiday, trading was hectic as banks and commercial interests scrambled to purchase or borrow sterling to meet immediate and near-term requirements, including maturing forward sales undertaken earlier. The demand for pounds held sterling firmly against its new upper limit ($2.4200), and the Bank of England made large dollar gains. The severe market stresses reflecting demand to meet cash commitments soon faded, however, and activity began to reflect a more normal pattern of dealing. The Bank of England continued to purchase dollars, although on a more moderate scale.

As in earlier periods of reserve recovery the Bank of England used its gains to reduce its short-term debts. After a repayment of $300 million to the Federal Reserve, its commitments under the $1,350 million swap line, which had been fully utilized to help meet pressures prior to devaluation, were reduced to $1,050 million. On November 30 the Federal Reserve increased to $1.5 billion its reciprocal currency arrangement with the Bank of England, along with the other increases in its swap network.

Market atmosphere changed abruptly in early December—in view of a British railway labor dispute and higher U.S. interest rates—and the spot rate for sterling declined sharply. The market took no special notice of the announcement of a $127.2 million reserve gain during November, achieved after incorporation of the $490 million remainder of the U.K. dollar portfolio. The authorities also announced that the last $250 million outstanding on Britain's 1964 drawing from the IMF had been repaid; the impact of this payment on reserves was offset by a new credit from foreign central banks and the U.S. Treasury.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Despite subsequent mediation of the railway difficulties, the market remained uneasy, and by December 7 the spot rate for sterling had moved below $2.4100. Before Christmas, however, the market quieted and sterling firmed. After the Christmas holiday, reports that the British Government was planning massive cuts in welfare and defense spending programs to backstop its devaluation package—with details scheduled for release in mid-January 1968—triggered short covering and the spot rate advanced to $2.4070, to close the year on a firm note.

At the end of December the United Kingdom paid $220 million of principal and interest on postwar debts to the United States and Canada. After these transactions, British reserves totaled $2,695 million, $240 million less than on November 30 and $400 million less than at the end of 1966.

To bolster its reserves during the last quarter of 1967, the Bank of England had made net drawings of $400 million on the Federal Reserve swap, bringing the amount outstanding to $1,050 million, and had also made use of other credit facilities during the quarter. On the other hand, Britain's repayments to the IMF during 1967 and drawings of sterling from the Fund by other Fund members had increased Britain's unused drawing rights on the Fund to $1.4 billion, and this amount was available to the United Kingdom at the year-end under a standby arrangement. And in case of need, substantial additional amounts of credit were available through credit facilities of central banks.

German mark. The reduced pace of economic activity in Germany during most of 1967 increased the German trade surplus, as imports declined and exports advanced. The trade surplus expanded very sharply during the first half and remained large during the second; for the full year it exceeded $4 billion (compared with $1.9 billion in 1966) while the current-account surplus reached $2.4 billion. Primarily to stimulate the flagging domestic economy, the German authorities during the first 5 months of 1967 reduced the central bank discount rate on four

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

occasions, by ½ percentage point each; by May 11 the rate was 3 per cent.

In addition, the authorities substantially lowered commercial banks' reserve requirements during the first half of the year. This considerable easing of monetary policy permitted German banks to invest heavily in short-term foreign assets. Consequently, the trade surplus was not reflected in official reserve gains and did not cause strains in international money markets or in the foreign exchanges.

At the beginning of the year there was the usual seasonal outflow of funds from Germany, and the German Federal Bank replenished the losses it had sustained in market support operations by purchasing $45 million from the Federal Reserve. In addition, the Federal Reserve purchased $35.7 million equivalent of marks in New York and took delivery of $17.5 million that had been purchased forward in market swaps during December 1966. By mid-February it had used these marks, together with $25.1 million equivalent acquired in a special transaction and marks held in balances, to repay the entire $140 million drawn on the swap line with the German Federal Bank in December 1966.

Because of the underlying strength in the German balance of payments, the mark generally held close to its upper limit during the winter and early spring of 1967, although the authorities did not add significantly to their reserves. By mid-May, however, the cumulative effects of the easing of monetary policy were inducing heavy outflows of commercial bank funds to the Euro-dollar market, while German commercial firms began to repay sizable amounts of credits previously obtained abroad. Consequently, the spot rate for marks began to decline.

To encourage retention in Germany of newly released bank liquidity, the German Federal Bank altered its pattern of exchange market activity during the summer. For several months the bank had been concerned that its active easing of monetary policy had been more successful in stimulating outflows of funds

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

from Germany than in lowering domestic interest rates. By widening the spread between its announced buying and selling rates and permitting a rapid fall in the spot rate, the central bank sought to increase the degree of uncertainty about future rate movements, particularly for those who were investing abroad at very short-term on an uncovered basis. When the spot rate dropped sharply in early July to just below par, investors immediately began to purchase forward cover to avoid the risk of a future rise in the rate. The cost of such cover back into marks jumped from about ¾ per cent per annum for 3-month maturity, for example, to more than 1¾ per cent and remained close to 1½ per cent through August.

There was some refinancing in German marks of maturing Euro-dollar credits during the early fall, but the principal result of the easier monetary conditions in Germany continued to be further placements of funds abroad by commercial banks. The spot mark therefore traded narrowly on either side of $0.2498 through October. With the mark below par, the Federal Reserve took advantage of occasional offerings of spot marks in New York to build up its balances in anticipation of possible future requirements. During the period from August through early November it purchased a total of $20.1 million equivalent of marks.

On November 3 the growing uneasiness in the market for sterling suddenly resulted in a sharp strengthening in spot quotations for marks as German interests repatriated funds from sterling and began to prepare for their year-end needs. A tightening in the German money market contributed to the incentive to move funds into Germany. Upward pressure on the mark intensified on November 7 as growing speculation in the gold and foreign exchange markets spawned wide-ranging rumors of changes in currency parities, including an imminent upward revaluation of the mark.

In the ensuing heavy buying of marks the German Federal Bank purchased a total of $57 million while permitting the spot rate to advance to $0.2512½ in order to discourage further in-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

flows. A flat denial of revaluation plans by the German authorities led some speculators to cover their positions, and by November 8 the spot mark had eased slightly. Speculation lingered in the forward market, however, and the premium on 3-month forward marks remained about 1.60 per cent per annum.

Very heavy buying of German marks developed in the massive speculation against sterling on November 17 and again on November 24 when the focus of speculative interest shifted against the dollar; on those 2 days the German Federal Bank purchased nearly $300 million. The demand for marks let up abruptly, however, with the temporary calm that followed the November 26 meeting of the active members of the Gold Pool in Frankfurt and the subsequent official communique pledging concerted support of the existing parities based on the $35 gold price.

As the exchange markets settled down to more normal dealings, the German Federal Bank took action (1) to prevent the earlier heavy withdrawals of funds from the Euro-dollar market from producing unwanted stringency in that market and (2) to cut the incentive for moving additional funds out of dollars that stemmed from the wide premium being quoted on the forward mark (nearly 3 per cent per annum for 3-month maturity, by November 24). To accomplish these purposes, the German authorities began to induce the return of dollars to the Euro-dollar market on a swap basis, selling them spot to German commercial banks for repurchase at a later date at rates representing premiums on the forward mark of 1¾ per cent per annum; these rates provided an incentive of close to 1 per cent per annum to switch funds into Euro-dollar investments. By November 30 about $600 million had been swapped at premiums on the mark ranging up to 2¼ per cent. Euro-dollar rates responded immediately by moving sharply lower. The Federal Reserve subsequently participated in this operation by drawing $300 million equivalent of German marks on its swap line with the German Federal Bank—to that extent providing cover for a part of the dollars purchased forward by that bank.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Meanwhile, at the end of November the Federal Reserve had drawn $50 million equivalent of marks under the swap line and was holding the marks for possible intervention related to market uncertainties and expected year-end pressures. (On November 30, as part of a general strengthening of the swap network, the swap facility with the German Federal Bank was increased by $350 million to $750 million.) These pressures began to assert themselves strongly on December 13, when the German Federal Bank gained dollars on a substantial scale, and the spot mark strengthened to $0.2513¼. The German Federal Bank bought a particularly large amount of dollars on Friday, December 15, in the backwash of the week's extremely heavy speculative activity in the gold markets, and in New York the Federal Reserve sold a total of $7.3 million equivalent of marks for its own account.

The heavy inflows into marks resulting from market uncertainties provided considerably more mark liquidity than necessary to meet German commercial banks' usual year-end needs, in good part because the German Federal Bank had assisted the banks in arranging for mark liquidity in advance by selling them a large amount of money market paper scheduled to mature in mid-December. By December 21, with the German money market quite liquid and a more normal atmosphere being restored in foreign exchange markets, funds began to flow back into Euro-dollar investments.

As German commercial banks bid strongly for dollars on a covered basis, the German Federal Bank sold an additional $250 million on a swap basis, before raising the swap rates it offered to the banks to the equivalent of premiums on the forward mark of up to 3½ per cent per annum (an increase of ½ percentage point). In addition, to moderate the pressure, the German authorities permitted the spot rate for the mark to move lower rather quickly. By the end of the year, outflows from Germany had offset the German Federal Bank's intake earlier in December. The spot rate had slipped still lower in the last few trading days of the year, and with the market ready to sell marks, the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Federal Reserve made a start toward covering its swap commitments in German marks.

Early in 1967 there were discussions between Germany and the United States, together with the United Kingdom, concerning military forces in NATO and the balance of payments consequences of deployment of U.S. and U.K. troops in Germany. In early May the U.S. authorities released an exchange of letters growing out of these discussions between the President of the German Federal Bank, Karl Blessing, and the Chairman of the Board of Governors of the Federal Reserve System, William McChesney Martin, Jr., in which the former indicated that the Federal Bank intended to continue its practice of not converting dollars into gold as part of a policy of international monetary cooperation. This statement was made with the agreement of the German Federal Government, which at the same time took note of the Federal Bank's intention to purchase $500 million equivalent of U.S. Government medium-term securities denominated in marks, in four equal quarterly instalments beginning in July. The first $125 million equivalent security was issued on July 3, and the second on October 2.

Italian lira. The deficit that had emerged in Italy's balance of payments in late 1966 continued during the first 2 months of 1967, reflecting seasonal factors and intensified import demand associated with an expanding economy. In addition, there were sizable exports of capital, partly in anticipation of changes in the Italian tax laws. Early in 1967 the Federal Reserve paid off the final $15 million of lira commitments that had been outstanding at the end of 1966 under the reciprocal currency arrangement with the Bank of Italy.

In March Italy's balance of payments began to strengthen, although the re-emerging surplus was considerably less than that for the comparable period a year earlier, as import demand expanded further and exports of capital continued. As economic expansion generated mounting financial requirements on the part of Italian residents for both foreign exchange and local currency,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Italian banks reduced their net claims on foreigners by nearly $275 million during the first 6 months of the year. During the same period Italian official reserves, including Italy's position in the IMF, increased by $50 million.

About midyear the Italian payments position moved into the period of seasonal strength and the demand for lire intensified. The Italian authorities began to acquire substantial amounts of dollars. It appeared at first that the reserve gains were developing on a smaller scale than in former years. But demand for lire strengthened considerably during the summer, and counter to the seasonal expectation the payments surplus persisted into October and early November; as a result Italian reserve gains during the second half of the year came to about $500 million.

Underlying the unusual strength in Italy's external accounts during most of the latter part of 1967 was a better performance on trade than was anticipated in view of the strong internal demand in Italy and of the earlier slowdown of economic activity in Italy's major trading partners. Moreover, Italian investments in the Euro-dollar and Euro-bond markets fell to more normal proportions following the heavy outflows during the first half of the year. Added to these factors was the growing uneasiness in the sterling market, which stimulated sizable repatriations of funds from sterling.

In order to absorb the Italian authorities' large dollar gains, the Federal Reserve reactivated its swap line with the Bank of Italy, and between September 19 and November 30 it drew a total of $500 million on that bank. (With the $600 million facility almost fully utilized, the System and the Bank of Italy agreed in late November to increase their swap arrangement by $150 million, to $750 million.) After the British devaluation, the lira softened noticeably and was generally weak through the end of the year as the normal seasonal deterioration in the Italian balance of payments set in; nevertheless, the System was not able to repay any of its commitments in lire. In December Italy purchased $85 million in gold from the United States.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Federal Reserve and U.S. Treasury technical forward commitments in Italian lire were rolled over periodically during 1967, and during the year the Treasury added to its technical forward obligations. The Treasury's longer-term indebtedness in Italian lire remained unchanged during the year at $125 million equivalent—all in the form of medium-term instruments issued to the Bank of Italy.

Swiss franc. During the first half of 1967 interest rates in Switzerland declined less rapidly than rates outside Switzerland. Indeed, during much of this period the Swiss credit market remained relatively tight, and there was more incentive for foreigners to pay off their borrowings in Swiss francs than for Swiss residents to place new funds abroad. Even in the early months of the year, the reflux to foreign markets of funds repatriated by Swiss residents at the year-end was less than might have been expected in terms of the usual seasonal pattern. As a result, the Federal Reserve was able to acquire only enough francs to pay off the $15 million of drawings outstanding under its swap line with the Swiss National Bank; and a total of $75 million was still due to the BIS.

To liquidate this residual obligation in Swiss francs, the U.S. authorities in February used $75 million equivalent of sterling balances to acquire Swiss francs from the BIS on a temporary swap basis. Subsequently, when the Swiss National Bank released to Swiss commercial banks part of the deposits of those banks that had been blocked since 1961, the banks bought Swiss franc-denominated promissory notes from the BIS in the amount of $60.2 million equivalent. The BIS placed these francs at the disposal of the U.S. Treasury, which in exchange issued certificates of indebtedness denominated in Swiss francs. The Swiss francs thus obtained were used in April to pay off the System's commitment of $37.3 million under the sterling/Swiss franc swap and in May to reduce the Treasury's commitment to $14.3 million equivalent.

Meanwhile, in order to forestall a rapid rise in the Swiss franc

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

rate during March, when Swiss banks were repatriating funds to meet domestic liquidity requirements, the Swiss National Bank announced early in the month that it would provide Swiss francs against dollars for end-of-quarter needs through short-term market swaps. This was the first time that the Swiss authorities had offered this facility other than at midyear and at the year-end. During the final weeks of March the central bank took in $221 million on this basis and immediately reinvested the funds in the Euro-dollar market—thus helping to moderate pressures in that market.

After the first quarter, short-term interest rates outside of Switzerland continued to decline, while the unwinding of the Swiss National Bank swaps with its commercial banks tended to tighten the Swiss market again. Foreigners, particularly Italians, began to bid for Swiss francs to repay Swiss franc indebtedness and started to shift their borrowing into currencies that were being lent more cheaply, notably German marks. As a result, the spot rate for the franc moved up from $0.2307½ at the beginning of April to the effective ceiling of $0.2317½ by April 26, at which point the Swiss National Bank began buying dollars. With credit conditions remaining tight and with some nervousness developing about sterling and the prospects of a clash in the Middle East, the rate for the franc held at or close to the effective ceiling through most of May, and the Swiss National Bank added some $180 million to its reserves through market operations. In addition prepayment by the Bank of England in May of the $80 million equivalent Swiss franc credit extended to it in December 1964 resulted in an equivalent dollar gain by the Swiss National Bank.

During the first days of June the rumor, and then the actual outbreak, of hostilities in the Middle East precipitated a heavy flow of funds into Switzerland. The dollar holdings of the Swiss National Bank, already swollen by the inflows in May, jumped by $212 million in the first week of June. In order to absorb these dollar flows, on June 2 and June 8 the Federal Reserve drew a

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

total of $370 million equivalent of Swiss francs in equal amounts under its swap arrangements with the Swiss National Bank and the BIS; in addition, the Swiss National Bank purchased $30 million of gold from the U.S. Treasury.

Although only a part of the funds shifted to Switzerland during this period represented transfers directly out of sterling, the Swiss authorities and the Swiss commercial banks were prepared to cooperate with the Bank of England in countering the effects of such shifts. One byproduct of this cooperation was the acquisition by the Federal Reserve of $28 million equivalent of Swiss francs that were used on June 16 to repay an equivalent amount of drawings on the Swiss National Bank.

Following the cease-fire in the Middle East, the demand for francs abated, only to pick up again on a moderate scale just before midyear. Once again, the Federal Reserve drew on its swap arrangements to absorb these inflows; it added $33 million to its drawings on the Swiss central bank and $15 million to its drawings on the BIS; this brought the total Swiss franc drawings outstanding on July 3 to the equivalent of $390 million, out of credit lines then totaling $400 million. The drawing on the Swiss National Bank was reduced on July 28 from $190 million to $180 million, when the Swiss National Bank purchased $10 million from the Federal Reserve against Swiss francs to meet Swiss official requirements. In view of continuing uncertainties in financial markets and the unsettled conditions in the Middle East during the summer, it was agreed in mid-July that the Federal Reserve swap facilities in Swiss francs with the Swiss National Bank and the BIS should be expanded by $50 million each, to a new combined total of $500 million.

The capital inflows in May and June led to increased liquidity in Switzerland and eliminated the need for any special measures, such as short-term swaps, to meet midyear needs; in fact, there was some easing in Swiss interest rates. In order to reinforce this trend, the Swiss National Bank on July 10 reduced its discount rate from 3½ per cent to 3 per cent—explaining that the move

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

was "likely to facilitate the reestablishment of interest rate differences existing normally between Switzerland and foreign countries and thus also the reflux abroad of the excess liquidity registered in the past two months." Following this move, some shifting of funds out of Switzerland into the Euro-dollar market began to develop, and by late August the exchange rate for the franc had eased considerably.

Outflows of short-term funds from Switzerland to the Euro-dollar market continued through early November and kept the spot rate for the Swiss franc close to the low for the year ($0.2301½) reached on September 12. Nevertheless, there were no sizable dollar losses by the Swiss National Bank. The Federal Reserve was able to make some progress in liquidating its Swiss franc swap commitments, however, as Swiss official agencies required a substantial amount of dollars during the autumn. To replenish dollar balances sold to the Swiss Government, the National Bank purchased a total of $57.0 million from the System. The Federal Reserve used the franc proceeds to reduce its outstanding swap commitment to the Swiss National Bank to $123 million equivalent in November.

The growing pressures on sterling in early November were reflected in an increase in the rate for spot francs. In addition, the Swiss money market was tightened by the payment of the 450 million Swiss franc loan granted to the U.K. Government by three large Swiss commercial banks. With continuing international uncertainties and the approach of the year-end, the franc rate advanced further. Despite the turbulence in the exchanges in connection with the devaluation of the pound on November 18, the Swiss National Bank purchased only a small amount of dollars in market intervention during the remainder of the month. As a consequence of the unrest in the exchange market, however, the premium on the forward Swiss franc grew wider. Following the Frankfurt meeting of the active Gold Pool members, the Swiss National Bank, as part of the general cooperative effort agreed to at that meeting, indicated to the market its willingness to sell

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

forward francs. This action helped to restore a calmer atmosphere. The forward premium on 3-month Swiss francs dropped substantially below 2 per cent per annum, the premium prevailing just before the Swiss National Bank's action.

Although these uncertainties precluded any further acquisition of Swiss francs in the market by the Federal Reserve, the System purchased from the Bank of England $80.1 million equivalent of the Swiss franc proceeds of the 1-year loan from Swiss commercial banks. (The U.S. Treasury also purchased $14.3 million equivalent of the loan proceeds and used the francs to pay off the remainder of its outstanding sterling/Swiss franc swap with the BIS.) These francs, together with a small amount in balances and $4 million equivalent purchased from the National Bank in connection with Swiss Government dollar needs, were used to reduce Federal Reserve Swiss franc credits drawn from the BIS to $115 million by November 30. At that time total Federal Reserve commitments under its Swiss franc swap lines thus were reduced to $238 million.

Heavy inflows of dollars into Switzerland resumed on December 1, and the Swiss National Bank purchased very substantial amounts as the Swiss financial community prepared for its year-end liquidity needs. In past years these inflows had been accommodated on a swap basis by the National Bank, but in view of the tense international monetary situation, the banks were not willing to enter into swap transactions at this time. Hence, the spot franc was in demand, and the premium on the forward franc again widened, especially during the flare-up in the gold market.

To deal with this pressure, on December 14 the Swiss National Bank initiated forward sales of Swiss francs jointly for Federal Reserve and Treasury accounts. A total of $65.5 million equivalent of forward francs had been sold by December 19, before the market responded to this evidence of official reassurance and the demand for both spot and forward francs eased. Thereafter a more normal trading pattern emerged, and Swiss commercial banks—instead of resuming spot sales of dollars—began to make

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

use of the usual year-end swap facilities offered by the Swiss National Bank to obtain needed Swiss franc liquidity.

In order to increase its capacity to deal with the heavy inflows into the Swiss National Bank, the Federal Reserve, after discussions with the Swiss National Bank and the BIS, increased each of its Swiss franc swap facilities by $150 million equivalent on December 15, bringing each credit line up to $400 million. The Federal Reserve subsequently drew $127 million on the Swiss National Bank; this raised its Swiss franc commitments to that institution to $250 million equivalent. Also, during the third week of December it drew $285 million on the BIS, thus utilizing the full $400 million Swiss franc credit line with BIS.

Netherlands guilder. Early in 1967 seasonal weakness in the Netherlands balance of payments, a flow of funds into sterling, and the conversion into dollars of the guilder portion of a multicurrency drawing from the IMF by Spain enabled the Federal Reserve to repay in full the $35 million equivalent in guilders that was still outstanding at the end of 1966.

Economic activity in the Netherlands—as in most of Europe—showed some signs of slowing during the first quarter of 1967, and with interest rates declining abroad, the Dutch authorities acted to ease the tight domestic monetary policy that had been in force during 1966 to restrain an overheated economy. On March 14 the Netherlands Bank announced a reduction in its discount rate to 4½ per cent per annum, from the 5 per cent in effect since May 1966, and it also removed the penalty-deposit-requirements for banks that exceeded the credit ceilings in effect.

Despite the easing in monetary policy, however, the Dutch money market remained tighter than markets abroad, and during the spring Dutch banks repatriated funds from overseas. By the end of April the spot guilder began to strengthen quite noticeably, and early in May it reached $0.2774⅝. Under the circumstances the Dutch authorities relied increasingly on swap transactions with the foreign exchange market as a regular method of relieving money market pressures. As banks repatriated funds from abroad, the Netherlands Bank bought dollars on a swap basis (that is,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

spot purchase against forward sale) in order to supply domestic liquidity on a temporary basis and, correspondingly, to avoid a build-up in its uncovered dollar holdings. These operations became fairly substantial in May and rose to a peak of $150 million in early June.

The backwash of the hostilities in the Middle East and renewed pressures on sterling subsequently produced further demand for guilders. As funds flowed into the Netherlands, the spot rate for the guilder rose sharply and the Netherlands Bank took in dollars both outright and on a swap basis. The Federal Reserve reactivated its swap facility with the Netherlands Bank in July and drew $20 million equivalent of guilders in order to absorb some of that bank's dollar gains.

Inflows into guilders continued intermittently through the autumn—reflecting firmness in the Amsterdam money market, an improvement in the Dutch balance of payments, and repatriations of funds in view of uncertainties about sterling. The Federal Reserve drew further on its swap facility and by November 13 had used the full $150 million.

The exchange market turbulence associated with the flight from sterling and the subsequent speculation against the dollar produced further heavy inflows of funds into guilders. These speculative influences began to be reflected in widening quotations for forward guilders, which moved to a premium of nearly 2 per cent per annum for 3-month maturity. In order to dampen these pressures, the Netherlands Bank on November 23 initiated forward sales of guilders, jointly for the Federal Reserve and the U.S. Treasury, as part of a concerted central bank effort to exert a calming influence in the exchanges. Most of the forward sales were part of swap transactions designed to return dollars to the market and at the same time limit the tendency for the wide forward premium on guilders to pull further funds out of dollars. By November 29 a total of $37.5 million equivalent of forward guilders had been sold before speculative pressure eased sufficiently for operations to be discontinued.

Meanwhile, in order to absorb the heavy inflows into the Neth-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

erlands Bank during November, the Federal Reserve Bank of New York, acting for the account of the U.S. Treasury, undertook swaps with the Netherlands Bank similar to those concluded for the Federal Reserve. By the end of November Treasury commitments under those ad hoc arrangements stood at $126 million. On November 30, as part of the more general increase in the Federal Reserve reciprocal currency arrangements, the System's facility with the Netherlands Bank was increased by $75 million to $225 million.

Buying of guilders was small and sporadic during early December, but a tightening of the money market in Amsterdam in the latter part of the month produced a larger inflow. Just before the year-end, commercial demand for guilders boosted the spot rate to $0.2782¼, and the Netherlands Bank purchased a further sizable amount of dollars. The Federal Reserve drew on its expanded credit line with the Netherlands Bank to absorb these inflows and thereby raised its obligations in guilders under that credit line to $170 million equivalent at the year-end.

Belgian franc. The Belgian franc moved above par in January as a slower pace of economic activity in Belgium contributed to a more than seasonal drop in imports and the current account shifted from deficit to surplus during the winter. Most of the demand for francs was met in the exchange market, however, so official holdings of gold and foreign exchange were little changed through the first quarter.

In April the franc began to strengthen further as the current account continued in surplus, and from May on it held at or near its upper intervention point. The Belgian central bank eased its monetary policy somewhat, cutting its discount rate three time during the first half of the year. But an inflow of short-term capital took place nevertheless. In order to absorb the inflow, the Federal Reserve reactivated its swap line with the Belgian National Bank in May, and by early June it had made a series of drawings that totaled $37.5 million.

Shortly afterward, however, the Belgian National Bank pur-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

chased dollars from the Federal Reserve in order to meet current needs, and the System used the francs to reduce commitments under the swap line to $27.5 million equivalent. (In an unrelated transaction, the U.S. Treasury during May repaid two maturing Belgian-franc-denominated bonds totaling $30.2 million that had been originally issued in 1963; it used francs it had acquired for this purpose in late 1966 when the dollar was in demand in Belgium. The Treasury's bond indebtedness denominated in Belgian francs was thereby fully liquidated.)

Demand for francs intensified in July and August, partly as a consequence of the continuing Middle East crisis and the growing pressure on sterling. In order to absorb dollars purchased by the National Bank through early September, the Federal Reserve drew a further $97.5 million equivalent of francs under its swap facility; this brought its commitments in Belgian francs to $125 million equivalent. Later the Belgian National Bank purchased dollars for government needs, thus enabling the Federal Reserve to reduce its swap commitments in Belgian francs to $115 million equivalent by the end of the month.

The Belgian balance of payments strengthened on current account in October. In addition the money market tightened, following the flotation of a large government bond issue. The resulting demand for francs pushed the spot rate to the ceiling, and the National Bank purchased more dollars. The surplus on current payments persisted in November as the Belgian economy remained sluggish. During these 2 months the Federal Reserve continued to use its swap facility with the Belgian National Bank and by November 13 the entire $150 million line had been utilized.

During the period immediately preceding the British devaluation and in the period of heavy speculative activity afterward, the Belgian authorities took in further substantial amounts of dollars. Belgian Government requirements for dollars absorbed some of those inflows. With the Federal Reserve swap line fully employed, the U.S. Treasury on November 24 issued a $60.4 million equiva-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

lent 24-month Treasury note denominated in Belgian francs. The Federal Reserve purchased these francs and used them to repay $60 million of outstanding Federal Reserve swap drawings. Then at the month-end the System absorbed $41.2 million of the Belgian National Bank's dollar gains by drawing once again on the swap line. Thus, Federal Reserve commitments in Belgian francs under the credit line with the Belgian National Bank stood at $130.8 million equivalent at the end of November. (On November 30, as part of a general strengthening in the swap network, total credits available under that swap line were raised by $75 million to $225 million equivalent.)

In addition to meeting pressures in the spot market, the Belgian National Bank, in cooperation with U.S. authorities, took action to keep the forward market calm. On December 4 it initiated forward sales of Belgian francs—divided equally between System and Treasury accounts—to reduce the large premium on forward francs and discourage further shifts of funds from dollars. Pressures subsided almost immediately, and few additional forward sales were necessary through the end of December. These operations were the first conducted in forward Belgian francs and involved a modest commitment of $11.8 million equivalent in forward franc sales.

The spot Belgian franc eased somewhat below its ceiling during December, and the Belgian National Bank lost a moderate amount of dollars in market support operations as the Belgian economy showed signs of reviving and import demand picked up. The Federal Reserve therefore was able to acquire Belgian francs as the Belgian authorities required dollar balances to meet market needs; the System also obtained some francs from conversion of part of the proceeds of a drawing by an IMF member. These francs were used to reduce Federal Reserve commitments under the swap line with the Belgian National Bank to $105.8 million equivalent by the year-end.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

SPECIAL STUDIES BY THE FEDERAL RESERVE SYSTEM

From time to time the Federal Reserve System has undertaken extensive economic studies to reappraise the workings of its various instruments of monetary and regulatory policy. The broad aim of these studies has been to keep Federal Reserve policy and action adapted to the changing economic and financial scene. The status of each of the four studies under way is described below.

Reappraisal of the Federal Reserve discount mechanism. The fundamental reappraisal of the Federal Reserve discount mechanism, announced in the Board's ANNUAL REPORT for 1965, is approaching a conclusion. Most of the numerous research projects commissioned as part of the study have been completed, and the results have undergone extensive analysis and evaluation. A concrete proposal for redesign of the discount window is emerging from these efforts, and it is expected that—after further discussion, analysis, and refinement within the System—documents embodying this proposal will be made available to the public.

U.S. Government securities market study. Meetings of the Joint Treasury–Federal Reserve Steering Committee were held during the year to consider the various policy aspects of evidence from staff studies, from the earlier consultations with U.S. Government securities dealers, and from the answers to questionnaires sent to major market participants. The completed staff studies are in the process of being reviewed for publication, and the final report of the Committee is in preparation.

Foreign operations of member banks. Work on the study of the foreign operations of member banks, which was undertaken to provide additional knowledge and perspective on the expanded international operations of U.S. commercial banks, continued in 1967. The study involves a broad-scale examination of the evolution and nature of the international lending and other credit activities at banking offices in this country, operations at foreign branches, and the affiliations that have been established with foreign banks and other financial institutions. The marked

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

changes in each of these three interrelated areas of activity, as they bear on the monetary and supervisory responsibilities of the Federal Reserve, form the principal focus of the study. A report containing the study's findings was nearing completion at the year-end.

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

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

INTERNATIONAL LIQUIDITY

In 1967 a major event in international monetary evolution occurred when agreement was reached on a plan for the creation of a supplement to existing international reserve assets. Prepared by the Deputies of the Group of Ten major trading countries and the Executive Directors of the International Monetary Fund, the plan, after acceptance by the Finance Ministers and Central Bank Governors of the Group of Ten, was agreed upon by the Board of Governors of the International Monetary Fund at its annual meeting, held in Rio de Janeiro in September. The decision to proceed to establish, within the Fund, machinery for the creation of what will be known as Special Drawing Rights (SDR's) marks the culmination of 4 years of work on the problem—2 years of thorough study, followed by 2 years of intensive negotiations—in which the Federal Reserve participated with the Treasury Department.

In recent years the need for a means by which existing international reserve assets could be supplemented regularly, through the periodic creation of international liquidity of a kind that nations would accept as reserves and could use in international settlements, has become increasingly evident. But in view of two developments since last September, the agreement reached at Rio de Janeiro was particularly timely. First, since the beginning of this year the United States has intensified its efforts to improve the U.S. balance of payments position. To the extent that these efforts are successful, the growth of world reserves via increases in reserve-currency holdings will be further slowed. Second, on March 17, 1968, the central-bank Governors of the then-existing Gold Pool countries concluded that the stock of monetary gold is sufficient in view of the prospective establishment of the facility for SDR's; they no longer felt it necessary therefore to buy gold from the market. A large number of other countries subsequently announced their intentions to cooperate with the policies decided upon on March 17 by the central-bank Gov-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ernors of the Gold Pool group. These decisions regarding gold, which were based in part upon the prospective establishment of the SDR facility, obviously reinforce the need for its establishment.

Implementation of the Rio agreement will assure that the international monetary system can be provided with an adequate growth of reserves at the existing price of gold.

The Outline Plan (as the plan agreed upon at Rio de Janeiro is called) is a statement of the principles that will govern the creation, distribution, and use of SDR's. Since September 1967 the Executive Directors of the Fund, in accordance with a Resolution adopted by the Governors of the Fund at the Rio de Janeiro meeting, have prepared the draft amendment of the Fund Articles of Agreement and By-Laws that will be needed in order to give effect to the Outline Plan. After approval by that Board, and submission by the Fund to member countries, the amendment will come into force when three-fifths of the members, having four-fifths of the total voting power, have accepted it.

The Resolution referred to above also requested the Executive Directors to submit a report proposing such amendments to the Fund Articles and By-Laws as would be required to give effect to possible improvements in the present rules and practices of the Fund. Some proposals for changes in these rules and practices had been made, particularly by the member countries of the European Economic Community; and the Fund's Board of Governors decided that work should go forward on this subject, as well as on the SDR plan.

The texts of both the Resolution which has been referred to and the Outline Plan for SDR's were reproduced in the Federal Reserve *Bulletin* for November 1967 (pages 1877-82).

The following observations and comments on the SDR plan are intended to summarize the main features of the plan and some of its underlying principles.

Rational control of reserve-asset supply. Adoption of the SDR plan means that there exists for the first time an international

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

agreement that the world supply of international reserve assets can, should, and will be subjected to deliberate international regulation. This means that the supply of international reserve assets is likely to grow in the future at a controlled rate reasonably related to the need for reserves, rather than at a rate determined primarily, as in the past, either by the vagaries of gold production and of gold flows into or out of monetary use, or by the rate of increase in foreign official holdings of reserve currencies.

Universalist approach. The Outline Plan is based upon an approach that may best be described as universalist, because all member countries of the IMF will be on the same footing with respect to the distribution of SDR's. The universalist approach shows up in several ways. First, any country that is a member of the IMF may participate in the reserve-creating system if it wishes to do so. Second, all participating countries will receive the same kind of created reserves: SDR's. Third, the amounts of SDR's created periodically will be distributed among all participating countries in proportion to their quotas in the Fund. Acceptance of the universalist approach was not assured from the beginning. Under some proposals put forward in the early stages of the negotiations, there would have been differentiation among countries in respect of one, two, or all three of the aspects just listed.

Nature of the facility: absence of currency "backing." Unlike the existing IMF, which holds a pool of currencies provided out of quota-subscription payments by member countries, the SDR system will entail no holding of currencies by the Fund. As member countries use SDR's, they will transfer them directly to other members in exchange for currency. The role of the Fund itself, aside from the function of keeping the central record of holdings of and transactions in SDR's (and aside from its acceptance and use of SDR's in transactions), has been likened to that of a traffic policeman, guiding the flow of SDR's among members according to principles to be noted presently.

Each participating country's initial holdings of SDR's will be acquired through allocation by the Fund, and each country's

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

holdings will be strengthened by periodic allocations. Countries will be entitled to use SDR's to finance balance of payments deficits, and SDR's will thus shift back and forth among countries as their payments positions fluctuate.

The "backing" of SDR's—the feature that assures their acceptability—is the obligation of each participant to receive SDR's from other members up to the point where its holdings are equal to three times its cumulative allocations, inclusive of those allocations.

Attractiveness of SDR's. The attractiveness of SDR's to the monetary authorities of participating countries will be enhanced by a gold-value guaranty and an interest yield. It is expected that the rate of interest paid to SDR holders (such payments to be financed by payments to the Fund by each country on its cumulative allocations) will be significantly below the rate obtainable on reserve-currency holdings. Switching from reserve-currency holdings to SDR's will be further discouraged by a provision in the Outline Plan that a participant will be expected not to use SDR's "for the sole purpose of changing the composition of its reserves."

Creation of SDR's. Allocations of new SDR's will be proposed as and when they are deemed necessary in view of aggregate world reserve needs and availabilities. They will not be proposed with a view to the balance of payments positions of individual participating countries. The United States supported this principle from the beginning. As Secretary Fowler said to the Subcommittee on International Exchange and Payments of the Joint Economic Committee on September 14, 1967: "Throughout the course of these negotiations I have done my best to make it very clear—as I note the subcommittee report did 2 years ago—that the United States was fixing its eyes on the global needs for reserves and did not expect that the plan for reserve creation would solve the United States balance of payments problem. That is a matter which I associate with the general subject of the adjustment process. At an early date in the negotiations there was a complete and full understanding that negotiations

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

with regard to a supplementary reserve were to deal with global needs and not with the problems of the balance of payments of individual countries."

Another aspect of the allocation procedure should be mentioned, if only because it was one of the main issues in the negotiations during 1967. This is the provision that for any decision on the basic period for, timing of, amount, and rate of allocation of SDR's, an 85 per cent majority of the voting power of participants will be required. The effect of this provision is to give a veto over such decisions to the United States, and also to the group of countries in the European Economic Community—as well as, of course, to any other group of countries controlling more than 15 per cent of the total voting power of participants.

Use of SDR's. Principles governing the use of SDR's are:

1. *Automaticity.* The use of SDR's by participating countries will not be subject to prior challenge. However, the Fund may make representations to any participant that, in the Fund's judgment, has failed to observe the understanding as to appropriate use, and it may direct drawings to such participant to the extent of such failure. (Regarding "directed" or guided drawings, see 4 below.)

2. *The "needs" test.* Each participating country will normally be expected to use SDR's "only for balance of payments needs or in the light of developments in its total reserves," and not, as already noted above, for the sole purpose of changing the composition of its reserves.

3. *Use of SDR's to redeem own currency.* Normally countries using SDR's will wish to receive convertible currencies that they can use on their exchange markets. A participant may also use SDR's to purchase balances of its currency held by another participant. It may do so if (a) it meets the "needs" test for use of SDR's (see 2 above), and (b) the other participant agrees to the transaction. Obviously this provision is of special interest to the United States, as a reserve-currency country.

4. *Principles of guidance.* The Fund's selection of participants from whom currencies may be drawn in exchange for SDR's

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

will normally be based upon the following principles (plus any others the Fund may adopt):

(a) "Normally, currencies will be acquired from participants that have a sufficiently strong balance of payments and reserve position, but this will not preclude the possibility that currency will be acquired from participants with strong reserve positions even though they have moderate balance of payments deficits."

(b) As stated in the Outline Plan, "The Fund's primary criterion will be to seek to approach over time equality, among the participants indicated from time to time by the criteria in (a) above, in the ratios of their holdings of special drawing rights, or such holdings in excess of net cumulative allocations thereof, to total reserves." It was subsequently decided—and the draft amendment of the Fund Articles of Agreement so provides—that the guidance principle during the first basic period will be that of equality, over time, in the ratios of SDR holdings in excess of net cumulative allocations to official holdings of gold and foreign exchange. Because initially these ratios will be zero for all participants, the amendment also provides that guidance will be in proportion to official holdings of gold and foreign exchange when the ratios of excess holdings of SDR's are equal.

5. *Reconstitution.* Reconstitution of SDR holdings by participating countries was one of the main issues of the negotiations during 1967, which it proved possible to settle only in the final stages of the negotiations leading up to Group of Ten acceptance of the Outline Plan. The compromise agreed upon for the first 5-year period after the SDR system has been activated is that a participating country's average net utilization of SDR's during the period as a whole must not exceed 70 per cent of its average net cumulative allocation during the period. This does not mean that average net utilization may not exceed 70 per cent during part of the period; it means only that if there is such an excess, reconstitution, to the extent necessary, must take place before the end of the period. It should also be noted that the "average net use" phraseology means that the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

duration of use during the period, as well as the amount used, is relevant to whether reconstitution is or is not necessary. Moreover, the language of the reconstitution section of the Outline Plan indicates specifically that the calculation of average net use shall take account of any holdings of SDR's above net cumulative allocations during the period, as well as of use of SDR's below such allocations.

Activation. Ratification of the SDR amendment to the Fund Articles, while essential, will not by itself bring the plan into operation. In order to bring it into operation, an allocation must be made; and this can be done only after a decision by the Fund's Board of Governors, on the basis of a proposal by the Managing Director concurred in by the Executive Directors. Before formulating a proposal, the Managing Director must satisfy himself that certain conditions have been met and must "conduct such consultations as will enable him to ascertain that there is broad support among participants for the allocation of special drawing rights . . ."

The foregoing summary of the main features of the SDR plan, and of some of its underlying principles, indicates the general principles that have been devised to govern the creation, distribution, holding, and use of SDR's. It is reasonable to assume that the SDR system, like most economic and financial systems, will evolve over time. While it is possible, of course, that unanticipated problems will arise that will require the formulation of additional principles and understandings, it seems likely that the evolution of the system will be mainly in the direction of greater flexibility, as familiarity with and confidence in the new asset grows. Meanwhile, the Outline Plan agreed upon at Rio provides the essential basis for a workable system of international reserve-asset creation.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 audited the accounts and holdings related to the System Open Market Account and foreign currency operations conducted by that Bank in accordance with policies formulated by the Federal Open Market Committee, and rendered reports thereon to the Committee. The procedures followed by the Board's examiners were surveyed and appraised by a private firm of certified public accountants, pursuant to the policy of having such reviews made on an annual basis.

Examination of member banks. National banks, all of which are members of the Federal Reserve System, are subject to examination by direction of the Board of Governors or the Federal Reserve Banks. However, as a matter of practice they are not examined by either, 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 upon request, 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 located 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. In most States joint examinations are made in cooperation with the State banking authorities, while in others alternate

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

independent examinations are made. All but 33 of the 1,313 State member banks were examined during 1967.

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 makes its reports of insured nonmember State banks available to the Board upon request. Also, upon request, 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. It passes on applications for admission of State banks to membership in the System; administers the disclosure requirements of the Securities Exchange Act of 1934 with respect to equity securities of banks within its jurisdiction that are registered under the provisions of the 1934 Act; and under provisions of the Federal Reserve Act and other statutes, passes on applications 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, and (6) invest in bank premises an amount in excess of 100 per cent of a bank's capital stock.

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 by them secured by 25 per cent or more of the voting stock of any insured bank. In 1967, 30 instances of changes in ownership of the outstanding voting stock of State member banks were reported to the Reserve Banks as changes in control of such member banks. In addition, reports of 18 loans secured by 25 per cent or more of the stock of a State member bank were forwarded to the System. Arrangements continue among the three Federal supervisory agencies for appro-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

priate exchanges of reports received by them pursuant to the Act. The Reserve Banks send copies of all the reports they receive to the appropriate district office of the Federal Deposit Insurance Corporation, the regional Comptroller of the Currency, and the State bank supervisor.

Upon receipt of reports involving changes in control of State member banks, the Reserve Banks are under instructions to forward such reports promptly to the Board, together with a statement (1) that the new owner and management are known and acceptable to the Reserve Bank or (2) that they are not known and that an investigation is being made. The findings of any investigation and the Reserve Bank's conclusions based on such findings are forwarded to the Board.

By Act of Congress approved July 3, 1967 (Public Law 90-44), each member bank of the Federal Reserve System is required to include with (but not as part of) each report of condition and copy thereof a report of all loans to its executive officers since the date of submission of its previous report of condition. Since enactment of this legislation, member banks have submitted two condition reports, dated October 4, 1967, and December 30, 1967, respectively. With the report for October 4, 1967, member banks reported 9,095 loans to their executive officers during the approximate 3-month period covered since June 30, 1967, the date of the last condition report submitted before enactment of the new law. These loans aggregated $14,203,372 and were made at rates ranging from 2 per cent to 18 per cent.[1] Compilation of similar information with respect to the call report for December 30, 1967, has not been completed.

Federal Reserve membership. As of December 31, 1967, member banks accounted for 44 per cent of the number of all commercial banks in the United States and for 63 per cent of all commercial banking offices, and they held approximately 84 per cent of the total deposits in such banks. State member banks ac-

[1] The rate of 18 per cent reflects the inclusion of rates of 1½ per cent per month charged on credit-card and check-credit plans.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

counted for 14 per cent of the number of all State commercial banks and 30 per cent of the banking offices, and they held 60 per cent of total deposits in State commercial banks.

Of the 6,071 banks that were members of the Federal Reserve System at the end of 1967, 4,758 were national banks and 1,313 were State banks. During the year there were net declines of 41 national and 38 State member banks. The decline in the number of national banks reflected 53 conversions to branches incident to mergers and absorptions and 5 conversions to nonmember banks, which was partly offset by the organization of 18 new national banks and the conversion of 7 nonmember banks to national banks. The decrease in State member banks reflected mainly 12 conversions to branches incident to mergers and absorptions and 21 withdrawals from membership.

At the end of 1967 member banks were operating 13,649 branches, 749 more than at the close of 1966; this included 708 de novo establishments.

Detailed figures on changes in the banking structure during 1967 are shown in Table 19, pages 370 and 371.

Bank mergers. Under Section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)), the prior written consent of the Board of Governors of the Federal Reserve System must be obtained before a bank may merge, consolidate, or acquire the assets and assume the liabilities of another bank if the acquiring, assuming, or resulting bank is to be a State member bank.

In deciding whether to approve an application, the Board is required by Section 18(c) to consider the impact of the proposed transaction on competition, the financial and managerial resources and prospects of the existing and proposed institution, and the convenience and needs of the community to be served. The Board is precluded from approving "any proposed merger transaction which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States." A proposed transaction "whose effect in any

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade," may be approved only if the Board is able to find that the anticompetitive effects of the transaction would be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

Before acting on each application the Board 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, assuming, or resulting bank is to be a national bank or an insured nonmember State bank.

During 1967 the Board disapproved 2 and approved 13 applications, and it submitted 76 reports on competitive factors to the Comptroller of the Currency and 48 to the Federal Deposit Insurance Corporation. As required by Section 18(c) of the Federal Deposit Insurance Act, a description of each of the 13 applications acted on and approved by the Board, together with other pertinent information, is shown in Table 21 on pages 374 through 393.

Statements and orders of the Board with respect to all bank merger applications, whether approved or disapproved, are released immediately to the press and the public and are published in the Federal Reserve *Bulletin*. These statements and orders set forth the factors considered, the conclusions reached, and the vote of each Board member present.

Bank holding companies. During 1967, pursuant to Section 3 (a)(1) of the Act, the Board approved 10 applications for prior approval to become a bank holding company and denied one application. Pursuant to Section 3(a)(3) of the Act, the Board approved applications by 11 bank holding companies, involving acquisition of shares in 16 banks, and denied two applications. Two

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

of the approved acquisitions involved two affiliated bank holding companies, both of which were required to file applications. To provide necessary current information, annual reports for 1966 were obtained from all registered bank holding companies pursuant to the provisions of Section 5(c) of the Act.

Statements and orders of the Board with respect to applications to form or to expand bank holding companies, whether approved or disapproved, are released immediately to the press and the public and are published in the Federal Reserve *Bulletin*. These statements and orders set forth the factors considered, the conclusions reached, and the vote of each Board member present.

Foreign branches of member banks. At the end of 1967, 15 member banks had in active operation a total of 295 branches in 54 foreign countries and overseas areas of the United States; eight national banks were operating 280 of these branches, and seven State member banks were operating 15 such branches. 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 banks and Sections 9 and 25 as to State member banks), the Board of Governors during the year 1967 approved 62 applications made by member banks for permission to establish branches in foreign countries and overseas areas of the United States.

During the year member banks opened branches in foreign countries as follows: one branch in Cordoba, Flores, and Rosario, Argentina; La Paz, Bolivia; Melipilla and Vina del Mar, Chile; Guayaquil, Ecuador; San Pedro Sula, Honduras; Managua, Nicaragua; La Chorrera and Panama City, Panama; Lima, Peru; Port of Spain, Trinidad; St. Thomas and St. Croix, Virgin Islands; Birmingham, England; Marseilles and Paris, France; Munich, Germany; Piraeus, Greece; Rome, Italy; Zurich, Switzerland; Port Harcourt, Nigeria; and Lahore, Pakistan; two branches in Bogota, Colombia; David, Panama; Asuncion, Paraguay; Brussels, Belgium; London, England; and Hong Kong; three branches

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

in Valparaiso, Chile; and Seoul, Korea; four branches in Santiago, Chile; and five branches in Buenos Aires, Argentina.

Region / Country	Number
Latin America	*133*
Argentina	25
Bahamas	3
Bolivia	2
Brazil	15
Chile	17
Colombia	8
Dominican Republic	5
Ecuador	4
El Salvador	1
Guatemala	2
Guyana	1
Honduras	2
Jamaica	1
Mexico	5
Nicaragua	2
Panama	19
Paraguay	4
Peru	5
Trinidad	4
Uruguay	2
Venezuela	4
Virgin Islands (British)	2
Continental Europe	*34*
Austria	1
Belgium	8
Germany	9
France	6
Greece	2
Italy	2
Netherlands	3
Switzerland	3
England	*24*
Ireland	*1*
Africa	*3*
Liberia	1
Nigeria	2
Near East	*6*
Dubai	1
Lebanon	3
Saudi Arabia	2
Far East	*63*
Hong Kong	10
India	8
Japan	12
Korea	3
Malaysia	5
Okinawa	2
Pakistan	4
Philippines	5
Singapore	8
Taiwan	2
Thailand	2
Vietnam	2
U.S. Overseas Areas and Trust Territories	*31*
Canal Zone	2
Guam	2
Puerto Rico	16
Truk Islands	1
Virgin Islands	10
Total	**295**

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Acceptance powers of member banks. During the year the Board approved the applications of four member banks, pursuant to the provisions of Section 13 of the Federal Reserve Act, for increased acceptance powers. Two banks were granted permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors. The other two banks were granted permission to accept commercial drafts or bills up to 100 per cent of paid-up and unimpaired capital stock and surplus.

Foreign banking and financing corporations. At the end of 1967 there were five corporations operating under agreements with 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 have head offices in New York, and one has its head office in Miami, Florida. The four corporations were examined during the year by examiners for the Board of Governors. The fifth "agreement" corporation is a national bank in the Virgin Islands and is owned by a State member bank in Philadelphia.

During 1967, under the provisions of Section 25(a) of the Federal Reserve Act, the Board issued final permits to five corporations to engage in international or foreign banking or other international or foreign financial operations. Four of these corporations commenced operations in 1967. At the end of the year there were 46 corporations in active operation under Section 25(a): 28 have home offices in New York City, three in Boston, four in Philadelphia, one in Pittsburgh, one in Winston-Salem, one in Atlanta, two in Chicago, two in Detroit, two in San Francisco, one in Los Angeles, and one in Seattle. The corporation in Seattle has five active branches in Hong Kong, and one of the corporations in Philadelphia operates a branch in London. Examiners for the Board of Governors examined 43 of these corporations during 1967.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Bank Examination Schools and other training activities. In 1967 the Bank Examination School conducted four sessions of the School for Examiners, four sessions of the School for Assistant Examiners, and one session of the School for Trust Examiners. The Bank Examination School was established in 1952 by the three Federal bank supervisory agencies, and since 1962 has been conducted jointly by the Federal Reserve System and the Federal Deposit Insurance Corporation.

Since the establishment of this program, 3,385 persons have attended the various sessions. This number includes representatives of the Federal bank supervisory agencies; the State Banking Departments of California, Connecticut, Idaho, Indiana, Kentucky, Louisiana, Maine, Michigan, Mississippi, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, Tennessee, Vermont, Virginia, Washington, and Wyoming; the Treasury Department of the Commonwealth of Puerto Rico; and 16 foreign countries.

Another school, the Discount Collateral Evaluation Training School, was set up in 1967 for the purpose of training System personnel responsible for the discount function in the application of suitable standards for the evaluation of collateral presented by member banks for discount purposes. Two sessions of the school were held during the year with a total of 40 System personnel in attendance.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

LEGISLATION ENACTED

Real estate loans by national banks. An Act of Congress approved May 25, 1967 (Public Law 90-19), amended the provision of Section 24 of the Federal Reserve Act, exempting certain industrial loans from the restrictions or limitations upon real estate loans, by substituting the Secretary of Housing and Urban Development for the Housing and Home Finance Administrator.

Loans to executive officers. An Act of Congress approved July 3, 1967 (Public Law 90-44), amended Section 22(g) of the Federal Reserve Act so as to liberalize the restrictions on loans by member banks of the Federal Reserve System to their executive officers.

Antitrust exemptions for voluntary agreements or programs. An Act of Congress approved August 9, 1967 (Public Law 90-62), extended to June 30, 1969, the standby authority for providing procedures for obtaining exemptions from the antitrust laws to assist in safeguarding the balance of payments position of the United States. As stated in the report of January 1, 1968, which the Attorney General is required to make to the Congress, the exemptions provided by the standby legislation have not been put into effect.

Interest on deposits; reserves of member banks; open market operations. An Act of Congress approved September 21, 1967 (Public Law 90-87), amended Sections 19 and 14(b) of the Federal Reserve Act by extending for 1 year the temporary authority of the Board (1) to exercise more flexibility in regulating the maximum rates of interest payable by member banks on deposits, (2) to fix higher reserve requirements on time deposits of member banks, and (3) to permit open market operations by Federal Reserve Banks in direct obligations of, or those fully guaranteed by, any agency of the United States. The additional powers granted by this law expire September 21, 1968.

Acquisition of stock of small business investment companies. An Act of Congress approved October 11, 1967 (Public Law 90-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

104), increased the aggregate amount that a bank may invest in the stock of small business investment companies from 2 to 5 per cent of the bank's capital and surplus, but limited such investment in any one company to 50 per cent of any class of its equity securities having actual or potential voting rights.

Lottery ticket sales by State member banks. An Act of Congress approved December 15, 1967 (Public Law 90-203), added Section 9A to the Federal Reserve Act, effective April 1, 1968, to prohibit State member banks from fostering or participating in gambling activities, and particularly the sale of lottery tickets.

Salaries of members of Federal Reserve Board. An Act of Congress approved December 16, 1967 (Public Law 90-206), contained a provision which, in effect, amended Section 10 of the Federal Reserve Act by increasing the salaries of the members of the Board, other than the Chairman, from $28,500 to $29,500 per annum. The salary of the Chairman remains $30,000.

Tax status of bank holding company distributions. An Act of Congress approved December 27, 1967 (Public Law 90-225), added a new subsection (e) to Section 1102 of the Internal Revenue Code of 1954 relating to special rules for income tax treatment of distributions resulting from the 1966 amendments to the Bank Holding Company Act of 1956.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

LEGISLATIVE RECOMMENDATIONS

Lending authority of Federal Reserve Banks. Under present law, when a member bank borrows from its Reserve Bank on collateral other than U.S. Government obligations or paper (such as short-term promissory notes of the member bank's customers) that meets statutory "eligibility" requirements, it must pay interest at a rate not less than one-half of 1 per cent higher than the Reserve Bank's basic discount rate. For several years the Board of Governors has urged legislation that would permit a member bank, in appropriate circumstances, to borrow on any security satisfactory to its Reserve Bank without the necessity of paying a higher rate of interest simply because the security was "ineligible" for the basic rate.

The Board's recommendation is embodied in S. 966, 90th Congress, which passed the U.S. Senate on April 14, 1967. The need for enactment of such legislation has increased as member banks have reduced their holdings of U.S. Government securities and broadened the scope of their lending in order to meet the expanding credit demands of their customers. Many of these loans cannot qualify as security for Federal Reserve advances except at the "penalty" rate of interest, although their quality may be equal to that of presently "eligible" paper.

To enable the Federal Reserve System always to be in a position to carry out promptly and efficiently one of its principal responsibilities—the extension of credit assistance to enable the banking system to meet the legitimate needs of the economy—and to avoid penalizing those uses of credit that generate sound paper that is not "eligible" under existing law, the Board urges enactment of S. 966, which would enable member banks to borrow from a Federal Reserve Bank, at the basic discount rate, on their notes secured to the satisfaction of the Reserve Bank.

"Par clearance." Most banks pay the face amount of all checks presented to them for payment; this practice is frequently described as "par clearance." In a few areas of the country, how-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ever, many small banks deduct a so-called "exchange charge" from the face amount of checks presented by mail and remit only the balance. In such circumstances the drawee bank shifts all or a portion of the expense incurred by it in connection with the collection process to the payee of the check or to an indorsee. In the Board's view there is no justification for the increased costs, delays, and inefficiencies that result when banks do not pay all checks at their face amount.

The trend of legislation in this area at the State level has been toward requiring banks to pay the face amount of checks drawn upon them. Florida, Minnesota, and South Dakota have recently enacted legislation along these lines. At the Federal level, several bills have been introduced into the 90th Congress to require "par clearance" by all insured banks. Despite the progress in this direction that has been made at the State level, the Board favors enactment of such a requirement as it is embodied in S. 1737. Such a bill would defer the effective date of the requirement for 1 year from the date of enactment to give nonpar banks a sufficient time to adjust their practices.

Reserve requirements. In its ANNUAL REPORTS for 1964, 1965, and 1966, the Board of Governors favored legislation that would (1) authorize it to fix required reserve percentages on a graduated basis according to the amount of a bank's deposits and (2) make such requirements applicable to all Federally insured banks (rather than to member banks only). Legislation proposed by the Board to accomplish these purposes is embodied in S. 1298, 90th Congress.

The reasons for the proposed changes in the structure of bank reserve requirements have become stronger with the passage of time. Thus, in the Board's judgment, the differences between reserve city and "country" banks, in both size and functions, have decreased substantially and the division of member banks into such categories has become arbitrary to the point where such division is a major obstacle to the development of a more equitable system of reserve requirements. Since deposits in nonmember

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

banks are part of the country's money supply just as are those in member banks, their exemption from Federally imposed reserve requirements cannot be justified.

Although the Board was given increased flexibility in fixing reserve requirements by legislation enacted in 1966 and extended in 1967 to September 20, 1968, that legislation is temporary in nature, it retains the outmoded differentiation between reserve city and "country" banks, and it does not apply to nonmember banks. Enactment of S. 1298 would provide a rational and equitable basis for reserve requirements. All Federally insured banks of the same size, in terms of demand deposits, would carry equal reserves against such deposits. In connection with making reserve requirements applicable to nonmember insured banks, S. 1298 would grant such banks access to Federal Reserve discount facilities.

The Board urges enactment of S. 1298.

Margin requirements for securities transactions. For decades, the Board's Regulation T has limited the credit that brokers and dealers may extend on securities that are registered on exchanges, and its Regulation U has limited the credit that banks may extend for the purpose of purchasing or carrying securities so registered. Recently the Board promulgated Regulation G to bring lenders other than brokers, dealers, or banks within the scope of margin requirements in connection with transactions involving registered securities.

Insofar as securities traded over the counter are concerned, the law, generally speaking, forbids brokers and dealers to extend any credit whatever, while permitting banks and other lenders to extend credit unlimited by any governmentally imposed margin requirements. The Board considers that its inability to extend the coverage of margin requirements to credit extended by banks and other lenders for the purpose of purchasing and carrying over-the-counter securities represents a serious gap in the effectiveness of its regulations in preventing excessive use of credit in the securities market.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Accordingly, the Board renews the recommendation submitted in previous ANNUAL REPORTS that the Congress enact legislation modifying Section 7 of the Securities Exchange Act of 1934 to eliminate the difference in status, for credit purposes, of securities that are registered on a national securities exchange and securities that are traded only over the counter. A proposal to bring over-the-counter securities within the coverage of margin regulations was made by the Securities and Exchange Commission's 1963 *Special Study of Securities Markets.* The continuing growth of the over-the-counter securities market has given this problem increased importance.

S. 1299 and H.R. 7696 would modify the law in the form favored by the Board, and the Board recommends enactment of such legislation.

Purchase of obligations of foreign governments by Federal Reserve Banks. Under present law, balances that the Reserve Banks acquire in foreign central banks in connection with the System's foreign currency operations may be invested in prescribed kinds of bills of exchange and acceptances. On occasion these investment media have not been conveniently available. S. 965, which was passed by the Senate on April 14, 1967, would facilitate economic use of such balances by permitting them to be invested in any obligations of foreign governments or monetary authorities that will mature within 12 months and that are payable in a convertible currency. For several years the Board has favored the authorization of such investments; accordingly, it recommends enactment of S. 965.

Loans to bank examiners. The Criminal Code prohibits loans to a bank examiner by any bank that the examiner is authorized to examine. For several years the Board has favored modification of this prohibition to permit, under appropriate safeguards, a Federally insured bank to make a home mortgage loan to a bank examiner in an amount not exceeding $30,000. This modification is embodied in H.R. 7451, which the Board recommends be enacted.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

LITIGATION

Investment Company Institute et al. v. Camp. The Investment Company Institute, representing open-end investment companies, investment advisers, and principal underwriters, filed suit in the U.S. District Court for the District of Columbia for a declaratory judgment and an injunction seeking to restrain the Comptroller of the Currency from purporting to authorize a national bank to invest funds collectively that had been tendered to the bank as managing agent solely for investment.

Pursuant to statutory authority to regulate the fiduciary activities of national banks (12 U.S.C. 92a), the Comptroller promulgated a revised fiduciary regulation (Regulation 9, 12 CFR 9) which purported to authorize, in addition to the types of collective investment funds already permitted, collective investment accounts for funds held by a national bank in the capacity of managing agent and to authorize the Comptroller to approve the collective investment of such funds in manners other than those expressly provided.

On May 10, 1965, the Comptroller approved a plan submitted by First National City Bank of New York for the establishment and operation of a collective investment fund called the Commingled Investment Account. After registering the Account with the Securities and Exchange Commission, pursuant to the Investment Company Act of 1940 (15 U.S.C. 80), and filing a registration statement pursuant to the Securities Act of 1933 (15 U.S.C. 77a), the bank sold participating interests to the public. The plan contemplated operation of the Account by a committee of five persons, initially appointed by the bank and thereafter to be elected annually by the participants in the Account. At least 40 per cent of the members of the committee were required to be persons not affiliated with the bank, but the majority of the members were expected to be officers in the bank's trust and investment division. The committee was authorized to enter into a management agreement with the bank, subject to approval by

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the Comptroller and by participants having a majority of the units of participation; pursuant to such an agreement, the bank served as investment adviser and custodian for the Account at a stated fee.

The Institute attacked the Comptroller's revised regulation as unauthorized under the provisions of 12 U.S.C. 92a and in violation of certain provisions of the Federal banking laws (12 U.S.C. 24, 78, 377, and 378). The Court concluded, with respect to certain procedural questions raised, that (1) the plaintiffs had a right to complain of the competition that was being condoned under the Comptroller's regulation, that is, that the plaintiffs had legal standing to challenge the Comptroller's Regulation 9; and (2) a justiciable controversy existed between the parties on the basis of the impact upon the plaintiffs of the authority claimed by the Comptroller in promulgating the regulation at which the suit was directed. On the substantive merits of the suit, the Court held that the commingling of managing agency accounts is not a "fiduciary" activity within the meaning of 12 U.S.C. 92a, that such commingling is not authorized under Federal laws or those of the State of New York, and that the Comptroller therefore did not have statutory authority to empower the bank to create, organize, and manage the Account. The Court further concluded that the Account was in fact an investment fund and that the banking laws make it illegal for a national bank to establish, operate, or be affiliated with such an investment fund (12 U.S.C. 24, 78, 377, 378).

An interpretation by the Board (Federal Reserve *Bulletin*, October 1965, p. 1410) to the effect that interlocking personnel relationships between the bank and the Account were not prohibited by Section 32 of the Banking Act of 1933 (12 U.S.C. 78) —based on a finding that the Account was in effect a department of the bank—was rejected by the Court on the ground that the Account and the bank were contractually affiliated and that one may not be considered a department of the other.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Baker Watts & Co. et al.* v. *Saxon. In a suit instituted by a group of investment bankers, the court rejected an interpretation by the Comptroller of the Currency purporting to authorize national banks to underwrite and deal in governmental securities known as "revenue bonds." (See ANNUAL REPORT for 1966, page 314.) The court's decision is under review in the U.S. Court of Appeals for the District of Columbia, on an appeal by the Port of New York Authority.

Detroit Bank & Trust Co. et al.* v. *Saxon and Board of Governors of Federal Reserve System. A suit was instituted in November 1966 to prevent consummation of a proposed acquisition by Michigan National Bank, Detroit, Michigan, of voting stock of Michigan National Bank N.A., Detroit. (See ANNUAL REPORT for 1966, page 316.) On June 5, 1967, a stipulation for dismissal of the suit, joined in by all parties, was filed in the U.S. District Court for the District of Columbia. An order of dismissal was thereafter entered by the Court.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

RESERVE BANK OPERATIONS

Earnings and expenses. The accompanying table summarizes the earnings, expenses, and distribution of net earnings of the Federal Reserve Banks for 1967 and 1966.

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1967 AND 1966

(In thousands of dollars)

Item	1967	1966
Current earnings	2,190,404	1,908,500
Current expenses	220,121	207,401
Current net earnings	1,970,283	1,701,099
Net addition to current net earnings	2,094	996
Net earnings before payments to U.S. Treasury	1,972,377	1,702,095
Dividends paid	35,028	33,696
Payments to U.S. Treasury (interest on F.R. notes)	1,907,498	1,649,455
Transferred to surplus	29,851	18,944

Current earnings of $2,190 million in 1967 were 15 per cent higher than in 1966, reflecting increases of $301 million on U.S. Government securities and $3 million on foreign currencies, and a decrease of $21 million on discounts and advances.

Current expenses were $13 million more than in 1966, or 6 per cent. Statutory dividends to member banks amounted to $35 million, an increase of $1 million from 1966. This rise in dividends reflected an increase in the capital and surplus of member banks and a consequent increase in the paid-in capital stock of the Federal Reserve Banks.

Payments to the Treasury as interest on Federal Reserve notes totaled $1,907 million for the year, compared with $1,649 million in 1966. This amount consists of all net earnings after dividends and the amount necessary to bring surplus to the level of paid-in capital.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Expenses of the Federal Reserve Banks include costs of $847.71 for nine regional meetings incident to the Treasury Department savings bond program.

A detailed statement of earnings and expenses of each Federal Reserve Bank during 1967 is shown in Table 7 on pages 358 and 359 and a condensed historical statement in Table 8 on pages 360 and 361.

Holdings of loans and securities. The accompanying table shows holdings, earnings, and average interest rates on loans and securities of the Federal Reserve Banks during the past 3 years.

Average daily holdings of loans and securities during 1967 amounted to $46,417 million—an increase of $3,805 million over 1966. Holdings of U.S. Government securities increased $4,289 million, whereas there were decreases of $471 million in discounts and advances and $13 million in acceptances.

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1965–67

Item and year	Total	Discounts and advances	Acceptances	U.S. Govt. securities
	In millions of dollars			
Average daily holdings:[1]				
1965	39,230	492	77	38,661
1966	42,612	649	117	41,846
1967	46,417	178	104	46,135
Earnings:				
1965	1,545.0	19.8	3.2	1,522.0
1966	1,885.8	29.2	5.8	1,850.8
1967	2,164.6	7.7	4.8	2,152.1
	In per cent			
Average rate of interest:				
1965	3.94	4.03	4.14	3.94
1966	4.43	4.50	4.96	4.42
1967	4.66	4.33	4.62	4.66

[1] Based on holdings at opening of business.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The average rates of interest on holdings increased from 4.42 per cent to 4.66 per cent on U.S. Government obligations and decreased from 4.50 per cent to 4.33 per cent on discounts and advances and from 4.96 per cent to 4.62 per cent on acceptances.

Volume of operations. Table 10 on page 362 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1964–67.

Discounts and advances sharply reversed the rising trend of recent years in both number and dollar amount, and the number of banks borrowing dropped to 1,104 from 1,658 in 1966.

Volume was again higher than in the previous year in most of the other operations, particularly in coin received and counted, in food stamps redeemed, and in transfers of funds.

Fiscal agency function: Premature disclosure of information. On August 17, 1967, the Federal Reserve Bank of New York informed the Treasury that reports in the securities market gave reason to believe that terms of the Treasury offering that day had been "leaked" before the official release time. Investigation by the Treasury revealed that a middle-grade employee of the Federal Reserve Bank of Philadelphia had prematurely disclosed the terms to an employee of a securities firm. The Reserve Bank employee was immediately relieved of all duties and died of a heart attack a few days later. Investigating agents found no evidence that he had received any remuneration. The findings were turned over to the Department of Justice for further review to determine whether there had been a violation of criminal law, and new procedures were developed by the Treasury and Federal Reserve to prevent the possibility of a recurrence.

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 Com-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

mission 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 1967 the guaranteeing agencies authorized the issuance of eight guarantee agreements covering loans totaling $106 million. Loan authorizations outstanding on December 31, 1967, totaled $52 million, of which $45 million represented outstanding loans and $8 million additional credit available to borrowers. Of total loans outstanding, 70 per cent on the average was guaranteed. During the year approximately $205 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, 1968.

Table 15 (page 365) shows guarantee fees and maximum interest rates applicable to Regulation V loans.

Foreign and international accounts. Assets held for foreign account at the Federal Reserve Banks increased $2,371 million in 1967. At the end of the year they amounted to $21,211 million: $10,661 million of earmarked gold; $9,223 million of U.S. Government securities (including securities payable in foreign currencies); $135 million in dollar deposits; $156 million of bankers' acceptances purchased through Federal Reserve Banks; and $1,036 million of miscellaneous assets. The latter item includes mainly dollar bonds issued by foreign countries and international organizations. Assets held for international organizations, including IMF gold deposit, decreased $79 million to $9,438 million.

In 1967 new accounts were opened in the names of the Central Bank of Algeria, Central Bank of the West African States, Central Bank of Kenya, Foreign Exchange Bank of Korea, and Bank of Uganda.

New gold collateral loan arrangements—including a standby commitment—amounted to $50 million in 1967. All drawings

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

during the year under the loan arrangements were repaid by 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 Vietnam, Cuba, Communist China, and North Korea, and their nationals, and to transactions with those countries and their nationals.

Bank premises. During 1967, with the approval of the Board, properties adjacent to the Federal Reserve Bank of Cleveland and to the Buffalo and Omaha Branches were acquired for future expansion, and a site was obtained for a new building for the Memphis Branch.

Table 6 on page 357 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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

PUBLIC INFORMATION, ORGANIZATION, AND PROCEDURE

During 1967 a number of changes were made in Rules of both the Board of Governors and the Federal Open Market Committee regarding public information, organization, and procedures. The revised Rules are summarized below.

Public information. An Act of Congress, approved June 5, 1967 (Public Law 90-23), amended section 552 of title 5, United States Code, to codify the provisions of Public Law 89-487, effective July 4, 1967, which had revised the Public Information Section of the former Administrative Procedure Act. Accordingly, the Board of Governors and Federal Open Market Committee adopted, effective July 4, 1967, revisions of their respective Rules relating to the availability of information to the public. Under the new Rules, unpublished records of the Board and of the Committee are made available upon request unless the particular records fall within stated exemptions contained in the law. For conforming purposes, the Board and Federal Open Market Committee also amended their Rules of Organization and Rules of Procedure. (These revisions in Rules were published in full in the Federal Reserve *Bulletin* for July 1967, pages 1153-62.)

Delegation of authority. Effective July 1, 1967, the Board of Governors adopted a new regulation, "Rules Regarding Delegation of Authority," pursuant to and in accordance with the provisions of section 11(k) of the Federal Reserve Act (12 U.S.C. 248(k)), which became effective November 5, 1966. The new Rules are designed to provide a more expeditious means for performance of certain of the Board's supervisory functions and to improve its over-all efficiency in fulfilling its statutory responsibilities. (This Regulation was published in full in the Federal Reserve *Bulletin* for June 1967, pages 965-67.

Formal hearings. Effective August 1, 1967, the Board revised its "Rules of Practice for Formal Hearings." This revision resulted principally from the Financial Institutions Supervisory Act of 1966, which among other things authorized the Board to act

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

to prevent unsafe or unsound banking practices and violation of law, rules, or regulations by State-chartered banks of the Federal Reserve System, through the issuance of an order requiring such a bank to "cease and desist" from engaging in the unlawful activity. (The revised Rules were published in full in the Federal Reserve *Bulletin* for August 1967, pages 1342-54.)

Organization and procedure. Effective August 9, 1967, the Board of Governors revised its Rules of Organization pursuant to the requirement of section 552 of title 5 of the United States Code that each agency publish in the Federal Register a description of its central and field organization.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS

Building annex. The Board has authorized construction of an annex to its present building on property acquired as part of the original site in 1934. For this purpose it has employed Harbeson Hough Livingston and Larson, the architectural firm that is successor to Paul P. Cret, architect of the original building.

Income and expenses. The accounts of the Board for the year 1967 were audited by the public accounting firm of Lybrand, Ross Bros. & Montgomery.

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, 1967, and the related statement of assessments and expenses 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 balance sheet and related statement of assessments and expenses present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1967 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Lybrand, Ross Bros. & Montgomery

Washington, D.C.
January 25, 1968

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEET
DECEMBER 31, 1967

ASSETS		
OPERATING FUND:		
Cash		$ 1,181,729
Miscellaneous receivables and travel advances		5,185
Stockroom and cafeteria inventories at first-in, first-out cost		28,962
Total operating fund		1,215,876
PROPERTY FUND:		
Land and improvements		792,852
Building and building construction		4,443,307
Furniture and equipment		1,048,879
Total property fund		6,285,038
		$ 7,500,914

LIABILITIES AND FUND BALANCES		
OPERATING FUND:		
Current liabilities:		
Accounts payable and accrued expenses	$ 714,619	
Income taxes withheld	331,543	
Accrued payroll	325,582	
		$ 1,371,744
Fund balance:		
Balance, January 1, 1967	(220,731)	
Excess of assessments and extraordinary item over expenses for the year ended December 31, 1967	64,863	
		(155,868)
Total operating fund		1,215,876
PROPERTY FUND:		
Fund balance:		
Balance, January 1, 1967	6,471,292	
Additions	252,503	
Property adjustments and disposals	(438,757)	
Total property fund		6,285,038
		$ 7,500,914

The accompanying notes are an integral part of the financial statements.

[See page 346 for notes.]

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Board of Governors of the Federal Reserve System

Statement of Assessments and Expenses for the Year Ended December 31, 1967

Assessments Levied on Federal Reserve Banks:		
For Board expenses and additions to property		$10,769,600
For expenditures made on behalf of the Federal Reserve Banks		17,334,358
Total assessments		28,103,958
Expenses:		
Expenditures for printing, issue and redemption of Federal Reserve Notes, paid on behalf of the Federal Reserve Banks		17,334,358
For the Board:		
Salaries	$6,852,515	
Retirement and insurance contributions	1,374,737	
Travel expenses	363,461	
Legal, consultant and audit fees	52,677	
Contractual services	442,808	
Printing and binding—net	454,608	
Equipment and other rentals	516,554	
Telephone and telegraph	174,434	
Postage and expressage	129,745	
Stationery, office and other supplies	88,209	
Heat, light and power	56,533	
Operation of cafeteria—net	69,038	
Repairs, maintenance and alterations	48,105	
Books and subscriptions	29,210	
System membership, Center for Latin American Monetary Studies	27,000	
Miscellaneous—net	47,600	
		10,727,234
For property additions		252,503
Total expenses		28,314,095
Excess of Expenses Over Assessments Before Extraordinary Item		(210,137)
Extraordinary item		275,000
Excess of Assessments and Extraordinary Item Over Expenses		$ 64,863

The accompanying notes are an integral part of the financial statements.

[See page 346 for notes.]

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Board of Governors of the Federal Reserve System

Notes to Financial Statements

Accounting methods

The Board has consistently followed the practice of not providing for depreciation on fixed assets. Acquisitions are charged to expense and proceeds from sales of fixed assets are recorded as income. The property accounts are increased or reduced at full cost, with corresponding increases or decreases in the property fund balance when property is acquired or sold.

Assessments and expenditures made on behalf of the Federal Reserve Banks for the printing, issuance and redemption of Federal Reserve notes are recorded on the cash basis and produces results which are not materially different from those which would have been produced on the accrual basis of accounting.

Extraordinary item

During 1967, $275,000 was received by the Board from a federal government department for the sale of computer equipment purchased in 1964 for $422,589.

Long-term leases

The Board leases outside office space at an annual rental of $269,225 under a lease expiring in 1972. This lease may be terminated with six months notice after 1969.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Tables

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS COMBINED, DECEMBER 31, 1967

(In thousands of dollars)

ASSETS

Item				
Gold certificates on hand		1,278		
Gold certificates due from U.S. Treasury:				
Interdistrict settlement fund		2,885,525		
F.R. Agents' fund		6,663,000	9,549,803	
Redemption fund for F.R. notes			1,930,632	
Total gold certificate reserves				11,480,435
F.R. notes of other F.R. Banks				727,538
Other cash:				
United States notes			5,606	
Silver certificates			2,351	
National bank notes and F.R. Bank notes			47	
Coin			351,259	
Total other cash				359,263
Discounts and advances secured by U.S. Govt. obligations:				
Discounted for member banks		131,008		
Discounted for others		....	131,008	
Other discounts and advances:				
Discounted for member banks		12,288		
Foreign loans on gold		....	12,288	
Total discounts and advances			143,296	
Acceptances:				
Bought outright			74,873	
Held under repurchase agreement			89,324	
Federal agency obligations:				
Held under repurchase agreement			37,800	
U.S. Govt. securities:				
Bought outright:				
Bills	15,975,333			
Certificates	....			
Notes	26,918,382			
Bonds	6,086,502			
Total bought outright		48,980,217		
Held under repurchase agreement		132,200		
Total U.S. Govt. securities			49,112,417	
Total loans and securities				49,457,710
Cash items in process of collection:				
Transit items			10,514,634	
Exchanges for clearing house			282,267	
Other cash items			245,579	
Total cash items in process of collection				11,042,480
Bank premises:				
Land			30,134	
Buildings (including vaults)		123,120		
Fixed machinery and equipment		62,566		
Total buildings		185,686		
Less depreciation allowances		105,003	80,683	
Total bank premises				110,817
Other assets:				
Claims account closed banks			237	
Denominated in foreign currencies			1,604,458	
Gold due from U.S. Treasury for account International Monetary Fund			233,090	
Reimbursable expenses and other items receivable			3,719	
Interest accrued			295,185	
Premium on securities			1,282	
Deferred charges			2,502	
Real estate acquired for banking-house purposes			3,002	
Suspense account			6,298	
All other			3,012	
Total other assets				2,152,785
Total assets				75,331,028

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS COMBINED, DECEMBER 31, 1967—Continued

(In thousands of dollars)

LIABILITIES

F.R. notes:			
Outstanding (issued to F.R. Banks)		44,310,612	
Less: Held by issuing F.R. Banks	1,838,545		
Forwarded for redemption	101,843	1,940,388	
F.R. notes, net (includes notes held by U.S. Treasury and by F.R. Banks other than issuing Bank)			**42,370,224**
Deposits:			
Member bank reserves		**21,000,240**	
U.S. Treasurer—General account		**1,122,722**	
Foreign		**135,436**	
Other deposits:			
Nonmember bank—Clearing accounts	48,419		
Officers' and certified checks	12,433		
Reserves of corporations doing foreign banking or financing	43,120		
International organizations	322,908		
All other	234,860		
Total other deposits		**661,740**	
Total deposits			**22,920,138**
Deferred availability cash items			**8,549,631**
Other liabilities:			
Accrued dividends unpaid		....	
Unearned discount		615	
Discount on securities		283,529	
Sundry items payable		6,753	
Suspense account		618	
All other		38	
Total other liabilities			**291,553**
Total liabilities			**74,131,546**

CAPITAL ACCOUNTS

Capital paid in	**599,741**
Surplus	**599,741**
Other capital accounts [1]	....
Total liabilities and capital accounts	**75,331,028**
Contingent liability on acceptances purchased for foreign correspondents	**155,875**

[1] During the year this item includes the net of earnings, expenses, profit and loss items, and accrued dividends which are closed out on December 31; see Table 7, pp. 358 and 359.

NOTE.—Amounts in boldface type indicate items shown in the Board's weekly statement of condition of the F.R. Banks.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1967 AND 1966

(In millions of dollars unless otherwise indicated)

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966
ASSETS												
Gold certificate account	9,550	10,836	588	674	2,320	2,048	560	699	766	831	835	1,044
Redemption fund for F.R. notes	1,931	1,838	110	102	472	444	102	96	155	155	173	157
Total gold certificate reserves	11,481	12,674	698	776	2,792	2,492	662	795	921	986	1,008	1,201
F.R. notes of other Banks	727	857	71	58	173	189	49	48	65	98	53	87
Other cash	360	298	23	9	43	31	9	6	48	50	21	16
Discounts and advances:												
Secured by U.S. Govt. securities	129	74	2	1	41	7	1	1	*	....	2	4
Other	12	99	....	....	7	25	....	....	....	....	....	....
Acceptances:												
Bought outright	75	69	....	....	75	69	....	....	....	....	....	....
Held under repurchase agreements	89	124	....	....	89	124	....	....	....	....	....	....
Federal agency obligations held under repurchase agreements	38	34	....	....	38	34	....	....	....	....	....	....
U.S. Govt. securities:												
Bought outright	48,980	43,655	2,512	2,326	12,318	10,899	2,526	2,289	3,743	3,562	3,607	3,163
Held under repurchase agreements	132	627	....	....	132	627	....	....	....	....	....	....
Total loans and securities	49,455	44,682	2,514	2,327	12,700	11,785	2,527	2,290	3,743	3,562	3,609	3,167
Cash items in process of collection	11,042	10,281	695	615	2,083	1,994	631	542	740	723	887	811
Bank premises	112	107	3	3	10	9	2	3	5	5	7	6
Other assets:												
Denominated in foreign currencies	1,604	875	77	42	418	229	83	47	144	79	83	45
IMF gold deposited [1]	233	211	....	....	233	211	....	....	....	....	....	....
All other	316	332	18	17	80	86	16	17	26	27	25	22
Total assets	75,330	70,317	4,099	3,847	18,532	17,026	3,979	3,748	5,692	5,530	5,693	5,355

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Item												
LIABILITIES												
F.R. notes	42,369	40,196	2,496	2,388	9,854	9,238	2,444	2,306	3,404	3,316	3,882	3,680
Deposits:												
Member bank reserves	20,999	19,779	870	844	5,994	5,278	853	896	1,449	1,458	941	962
U.S. Treasurer—General account	1,123	416	83	*	233	271	77	*	66	1	78	1
Foreign	135	174	7	8	31	56	7	9	13	14	7	8
Other:												
IMF gold deposits[1]	233	211	....	....	233	211	....	....	....	....	....	....
All other	430	377	9	9	232	185	26	9	13	13	19	14
Total deposits	22,920	20,957	969	861	6,723	6,001	963	914	1,541	1,486	1,045	985
Deferred availability cash items	8,549	7,786	561	532	1,570	1,418	493	457	617	608	682	615
Other liabilities and accrued dividends	296	238	15	12	77	73	15	11	22	18	22	15
Total liabilities	74,134	69,177	4,041	3,793	18,224	16,730	3,915	3,688	5,584	5,428	5,631	5,295
CAPITAL ACCOUNTS												
Capital paid in	598	570	29	27	154	148	32	30	54	51	31	30
Surplus	598	570	29	27	154	148	32	30	54	51	31	30
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	75,330	70,317	4,099	3,847	18,532	17,026	3,979	3,748	5,692	5,530	5,693	5,355
Ratio of gold certificate reserves to F.R. note liability (per cent)	27.1	31.5	28.0	32.5	28.3	27.0	27.1	34.5	27.1	29.7	26.0	32.6
Contingent liability on acceptances purchased for foreign correspondents	156	191	8	9	40	49	8	10	14	17	8	10
F.R. NOTE STATEMENT												
F.R. notes:												
Issued to F.R. Bank by F.R. Agent and outstanding	44,311	42,218	2,601	2,494	10,321	9,687	2,507	2,359	3,644	3,577	4,005	3,803
Less held by issuing Bank, and forwarded for redemption	1,942	2,022	105	106	467	449	63	53	240	261	123	123
F.R. notes, net[2]	42,369	40,196	2,496	2,388	9,854	9,238	2,444	2,306	3,404	3,316	3,882	3,680
Collateral held by F.R. Agent for notes issued to Bank:												
Gold certificate account	6,663	6,505	450	500	1,000	1,000	525	483	600	600	640	795
Eligible paper	....	2	....	....	....	....	....	*	....	....	....	....
U.S. Govt. securities	38,606	36,956	2,176	2,016	9,400	8,900	2,100	2,000	3,100	3,050	3,395	3,045
Total collateral	45,269	43,463	2,626	2,516	10,400	9,900	2,625	2,483	3,700	3,650	4,035	3,840

For notes see end of table.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1967 AND 1966—Continued

(In millions of dollars unless otherwise indicated)

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966
ASSETS														
Gold certificate account	552	621	1,679	1,827	370	470	163	213	323	401	318	655	1,076	1,353
Redemption fund for F.R. notes	107	103	328	331	67	64	32	32	72	72	70	62	243	220
Total gold certificate reserves	659	724	2,007	2,158	437	534	195	245	395	473	388	717	1,319	1,573
F.R. notes of other Banks	64	76	54	86	34	30	17	23	35	34	31	41	81	87
Other cash	42	37	67	46	34	31	4	8	18	14	14	18	37	32
Discounts and advances:														
Secured by U.S. Govt. securities	......	14	9	20	1	2	2	3	6	7	2	*	63	15
Other	......	31	......	*	......	......	......	*	1	*	4	*	......	43
Acceptances:														
Bought outright	......	......	......	......	......	......	......	......	......	......	......	......	......	......
Held under repurchase agreements	......	......	......	......	......	......	......	......	......	......	......	......	......	......
Federal agency obligations held under repurchase agreements	......	......	......	......	......	......	......	......	......	......	......	......	......	......
U.S. Govt. securities:														
Bought outright	2,725	2,470	7,817	7,322	1,768	1,491	952	897	1,972	1,661	2,047	1,592	6,993	5,983
Held under repurchase agreements	......	......	......	......	......	......	......	......	......	......	......	......	......	......
Total loans and securities	2,725	2,515	7,826	7,342	1,769	1,493	954	900	1,979	1,668	2,053	1,592	7,056	6,041
Cash items in process of collection	913	871	1,899	1,742	501	480	336	290	733	667	626	540	998	1,006
Bank premises	20	20	18	20	9	8	3	3	17	11	9	10	9	9
Other assets:														
Denominated in foreign currencies	99	52	233	125	56	31	38	21	71	38	93	51	209	115
IMF gold deposited [1]	......	......	......	......	......	......	......	......	......	......	......	......	......	......
All other	18	19	48	54	11	11	6	8	12	13	13	12	43	46
Total assets	4,540	4,314	12,152	11,573	2,851	2,618	1,553	1,498	3,260	2,918	3,227	2,981	9,752	8,909

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

LIABILITIES														
F.R. notes	2,432	2,327	7,408	7,293	1,569	1,471	717	706	1,575	1,511	1,433	1,278	5,155	4,682
Deposits:														
Member bank reserves	1,165	1,187	2,918	2,754	754	727	507	482	957	877	1,150	1,065	3,441	3,249
U.S. Treasurer—General account	83	1	107	*	71	1	48	1	97	1	61	137	119	2
Foreign	9	9	21	23	5	6	3	4	6	7	8	9	18	21
Other:														
IMF gold deposit [1]	......	......	......	......	......	......	......	......	......	......	......	......	......	......
All other	11	10	31	29	7	6	5	3	9	7	10	7	58	85
Total deposits	1,268	1,207	3,077	2,806	837	740	563	490	1,069	892	1,229	1,218	3,636	3,357
Deferred availability cash items	749	697	1,446	1,270	394	360	238	270	551	456	485	411	763	692
Other liabilities and accrued dividends	15	13	47	38	11	7	7	4	13	9	12	8	40	30
Total liabilities	4,464	4,244	11,978	11,407	2,811	2,578	1,525	1,470	3,208	2,868	3,159	2,915	9,594	8,761
CAPITAL ACCOUNTS														
Capital paid in	38	35	87	83	20	20	14	14	26	25	34	33	79	74
Surplus	38	35	87	83	20	20	14	14	26	25	34	33	79	74
Other capital accounts	......	......	......	......	......	......	......	......	......	......	......	......	......	......
Total liabilities and capital accounts	4,540	4,314	12,152	11,573	2,851	2,618	1,553	1,498	3,260	2,918	3,227	2,981	9,752	8,909
Ratio of gold certificate reserves to F.R. note liability (per cent)	27.1	31.1	27.1	29.6	27.9	36.3	27.2	34.7	25.1	31.3	27.1	56.1	25.6	33.6
Contingent liability on acceptances purchased for foreign correspondents	10	12	23	27	5	7	4	5	7	9	9	11	20	25
F.R. NOTE STATEMENT														
F.R. notes:														
Issued to F.R. Bank by F.R. Agent and outstanding	2,549	2,459	7,692	7,653	1,636	1,538	747	743	1,647	1,579	1,539	1,373	5,423	4,953
Less held by issuing Bank, and forwarded for redemption	117	132	284	360	67	67	30	37	72	68	106	95	268	271
F.R. notes, net [2]	2,432	2,327	7,408	7,293	1,569	1,471	717	706	1,575	1,511	1,433	1,278	5,155	4,682
Collateral held by F.R. Agent for notes issued to Bank:														
Gold certificate account	450	450	1,400	1,100	331	310	127	127	225	225	180	180	735	735
Eligible paper	......	......	......	......	......	2	......	......	......	......	......	......	......	......
U.S. Govt. securities	2,150	2,050	6,450	6,700	1,370	1,310	635	655	1,450	1,400	1,380	1,230	5,000	4,600
Total collateral	2,600	2,500	7,850	7,800	1,701	1,622	762	782	1,675	1,625	1,560	1,410	5,735	5,335

* Less than $500,000.

[1] Gold deposited by the IMF to mitigate the impact on the U.S. gold stock of purchases by foreign countries for gold subscriptions on increased IMF quotas. The United States has a corresponding gold liability to the IMF.

[2] Includes F.R. notes held by U.S. Treasury and by F.R. Banks other than the issuing bank.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

3. FEDERAL RESERVE HOLDINGS OF U.S. GOVERNMENT SECURITIES, DECEMBER 31, 1965–67

(In thousands of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (−) during—	
		1967	1966	1965	1967	1966
Treasury bonds:						
1962–67	2½	....	107,560	107,560	−107,560	....
1963–68	2½	169,085	169,085	169,085	....	....
1964–69 June	2½	307,840	306,740	306,740	1,100	....
1964–69 Dec	2½	358,199	335,199	335,199	23,000	....
1965–70	2½	573,540	573,540	573,540	....	....
1966–71	2½	145,007	144,007	144,007	1,000	....
1966 May	3¾	....	....	252,200	....	−252,200
1966 Aug	3	....	....	36,550	....	−36,550
1966 Nov	3⅜	....	....	232,100	....	−232,100
1967–72 June	2½	54,566	54,566	54,566	....	....
1967–72 Sept	2½	46,552	44,052	44,052	2,500	....
1967 Nov	3⅝	....	595,450	594,550	−595,450	900
1967–72 Dec	2½	95,858	95,858	95,858	....	....
1968 May	3⅞	304,315	291,065	278,100	13,250	12,965
1968 Aug	3¾	348,200	315,200	295,000	33,000	20,200
1968 Nov	3⅞	104,900	97,500	75,500	7,400	22,000
1969 Feb	4	1,135,100	1,117,800	1,111,300	17,300	6,500
1969 Oct	4	217,550	193,950	183,150	23,600	10,800
1970 Feb	4	86,150	64,750	49,850	21,400	14,900
1970 Aug	4	142,300	130,200	115,800	12,100	14,400
1971 Aug	4	170,400	160,600	160,100	9,800	500
1971 Nov	3⅞	213,900	203,450	198,450	10,450	5,000
1972 Feb	4	151,650	138,000	133,000	13,650	5,000
1972 Aug	4	114,150	102,900	102,900	11,250	....
1973 Aug	4	168,450	117,650	113,450	50,800	4,200
1973 Nov	4⅛	268,950	178,000	166,000	90,950	12,000
1974 Feb	4⅛	94,300	74,700	66,200	19,600	8,500
1974 May	4¼	213,950	147,750	132,800	66,200	14,950
1974 Nov	3⅞	46,700	37,150	37,150	9,550	....
1975–85	4¼	73,590	68,090	68,090	5,500	....
1978–83	3¼	6,250	3,250	1,250	3,000	2,000
1980 Feb	4	42,650	34,800	34,800	7,850	....
1980 Nov	3½	30,400	23,400	22,400	7,000	1,000
1985 May	3¼	24,800	23,800	20,800	1,000	3,000
1987–92	4¼	217,200	135,100	127,100	82,100	8,000
1988–93	4	23,500	13,500	13,500	10,000	....
1989–94	4⅛	36,200	24,400	21,400	11,800	3,000
1990 Feb	3½	72,450	61,450	61,450	11,000	....
1995 Feb	3	2,100	....	....	2,100	....
1998 Nov	3½	25,750	14,250	14,250	11,500	....
Total		6,086,502	6,198,762	6,549,797	−112,260	−351,035
Treasury notes:						
Feb. 15, 1966—B	3⅝	....	....	340,000	....	−340,000
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	....	....	5,791,865	....	−5,791,865
Nov. 15, 1966—E	4	....	....	545,100	....	−545,100
Feb. 15, 1967—B	3⅝	....	342,900	251,000	−342,900	91,900
Feb. 15, 1967—C	4	....	2,951,032	2,939,132	−2,951,032	11,900
May 15, 1967—D	4¼	....	6,374,082	6,358,732	−6,374,082	15,350
Aug. 15, 1967—A	3¾	....	338,850	321,650	−338,850	17,200
Aug. 15, 1967—E	4⅞	....	1,245,000	....	−1,245,000	1,245,000
Nov. 15, 1967—F	4⅞	....	6,694,993	....	−6,694,993	6,694,993
Feb. 15, 1968—A	5⅝	839,300	837,100	....	2,200	837,100
May 15, 1968—B	4¾	3,313,432	....	....	3,313,432	....
Aug. 15, 1968—C	4¼	4,378,582	....	....	4,378,582	....
Nov. 15, 1968—D	5¼	5,975,165	....	....	5,975,165	....
Feb. 15, 1969—A	5⅝	7,353,993	....	....	7,353,993	....
Nov. 15, 1970—A	5	1,065,500	1,017,000	....	48,500	1,017,000
Feb. 15, 1971—C	5⅜	33,100	....	....	33,100	....
May 15, 1971—A	5¼	1,533,300	1,500,000	....	33,300	1,500,000
Nov. 15, 1971—B	5⅜	45,800	1,000	....	44,800	1,000
Feb. 15, 1972—A	4¾	55,500	....	....	55,500	....
Apr. 1, 1972—EA	1½	1,800	....	....	1,800	....
May 15, 1972—B	4¾	2,282,860	....	....	2,282,860	....
Nov. 15, 1974—A	5¾	40,050	....	....	40,050	....
Total		26,918,382	21,301,957	24,827,722	5,616,425	−3,525,765

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

3. FEDERAL RESERVE HOLDINGS OF U.S. GOVERNMENT SECURITIES, DECEMBER 31, 1965-67—Continued

(In thousands of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (−) during—	
		1967	1966	1965	1967	1966
Certificates:						
Aug. 15, 1967	5¼	....	4,351,015	....	−4,351,015	4,351,015
Total	....	....	4,351,015	....	−4,351,015	4,351,015
Treasury bills:						
Tax anticipation	....	278,000	541,200	484,600	−263,200	56,600
Other due—						
Within 3 mos.	....	9,245,160	6,432,194	4,723,263	2,812,966	1,708,931
3–6 mos.	....	4,497,150	3,440,750	2,624,726	1,056,400	816,024
After 6 mos.	....	1,955,023	1,389,514	1,268,080	565,509	121,434
Total	....	15,975,333	11,803,658	9,100,669	4,171,675	2,702,989
Repurchase agreements	....	132,200	626,800	289,900	−494,600	336,900
Total holdings	....	**49,112,417**	**44,282,192**	**40,768,088**	**4,830,225**	**3,514,104**
Maturing—						
Within 90 days	....	9,878,080	10,549,826	7,338,213	−671,746	3,211,613
91 days to 1 year	....	21,662,432	24,881,514	17,530,414	−3,219,082	7,351,100
Over 1 year to 5 years	....	16,184,615	7,458,186	14,065,888	8,726,429	−6,607,702
Over 5 yrs. to 10 yrs.	....	832,400	990,626	1,448,533	−158,226	−457,907
Over 10 years	....	554,890	402,040	385,040	152,850	17,000

4. FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1953-67

(In millions of dollars)

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1953		1953		1954		1961	
Mar. 18	110	June 15	999	Jan. 21	306	1962	
19	104	16	1,172	22	283	1963	none
20	189	17	823	23	283	1964	
21	189	18	364	24*	283	1965	
22*	189	19	992	25	203		
23	333	20	992	26	3	1966	
24	186	21*	992	Mar. 15	134	Dec. 9	169
25	63	22	908	16	190	10	169
26	49	23	608			11*	169
June 5	196	24	296	1955			
6	196			1956	none	1967	
7*	196	1954		1957		Mar. 10	149
8	374	Jan. 14	22			11	149
9	491	15	169	1958		12	149*
10	451	16	169	Mar. 17	143	June 15	87
11	358	17*	169	18	207	Sept. 8	153
12	506	18	323			9	153
13	506	19	424	1959	none	10	153*
14*	506	20	323	1960			

* 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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

5. OPEN MARKET TRANSACTIONS OF THE FEDERAL RESERVE SYSTEM DURING 1967

(In millions of dollars)

Month	Outright transactions in U.S. Govt. securities by maturity								
	Total			Treasury bills			Other within 1 year		
	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Exch., maturity shifts, or redemp.
January	904	656	439	904	656	439	....	....	....
February	812	....	305	812	....	305	....	....	−2,457
March	1,496	....	704	1,395	....	704	....	....	....
April	975	206	415	859	206	415	10	....	....
May	1,146	107	412	936	107	412	....	....	−2,879
June	1,681	567	223	1,332	567	223	17	....	....
July	1,221	956	94	1,221	956	94	....	....	....
August	591	440	400	591	440	400	....	....	−1,225
September	1,110	623	127	919	623	127	24	....	....
October	700	27	200	700	27	200	....	....	....
November	1,386	....	168	1,200	....	168	....	....	−1,227
December	622	....	250	622	....	250	....	....	169
Total	12,643	3,581	3,738	11,490	3,581	3,738	50	....	−7,618

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	....	....	2,595	....	....	−138	....	....	....
March	80	....	....	14	....	....	8	....	....
April	50	....	....	32	....	....	25	....	....
May	107	....	2,879	62	....	....	42	....	....
June	185	....	55	109	....	−55	39	....	....
July	....	....	....	....	....	....	....	....	....
August	....	....	1,338	....	....	−113	....	....	....
September	121	....	44	27	....	−44	19	....	....
October	....	....	....	....	....	....	....	....	....
November	121	....	1,227	45	....	....	20	....	....
December	....	....	−73	....	....	−96	....	....	....
Total	663	....	8,064	287	....	−446	153	....	....

Month	Repurchase agreements (U.S. Govt. securities)		Net change in U.S. Govt. securities	Federal agency obligations (net repurchase agreements)	Bankers' acceptances		Net change[1]
	Gross purchases	Gross sales			Net outright	Net repurchases	
January	1,693	2,320	−818	−34	4	−124	−972
February	3,253	3,253	507	....	3	37	546
March	3,399	3,253	938	13	−7	4	948
April	1,727	1,529	552	−3	−1	57	606
May	1,438	1,459	606	−10	2	−98	499
June	753	992	652	1	21	45	719
July	286	370	87	−1	−13	−45	28
August	450	450	−249	....	−14	....	−263
September	453	453	361	....	−12	104	453
October	1,427	1,427	474	....	1	−104	370
November	1,369	1,046	1,541	23	5	....	1,570
December	545	736	182	15	16	89	302
Total	16,793	17,287	4,830	4	6	−35	4,805

[1] Net change in U.S. Govt. securities, Federal agency obligations, and bankers' acceptances.

NOTE.—Sales, redemptions, and negative figures reduce System holdings; all other figures increase such holdings.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

6. BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES DECEMBER 31, 1967

(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	2,943,179	10,500,480	2,672,524
New York	5,215,656	15,602,981	4,940,523	25,759,160	6,641,501
Annex	592,679	1,451,569	673,458	2,717,706	518,012
Buffalo	406,069	2,555,197	1,565,400	4,526,666	2,521,236
Philadelphia	1,884,357	4,839,506	2,154,452	8,878,315	2,433,366
Cleveland	1,295,490	6,645,142	3,571,958	11,512,590	1,025,764
Cincinnati	400,891	1,171,259	1,587,495	3,159,645	502,460
Pittsburgh	1,667,994	3,021,358	2,525,243	7,214,595	3,271,192
Richmond	469,944	4,164,663	2,497,936	7,132,543	1,663,173
Annex 1	146,875	256,000	....	402,875	328,208
Annex 2	83,410	2,438,326	....	2,521,736	2,521,736
Baltimore	250,487	2,009,381	1,068,445	3,328,313	1,396,245
Charlotte	347,071	1,069,026	625,121	2,041,218	1,162,259
Atlanta	1,082,493	5,962,082	3,558,580	10,603,155	8,346,934
Birmingham	410,775	2,000,619	1,019,618	3,431,012	2,096,279
Jacksonville	164,004	1,706,794	772,071	2,642,869	1,410,526
Annex	107,925	76,236	15,842	200,003	188,863
Nashville	592,342	1,474,678	1,098,924	3,165,944	1,977,796
New Orleans	1,268,878	4,528,386	....	5,797,264	5,797,264
Chicago	6,275,490	17,656,166	9,871,580	33,803,236	15,772,540
Detroit	1,147,734	2,868,647	1,448,556	5,464,937	2,629,155
St. Louis	1,675,780	3,171,719	2,285,317	7,132,816	1,568,195
Little Rock	800,104	1,963,152	962,372	3,725,628	3,679,369
Louisville	700,075	2,859,819	1,041,202	4,601,096	3,092,793
Memphis	128,542	294,763	218,883	642,188	173,992
Minneapolis	600,521	4,744,540	2,688,921	8,033,982	2,834,069
Helena	15,709	126,401	62,977	205,087	55,831
Kansas City	1,251,213	8,483,518	1,343,277	11,078,008	6,583,333
Denver	2,828,465	3,682,612	91,693	6,602,770	6,093,872
Oklahoma City	592,435	1,511,600	834,845	2,938,880	2,250,739
Omaha	445,663	1,491,117	731,925	2,668,705	1,610,331
Dallas	713,302	4,826,831	3,570,804	9,110,937	4,912,358
El Paso	262,477	787,728	393,301	1,443,506	892,660
Houston	695,615	1,408,574	714,187	2,818,376	1,861,868
San Antonio	278,180	1,400,390	570,847	2,249,417	1,370,485
San Francisco	473,235	3,783,530	1,458,028	5,714,793	626,506
Annex	247,201	124,000	30,000	401,201	348,881
Los Angeles	777,614	4,103,844	1,608,576	6,490,034	2,856,306
Portland	207,380	1,678,512	649,432	2,535,324	1,326,388
Salt Lake City	480,222	1,878,238	707,575	3,066,035	2,091,135
Seattle	274,772	1,890,966	1,049,264	3,215,002	1,710,831
Total	38,887,201	137,639,039	62,951,807	239,478,047	110,816,975

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
Buffalo	267,007	....	....	267,007	267,007
Cleveland	395,875	381,000	....	776,875	745,125
Cincinnati	341,293	412,500	100,000	853,793	737,484
Richmond	290,836	....	....	290,836	290,836
Memphis	605,122	....	....	605,122	605,122
Omaha	186,262	....	....	186,262	186,262
San Antonio	170,416	....	....	170,416	170,416
Total	2,256,811	793,500	100,000	3,150,311	3,002,252

[1] Includes expenditures for construction at some offices pending allocation to appropriate accounts.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

7. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1967

(In dollars)

Item	Total	Boston	New York	Phila-delphia	Cleve-land	Rich-mond	Atlanta	Chicago	St. Louis	Minne-apolis	Kansas City	Dallas	San Francisc
CURRENT EARNINGS													
Discounts and advances	7,660,606	349,208	2,214,250	102,823	178,939	264,049	298,382	2,260,392	261,826	130,987	474,792	175,641	949,3
Acceptances	4,823,360	....	4,823,360	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities	2,152,111,878	112,844,042	542,513,633	110,223,546	166,696,766	155,868,200	118,743,935	356,248,931	75,854,161	43,123,987	83,877,193	88,410,349	297,707,1
Foreign currencies	25,251,438	1,212,088	6,567,329	1,315,034	2,272,627	1,312,094	1,563,628	3,659,496	883,800	606,034	1,111,062	1,464,582	3,283,6
All other	556,468	18,544	101,393	21,996	36,963	23,314	58,451	89,113	24,567	25,174	59,448	35,223	62,2
Total	2,190,403,750	114,423,882	556,219,965	111,663,399	169,185,295	157,467,657	120,664,396	362,257,932	77,024,354	43,886,182	85,522,495	90,085,795	302,002,3
CURRENT EXPENSES													
Salaries:													
Officers	9,123,382	507,341	1,710,594	608,671	634,317	800,555	689,768	934,641	714,293	519,763	626,305	615,814	761,3
Employees	110,081,297	6,979,573	26,707,291	5,128,504	8,099,897	7,531,930	7,543,091	16,059,950	6,401,374	3,708,820	6,178,850	4,936,779	10,805,2
Retirement and other benefits	19,354,646	1,279,549	4,396,264	959,297	1,455,958	1,342,633	1,334,852	2,634,342	1,122,815	674,217	1,135,833	924,085	2,094,8
Fees—Directors and others	973,729	111,504	179,416	53,430	104,649	53,761	82,058	59,424	60,154	49,929	46,951	45,150	127,3
Traveling expenses	2,703,459	167,073	410,355	100,161	191,044	201,866	248,242	325,980	174,870	179,143	159,113	159,148	386,4
Postage and expressage	27,146,216	1,746,293	3,282,549	1,134,495	2,308,455	3,039,882	2,538,909	3,532,972	1,635,567	1,055,879	2,091,325	1,553,626	3,226,2
Telephone and telegraph	2,231,983	103,525	490,850	90,915	152,322	169,897	258,437	253,404	119,439	87,224	142,870	147,750	215,3
Printing and supplies	9,773,257	665,449	1,780,118	506,831	753,568	765,871	900,936	1,470,146	684,729	266,926	716,243	441,803	820,6
Insurance	343,274	22,645	37,595	14,889	38,938	31,377	21,558	37,574	30,861	8,779	18,246	22,448	58,3
Taxes on real estate	5,805,437	584,797	1,035,033	179,904	506,159	216,416	442,774	1,043,614	238,617	359,517	327,633	312,864	558,1
Depreciation (building)	4,956,564	135,316	444,284	76,596	278,811	167,307	787,142	1,379,375	274,550	75,145	274,541	632,988	430,5
Light, heat, power, and water	2,163,112	138,671	310,774	92,297	247,861	169,976	199,548	313,748	150,143	96,822	161,730	129,337	152,2
Repairs and alterations	1,447,791	72,247	308,873	57,617	71,537	48,072	169,961	179,523	87,914	79,356	168,817	68,775	135,0
Rent	138,006	23,814	7,032	7,475	26,571	10,257	144	51,996	1,581	1,393	4,492	1,665	1,5
Furniture and equipment:													
Purchases	3,981,034	144,485	1,273,855	177,403	192,893	255,817	394,550	335,390	407,235	108,402	302,546	128,731	259,7
Rentals	8,650,932	537,694	891,778	281,060	632,179	885,219	489,677	1,714,087	603,270	354,306	703,536	678,899	879,2
All other	3,605,731	153,057	822,200	141,206	457,327	141,133	199,625	661,532	185,088	154,298	207,706	309,554	173,0
Inter-Bank expenses	....	73,608	−1,031,147	72,138	132,694	−1,650	97,700	215,613	54,971	38,846	67,511	88,478	191,2
Subtotal	212,479,845	13,446,641	43,057,714	9,682,889	16,285,180	15,830,319	16,398,972	31,203,311	12,947,471	7,818,765	13,334,248	11,197,894	21,276,4
F.R. currency	18,790,084	1,259,347	2,819,743	1,016,563	1,383,601	1,733,620	1,799,664	3,267,778	788,628	522,653	927,245	1,061,765	2,209,4
Assessment for expenses of Board of Governors	10,769,596	516,000	2,801,300	567,000	965,400	559,500	665,800	1,562,600	372,700	256,100	479,500	625,596	1,398,1
Total	242,039,525	15,221,988	48,678,757	11,266,452	18,634,181	18,123,439	18,864,436	36,033,689	14,108,799	8,597,518	14,740,993	12,885,255	24,884,0

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Less reimbursement for certain fiscal agency and other expenses	21,918,681	1,208,718	4,286,972	940,730	2,299,407	1,168,716	1,503,785	4,003,943	1,240,487	661,356	1,488,603	909,405	2,206,5
Net expenses	220,120,844	14,013,270	44,391,785	10,325,722	16,334,774	16,954,723	17,360,651	32,029,746	12,868,312	7,936,162	13,252,390	11,975,850	22,677,4
PROFIT AND LOSS													
Current net earnings	1,970,282,907	100,410,612	511,828,181	101,337,676	152,850,520	140,512,935	103,303,746	330,228,186	64,156,042	35,950,020	72,270,105	78,109,945	279,324,9
Additions to current net earnings:													
Profits on sales of U.S. Govt. securities	761,553	39,336	189,510	39,600	59,194	55,331	42,770	126,148	27,269	15,390	29,395	30,855	106,7
Profits on foreign exchange transactions	1,431,110	68,693	372,088	74,418	128,800	74,418	88,729	207,511	50,089	34,347	62,969	83,004	186,0
All other	168,012	12,169	9,278	3,081	13,288	3,444	2,080	35,987	9,622	1,307	19,280	122	58,3
Total additions	2,360,675	120,198	570,876	117,099	201,282	133,193	133,579	369,646	86,980	51,044	111,644	113,981	351,1
Deductions from current net earnings	266,798	13,064	3,267	1,638	685	77,560	116,730	2,896	30,605	624	4,615	5,424	9,6
Net addition to or deduction from (−) current net earnings	2,093,873	107,134	567,609	115,461	200,597	55,632	16,849	366,749	56,375	50,419	107,029	108,557	341,4
Net earnings before payments to U.S. Treasury	1,972,376,782	100,517,745	512,395,791	101,453,137	153,051,118	140,568,567	103,320,595	330,594,936	64,212,417	36,000,439	72,377,133	78,218,502	279,666,4
Dividends paid	35,027,312	1,680,897	9,092,988	1,853,711	3,130,507	1,823,438	2,195,732	5,104,198	1,208,564	833,048	1,563,480	2,027,224	4,513,5
Payments to U.S. Treasury (interest on F.R. notes)	1,907,498,270	97,023,799	497,336,952	97,702,876	147,164,761	137,245,979	98,568,763	320,748,038	62,402,253	34,637,041	69,703,204	74,941,628	270,022,9
Transferred to surplus	29,851,200	1,813,050	5,965,850	1,896,550	2,755,850	1,499,150	2,556,100	4,742,700	601,600	530,350	1,110,450	1,249,650	5,129,9
Surplus, January 1	569,890,200	27,303,600	148,347,650	29,929,100	51,128,750	29,575,700	35,071,800	82,617,100	19,748,700	13,554,950	25,344,250	33,214,000	74,054,6
Surplus, December 31	599,741,400	29,116,650	154,313,500	31,825,650	53,884,600	31,074,850	37,627,900	87,359,800	20,350,300	14,085,300	26,454,700	34,463,650	79,184,5

NOTE.—Details may not add to totals because of rounding.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

8. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, 1914–67

(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	9,583,911	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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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
1965	1,559,484,027	204,290,186	1,356,215,455	32,351,602			1,296,810,053		27,053,800
1966	1,908,499,896	207,401,126	1,702,095,000	33,696,336			1,649,455,164		18,943,500
1967	2,190,403,752	220,120,846	1,972,376,782	35,027,312			1,907,498,270		29,851,200
Total 1914–67	19,423,690,381	3,789,717,502	15,697,852,557	690,904,721	149,138,300	2,188,893	14,127,210,699	−3,657	728,413,599
Aggregate for each F.R. Bank, 1914–67:									
Boston	1,082,345,242	258,845,939	828,944,880	39,750,701	7,111,395	280,843	742,455,053	135,411	39,211,475
New York	4,923,962,585	814,669,249	4,129,960,280	211,993,941	68,006,262	369,116	3,658,454,301	−433,413	191,570,071
Philadelphia	1,130,973,540	229,215,156	909,644,606	49,500,492	5,558,901	722,406	807,416,275	290,661	46,155,872
Cleveland	1,652,481,034	333,466,668	1,323,047,963	66,176,000	4,842,447	82,930	1,184,838,099	−9,906	67,118,393
Richmond	1,253,643,258	262,767,151	995,153,757	31,212,869	6,200,189	172,493	920,685,062	−71,517	36,954,658
Atlanta	1,041,570,918	238,971,025	804,674,866	31,674,272	8,950,561	79,264	721,070,837	5,491	42,894,440
Chicago	3,182,116,996	538,481,388	2,648,753,982	89,666,336	25,313,526	151,045	2,430,922,840	11,682	102,688,554
St. Louis	795,066,633	207,844,866	588,160,228	23,754,006	2,755,629	7,464	536,199,715	−26,515	25,469,928
Minneapolis	457,448,773	131,838,295	328,168,368	16,156,783	5,202,900	55,615	288,725,687	64,874	17,962,513
Kansas City	830,803,818	206,429,999	626,467,804	26,557,233	6,939,100	64,213	562,321,283	−8,674	30,594,650
Dallas	783,795,505	181,893,608	604,337,182	32,057,165	560,049	102,083	532,821,418	55,337	38,741,128
San Francisco	2,289,482,079	385,294,158	1,910,538,641	72,404,923	7,697,341	101,421	1,741,300,129	−17,089	89,051,917
Total	19,423,690,381	3,789,717,502	15,697,852,557	690,904,721	149,138,300	2,188,893	14,127,210,699	−3,657	[2] 728,413,599

[1] Current earnings less current expenses, plus or minus adjustment for profit and loss items.

[2] The $728,413,599 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 $599,741,400 on Dec. 31, 1967.

NOTE.—Details may not add to totals because of rounding.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

9. NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS, DECEMBER 31, 1967

Federal Reserve Bank (including branches)	President	Other officers		Employees [1]		Total	
	Annual salary	Number	Annual salary	Number	Annual salaries	Number	Annual salaries
Boston	$ 40,000	25	$ 453,000	1,191	$ 7,027,919	1,217	$ 7,520,919
New York	75,000	76	1,708,000	3,935	26,971,807	4,012	28,754,807
Philadelphia	45,000	31	578,500	855	5,056,102	887	5,679,602
Cleveland	45,000	31	566,000	1,296	7,826,559	1,328	8,437,559
Richmond	45,000	41	745,500	1,386	7,624,715	1,428	8,415,215
Atlanta	35,000	37	614,500	1,402	7,365,344	1,440	8,014,844
Chicago	60,000	49	891,500	2,801	15,787,867	2,851	16,739,367
St. Louis	35,000	39	697,000	1,131	6,229,916	1,171	6,961,916
Minneapolis	42,500	26	441,000	627	3,656,707	654	4,140,207
Kansas City	42,500	38	619,850	1,135	5,901,932	1,174	6,564,282
Dallas	45,000	37	579,600	950	4,995,257	988	5,619,857
San Francisco	46,000	43	693,800	1,802	10,261,742	18,996	11,001,542
Total	$556,000	473	$8,588,250	18,511	$108,705,867	18,996	$117,850,117

[1] Includes 1,012 part-time employees.

10. VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL RESERVE BANKS, 1964–67

(Number in thousands; amounts in thousands of dollars)

Operation	1967	1966	1965	1964
NUMBER OF PIECES HANDLED [1]				
Discounts and advances	6	16	11	10
Currency received and counted	5,338,781	5,232,806	5,144,345	5,026,311
Coin received and counted	10,958,606	9,304,120	5,855,884	4,561,704
Checks handled:				
U.S. Govt. checks	540,065	504,049	491,848	467,288
Postal money orders	205,343	217,473	223,337	234,094
All other [2]	5,419,583	5,021,454	r4,606,907	r4,318,703
Collection items handled:				
U.S. Govt. coupons paid	14,355	14,305	14,087	15,042
All other	25,203	26,712	26,820	27,271
Issues, redemptions, and exchanges of U.S. Govt. securities	246,289	235,555	222,477	212,267
Transfers of funds	5,444	4,832	4,389	4,010
Food stamps redeemed	273,983	166,615	81,885	50,481
AMOUNTS HANDLED				
Discounts and advances	30,968,332	90,667,647	75,684,394	46,551,402
Currency received and counted	38,410,969	37,001,390	36,075,114	34,548,507
Coin received and counted	1,184,616	957,282	496,582	559,588
Checks handled:				
U.S. Govt. checks	175,068,179	160,014,331	134,806,438	134,585,725
Postal money orders	4,860,925	4,626,573	4,507,801	4,578,853
All other [2]	2,043,772,112	1,893,974,522	r1,633,863,858	r1,462,383,319
Collection items handled:				
U.S. Govt. coupons paid	6,693,383	5,916,485	5,380,748	5,371,153
All other	15,299,519	12,624,804	10,723,571	7,851,274
Issues, redemptions, and exchanges of U.S. Govt. securities	820,283,379	793,261,958	763,248,392	738,062,697
Transfers of funds	6,565,594,328	5,555,075,862	4,496,230,723	3,953,186,948
Food stamps redeemed	368,569	226,508	116,498	73,182

r Revised.
[1] Packaged items handled as a single item are counted as one piece.
[2] Exclusive of checks drawn on the F.R. Banks.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

11. MAXIMUM INTEREST RATES PAYABLE ON TIME AND SAVINGS DEPOSITS

(Per cent per annum)

Nov. 1, 1933—July 19, 1966

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	Dec. 6, 1965
Savings deposits:								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Postal savings deposits:								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Other time deposits:[1]								
12 months or more	3	2½	2½	3	4	4	4½	5½
6 months to 12 months					3½			
90 days to 6 months	3	2½	2	2½	2½			
Less than 90 days (30-89 days)	3	2½	1	1	1	1	4	

Beginning July 20, 1966

Type of deposit	Effective date: July 20, 1966	Sept. 26, 1966
Savings deposits	4	4
Postal savings deposits:		
12 months or more	4	4
Less than 12 months		
Other time deposits:[1]		
Multiple-maturity:		
90 days or more	5	5
Less than 90 days (30-89 days)	4	4
Single-maturity:		
$100,000 or more	5½	5½
Less than $100,000	5½	5

[1] For exceptions with respect to foreign time deposits, see ANNUAL REPORTS for 1962, p. 129, and 1965, p. 233.

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.

12. MARGIN REQUIREMENTS—EFFECTIVE DATE OF CHANGE

(Per cent of market value)

Regulation	July 5, 1945	Jan. 21, 1946	Feb. 1, 1947	Mar. 30, 1949	Jan. 17, 1951	Feb. 20, 1953	Jan. 4, 1955	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	75	100	75	50	75	50	60	70	50	70	90	70	50	70
For short sales	75	100	75	50	75	50	60	70	50	70	90	70	50	70
Regulation U:														
For loans by banks on stocks	75	100	75	50	75	50	60	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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

13. FEDERAL RESERVE BANK DISCOUNT RATES, DECEMBER 31, 1967

(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	4½	5	5½
New York	4½	5	6
Philadelphia	4½	5	5½
Cleveland	4½	5	6
Richmond	4½	5	5½
Atlanta	4½	5	6½
Chicago	4½	5	5½
St. Louis	4½	5	5½
Minneapolis	4½	5	5½
Kansas City	4½	5	5½
Dallas	4½	5	5½
San Francisco	4½	5	5½

[1] Discounts of eligible paper and advances secured by such paper or by U.S. Govt. obligations. Rates shown also apply to advances secured by obligations 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 Federal intermediate credit bank obligations 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 obligations. Maximum maturity: 90 days.

14. MEMBER BANK RESERVE REQUIREMENTS

(Per cent of deposits)

Through July 13, 1966

Effective date[1]	Net demand deposits[2]			Time deposits	
	Central reserve city banks[3]	Reserve city banks	Country banks	Central reserve and reserve city banks[3]	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. 24, 16	26	22	16	7½	7½
1949—May 5, 1	24	21	15	7	7
June 30, July 1	...	20	14	6	6
Aug. 1	...	...	13	...	...
Aug. 11, 16	23½	19½	12	5	5
Aug. 18	23	19	...	...	...
Aug. 25	22½	18½	...	...	...
Sept. 1	22	18	...	...	...
1951—Jan. 11, 16	23	19	13	6	6
Jan. 25, Feb. 1	24	20	14	...	...
1953—July 9, 1	22	19	13	...	...
1954—June 24, 16	21	...	...	5	5
July 29, Aug. 1	20	18	12	...	...
1958—Feb. 27, Mar. 1	19½	17½	11½	...	...
Mar. 20, Apr. 1	19	17	11	...	...
Apr. 17	18½	...	...	...	...
Apr. 24	18	16½	...	...	...
1960—Sept. 1	17½	...	...	...	...
Nov. 24	...	...	12	...	...
Dec. 1	16½	...	...	...	...
1962—July 28	(3)	...	...	(3)	...
Oct. 25, Nov. 1	...	...	...	4	4

For notes see end of table.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

14. MEMBER BANK RESERVE REQUIREMENTS—Continued

(Per cent of deposits)

Beginning July 14, 1966

Effective date [1]	Net demand deposits [2]		Time deposits (all classes of banks)		
	Reserve city banks	Country banks	Savings deposits	Other time deposits [4]	
				Up to $5 million	In excess of $5 million
1966—July 14, 21	[5] 16½	[5] 12	[5] 4	[5] 4	5
Sept. 8, 15					6
1967—Mar. 2			3½	3½	
Mar. 16			3	3	
In effect Dec. 31, 1967	16½	12	3	3	6
Present legal requirements:					
Minimum	10	7	3	3	3
Maximum	22	14	10	10	10

[1] When two dates are shown, the first applies to the change at central reserve or reserve city banks and the second to the change at country banks.

[2] 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).

[3] Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

[4] Effective Jan. 5, 1967, time deposits such as Christmas and vacation club accounts became subject to same requirements as savings deposits.

[5] See preceding columns for earliest effective date of this rate.

NOTE.—All required reserves were held on deposit with F.R. 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; all member banks were allowed to count all vault cash as reserves effective Nov. 24, 1960.

15. FEES AND RATES UNDER REGULATION V ON LOANS GUARANTEED PURSUANT TO DEFENSE PRODUCTION ACT OF 1950, DECEMBER 31, 1967

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	7½ per cent per annum
Commitment rate	½ per cent per annum

NOTE.—In any case in which the rate of interest on the loan is in excess of 6 per cent, the guarantee fee shall be computed as though the interest rate were 6 per cent.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

16. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918–67 AND END OF MONTH 1967

(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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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	37,044	36,506	538	186	2,606	94	39,930	15,388	5,405	39,619	612	820	229	321	1,036	18,086	4,151	21,663	574
1965	40,768	40,478	290	137	2,248	187	43,340	13,733	5,575	42,056	760	668	150	355	211	18,447	4,163	22,848	−238
1966	44,316	43,655	661	173	2,495	193	47,177	13,159	6,317	44,663	1,176	416	174	588	−147	19,779	4,310	24,321	−232
1967—																			
Jan.	43,464	43,464	....	71	1,994	73	45,602	13,158	6,360	43,363	1,227	813	148	437	357	18,773	4,447	23,660	−440
Feb.	43,971	43,971	....	165	1,550	113	45,799	13,107	6,416	43,585	1,238	386	145	432	619	18,916	4,479	23,047	348
Mar.	44,921	44,762	159	42	1,434	110	46,507	13,109	6,489	43,583	1,315	828	131	454	646	19,148	4,432	23,023	557
Apr.	45,470	45,116	354	54	1,574	166	47,264	13,109	6,565	43,730	1,366	1,360	123	457	492	19,410	3,650	23,118	−58
May	46,066	45,743	323	415	1,248	70	47,799	13,109	6,605	44,443	1,356	574	193	443	870	19,634	4,395	22,632	1,395
June	46,719	46,634	85	68	1,345	136	48,268	13,110	6,612	44,713	1,472	1,311	147	511	330	19,505	4,565	23,506	564
July	46,804	46,804	....	41	677	78	47,600	13,108	6,633	44,866	1,449	1,340	117	476	214	18,877	3,990	23,535	−668
Aug.	46,555	46,555	....	36	1,707	65	48,363	13,008	6,698	45,071	1,476	1,051	144	449	88	19,789	4,812	23,445	1,156
Sept.	46,916	46,916	....	74	1,714	156	48,860	13,007	6,741	45,031	1,463	778	117	491	38	20,686	3,853	24,231	308
Oct.	47,390	47,390	....	120	1,309	54	48,873	12,905	6,765	45,421	1,451	697	135	441	−208	20,604	4,632	24,317	919
Nov.	48,954	48,608	346	76	1,780	59	50,869	12,907	6,775	46,463	1,408	1,581	168	440	−161	20,648	5,148	24,416	1,380
Dec.	49,150	48,980	170	141	2,483	164	51,938	11,982	6,784	47,226	1,344	1,123	135	653	−773	21,092	4,631	25,905	−182

[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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

17. PRINCIPAL ASSETS AND LIABILITIES, AND NUMBER OF COMMERCIAL AND MUTUAL SAVINGS BANKS, BY CLASS OF BANK, DECEMBER 30, 1967, AND DECEMBER 31, 1966

(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 30, 1967										
Loans and investments, total	425,417	361,186	294,098	208,971	85,127	67,087	64,449	2,638	64,232	55,936	8,295
Loans	288,826	237,237	197,827	139,315	58,513	39,409	37,675	1,735	51,590	45,489	6,100
Investments	136,591	123,950	96,271	69,656	26,615	27,678	26,775	903	12,642	10,447	2,195
U.S. Govt. securities	66,752	62,473	46,956	34,308	12,649	15,516	15,146	370	4,280	3,111	1,169
Other securities	69,839	61,477	49,315	35,348	13,966	12,162	11,629	533	8,362	7,336	1,026
Cash assets	78,924	77,928	68,946	46,634	22,312	8,983	8,403	579	996	881	115
Deposits, total	456,784	396,291	327,011	231,374	95,637	69,279	67,107	2,172	60,494	52,910	7,584
Interbank	21,889	21,888	20,880	13,963	6,916	1,009	831	177	1	1	....
Other demand	190,817	190,362	157,508	109,632	47,876	32,854	31,630	1,224	456	435	21
Other time	244,077	184,041	148,624	107,779	40,845	35,417	34,645	772	60,038	52,475	7,563
Total capital accounts	39,371	34,384	28,098	19,730	8,368	6,286	5,830	457	4,987	4,237	749
Number of banks	14,223	13,722	6,071	4,758	1,313	7,651	7,440	211	501	331	170
	December 31, 1966										
Loans and investments, total	382,907	323,885	264,627	187,251	77,377	59,257	56,857	2,400	59,023	51,267	7,756
Loans	267,246	218,949	183,743	129,182	54,560	35,206	33,636	1,570	48,297	42,591	5,705
Investments	115,662	104,936	80,884	58,068	22,816	24,051	23,221	830	10,726	8,676	2,050
U.S. Govt. securities	60,916	56,163	41,924	30,355	11,569	14,239	13,873	367	4,753	3,324	1,429
Other securities	54,745	48,772	38,960	27,713	11,247	9,812	9,349	463	5,973	5,352	621
Cash assets	70,085	69,119	60,738	41,690	19,049	8,381	7,777	604	966	847	119
Deposits, total	408,860	353,510	292,004	206,456	85,547	61,506	59,434	2,073	55,350	48,254	7,096
Interbank	19,635	19,634	18,692	12,595	6,097	942	755	187	1	1	....
Other demand	174,050	173,643	143,398	100,144	43,254	30,245	29,049	1,196	407	387	20
Other time	215,175	160,234	129,913	93,718	36,196	30,320	29,630	690	54,942	47,865	7,076
Total capital accounts	36,926	32,054	26,278	18,459	7,819	5,776	5,342	434	4,871	4,140	732
Number of banks	14,271	13,767	6,150	4,799	1,351	7,617	7,384	233	504	330	174

NOTE.—All banks in the United States.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

18. MEMBER BANK INCOME, EXPENSES, AND DIVIDENDS, BY CLASS OF BANK, 1967 AND 1966

Item	Total		Reserve city banks						Country banks	
			New York City		City of Chicago		Other			
	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966
	In millions of dollars									
Revenue	**17,859**	**16,072**	**3,080**	**2,775**	**763**	**689**	**6,673**	**6,036**	**7,344**	**6,571**
On U.S. Govt. securities	1,934	1,702	245	175	69	58	611	519	1,009	950
On other securities	1,561	1,265	232	210	60	52	578	446	691	556
On loans	12,128	11,086	2,159	1,986	527	479	4,598	4,285	4,843	4,337
All other	2,236	2,018	444	405	106	100	885	786	800	728
Expenses	**13,507**	**11,941**	**2,189**	**1,985**	**558**	**479**	**5,092**	**4,500**	**5,667**	**4,977**
Salaries and wages	3,648	3,290	555	481	126	109	1,366	1,238	1,602	1,462
Interest on deposits	6,091	5,213	1,037	949	274	231	2,331	1,992	2,449	2,042
All other	3,767	3,438	597	555	158	139	1,396	1,270	1,616	1,473
Net current earnings before income taxes	**4,353**	**4,130**	**891**	**790**	**205**	**209**	**1,580**	**1,537**	**1,676**	**1,594**
Recoveries and profits [1]	398	263	36	25	21	11	163	96	179	130
Losses and charge-offs [2]	807	1,127	109	229	25	60	315	443	358	395
Net increase (or decrease, +) in valuation reserves	327	182	98	59	11	......	96	25	122	99
Net income before related taxes	**3,616**	**3,084**	**721**	**528**	**189**	**161**	**1,332**	**1,165**	**1,375**	**1,231**
Taxes on net income	**1,007**	**876**	**237**	**145**	**58**	**51**	**362**	**352**	**351**	**328**
Net income	**2,609**	**2,209**	**484**	**383**	**131**	**110**	**970**	**813**	**1,024**	**902**
Cash dividends declared [3]	**1,248**	**1,145**	**284**	**259**	**52**	**49**	**493**	**453**	**420**	**383**
	In per cent									
Ratios:										
Net current earnings before income taxes to—										
Average total capital accounts	16.0	16.1	16.1	15.2	16.3	18.0	16.2	16.6	15.7	15.9
Average total assets	1.24	1.28	1.31	1.27	1.33	1.44	1.22	1.28	1.21	1.26
Net income to—										
Average total capital accounts	9.6	8.6	8.7	7.4	10.4	9.5	9.9	8.8	9.6	9.0
Average total assets	.74	.68	.71	.62	.85	.75	.75	.68	.74	.71
Average return on—										
U.S. Govt. securities	4.48	4.02	4.59	3.59	4.41	3.60	4.56	3.94	4.41	4.20
Loans	6.39	6.24	5.81	5.68	5.88	5.62	6.45	6.33	6.69	6.53

[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 1967 are preliminary; final figures will be published in the May 1968 F.R. *Bulletin*.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

19. CHANGES IN NUMBER OF BANKING OFFICES IN THE UNITED STATES DURING 1967[1]

Type of office and change	All banks	Commercial banks (incl. stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember			
			Total	National[1]	State[2]	Insured	Noninsured[2]	Insured	Noninsured
Number of banks, Dec. 31, 1966	**14,274**	**13,770**	**6,150**	**4,799**	**1,351**	**7,385**	**235**	**330**	**174**
Changes during 1967									
New banks[3]	102	102	21	18	3	74	7	......	......
Suspensions	-4	-4	-2	-1	-1	-2	......	......	......
Consolidations and absorptions:									
Banks converted into branches	-117	-114	-65	-53	-12	-49	......	-1	-2
Other	-19	-19	-15	-11	-4	-3	-1	......	......
Voluntary liquidations[4]	-6	-6	......	......	......	-4	-2	......	......
Ceased banking operations	-5	-5	......	......	......	......	-5	......	......
Other	-3	-3	......	......	......	......	-3	......	......
Interclass changes:									
Nonmember to:									
National	......	......	7	7	......	-7	......	......	......
State member	......	......	1	......	1	-1	......	......	......
State member to:									
National	......	......	......	4	-4	......	......	......	......
Nonmember	......	......	-21	......	-21	21	......	......	......
National to:									
State member	......	......	......	......	......	......	......	......	......
Nonmember	......	......	-5	-5	......	5	......	......	......
Noninsured to insured	......	......	......	......	......	20	-20	2	-2
Net change	-52	-49	-79	-41	-38	54	-24	1	-4
Number of banks, Dec. 31, 1967	**14,222**	**13,721**	**6,071**	**4,758**	**1,313**	**7,439**	**211**	**331**	**170**
Number of branches and additional offices, Dec. 31, 1966	**17,405**	**16,648**	**12,900**	**9,407**	**3,493**	**3,686**	**62**	**614**	**143**
Changes during 1967									
De novo	1,090	1,020	708	501	207	311	1	55	15
Banks converted	117	114	88	74	14	26	......	1	2
Discontinued	-81	-80	-69	-49	-20	-11	......	-1	......
Reclassified as facilities	-1	-1	-1	-1	......	......	......	......	......
Reclassified as branches	7	7	7	3	4	......	......	......	......
Other	-18	-18	-1	-1	......	......	-17	......	......
Interclass changes:									
Nonmember to:									
National	......	......	37	37	......	-37	......	......	......
State member	......	......	4	......	4	-4	......	......	......
State member to:									
National	......	......	......	33	-33	......	......	......	......
Nonmember	......	......	-17	......	-17	17	......	......	......
National to:									
State member	......	......	......	-6	6	......	......	......	......
Nonmember	......	......	-7	-7	......	7	......	......	......
Noninsured to insured	......	......	......	......	......	......	......	......	......
Net change	1,114	1,042	749	584	165	309	-16	55	17
Number of branches and additional offices, Dec. 31, 1967	**18,519**	**17,690**	**13,649**	**9,991**	**3,658**	**3,995**	**46**	**669**	**160**

For notes see end of table.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

19. CHANGES IN NUMBER OF BANKING OFFICES IN THE UNITED STATES DURING 1967[1]—Continued

Type of office and change	All banks	Commercial banks (incl. stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember			
			Total	National[1]	State[2]	Insured	Noninsured[2]	Insured	Noninsured
Number of banking facilities, Dec. 31, 1966[5]	**260**	**260**	**229**	**204**	**25**	**31**	....	....	....
Changes during 1967									
Established	8	8	7	7	....	1	....	....	....
Discontinued	−24	−24	−23	−17	−6	−1	....	....	....
Reclassified as branches	−7	−7	−7	−3	−4	....	....	....	....
Reclassified as facilities	1	1	1	1	....	....	....	....	....
Net change	−22	−22	−22	−12	−10	....	....	....	....
Number of banking facilities, Dec. 31, 1967	**238**	**238**	**207**	**192**	**15**	**31**	....	....	....

[1] Includes a national bank (3 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] Provided at military and other Government establishments through arrangements made by the Treasury.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

20. NUMBER OF PAR AND NONPAR BANKING OFFICES, DECEMBER 31, 1967

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	384	1,325	384	1,325	247	1,011	137	314	...	...
New York	499	2,969	499	2,969	384	2,624	115	345	...	...
Philadelphia	501	1,217	501	1,217	370	912	131	305	...	...
Cleveland	826	1,648	826	1,648	492	1,396	334	252	...	...
Richmond	802	2,378	732	2,307	392	1,510	340	797	70	71
Atlanta	1,570	1,108	1,123	1,002	528	763	595	239	447	106
Chicago	2,545	1,893	2,545	1,893	987	1,265	1,558	628	...	...
St. Louis	1,506	706	1,291	636	478	404	813	232	215	70
Minneapolis	1,356	227	780	164	493	103	287	61	576	63
Kansas City	1,924	227	1,924	227	836	145	1,088	82	...	...
Dallas	1,290	258	1,224	247	667	150	557	97	66	11
San Francisco	438	4,124	437	4,124	197	3,598	240	526	1	...
Total	**13,641**	**18,080**	**12,266**	**17,759**	**6,071**	**13,881**	**6,195**	**3,878**	**1,375**	**321**
STATE										
Alabama	266	211	200	199	110	167	90	32	66	12
Alaska	12	54	11	54	5	46	6	8	1	...
Arizona	17	265	17	265	5	207	12	58	...	...
Arkansas	248	130	162	107	83	91	79	16	86	23
California	172	2,685	172	2,685	92	2,432	80	253	...	...
Colorado	217	7	217	7	135	5	82	2	...	...
Connecticut	65	357	65	357	36	288	29	69	...	...
Delaware	19	74	19	74	7	35	12	39	...	...
District of Columbia	14	96	14	96	12	90	2	6	...	...
Florida	445	21	416	21	208	13	208	8	29	...
Georgia	426	227	197	211	73	173	124	38	229	16
Hawaii	7	122	7	122	2	43	5	79	...	...
Idaho	26	141	26	141	16	127	10	14	...	...
Illinois	1,064	17	1,064	17	520	16	544	1	...	...
Indiana	416	542	416	542	202	355	214	187	...	...
Iowa	673	260	673	260	159	62	514	198	...	...
Kansas	601	58	601	58	211	35	390	23	...	...
Kentucky	346	268	346	268	94	166	252	102	...	...
Louisiana	226	305	124	258	57	181	67	77	102	47
Maine	41	191	41	191	27	134	14	57	...	...
Maryland	122	442	122	442	55	269	67	173	...	...
Massachusetts	158	648	158	648	106	516	52	132	...	...
Michigan	341	1,049	341	1,049	209	867	132	182	...	...
Minnesota	722	9	333	8	223	6	110	2	389	1
Mississippi	188	281	85	208	42	123	43	85	103	73
Missouri	661	77	626	77	177	39	449	38	35	...
Montana	132	5	132	5	90	5	42	...	...	...
Nebraska	434	33	434	33	139	19	295	14	...	...
Nevada	9	75	9	75	6	66	3	9	...	...
New Hampshire	75	37	75	37	53	31	22	6	...	...
New Jersey	225	757	225	757	184	667	41	90	...	...
New Mexico	64	109	64	109	41	67	23	42	...	...
New York	325	2,131	325	2,131	264	2,029	61	[1]102	...	...
North Carolina	123	856	82	788	29	413	53	375	41	68
North Dakota	168	64	75	28	46	13	29	15	93	36
Ohio	531	1,069	531	1,069	348	921	183	148	...	...
Oklahoma	421	46	421	46	244	39	177	7	...	...
Oregon	49	285	49	285	14	233	35	52	...	...
Pennsylvania	517	1,421	517	1,421	372	1,115	145	306	...	...
Rhode Island	14	149	14	149	5	85	9	64	...	...

For notes see end of table.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

20. NUMBER OF PAR AND NONPAR BANKING OFFICES DECEMBER 31, 1967—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....	125	328	96	325	32	218	64	107	29	3
South Dakota.	166	87	72	61	59	52	13	9	94	26
Tennessee.....	298	404	242	388	87	274	155	114	56	16
Texas........	1,147	59	1,125	59	610	27	515	32	22	....
Utah.........	55	112	55	112	22	87	33	25	......	....
Vermont......	45	67	45	67	27	38	18	29	......	....
Virginia......	250	656	250	656	161	520	89	136	......	....
Washington...	95	452	95	452	36	408	59	44	......	....
West Virginia.	194	....	194	....	114	....	80	....	......	....
Wisconsin....	598	172	598	172	168	39	430	133	......	....
Wyoming.....	69	1	69	1	53	1	16	....	......	....
OTHER AREA										
Puerto Rico[2]..	13	156	13	156	......	16	13	140	......	....
Virgin Islands[2]....	6	12	6	12	1	12	5	....	......	....

[1] Includes 7 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 3 in the Virgin Islands are branches of N.Y.C. banks. Certain branches of Canadian banks (2 in Puerto Rico and 3 in Virgin Islands) are included above as nonmember banks; and nonmember branches in Puerto Rico include 7 other branches of Canadian banks.

NOTE.—Comprises all commercial banking offices on which checks are drawn, including 238 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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1967

CONTENTS

Applicant Bank	Other Bank or Banks	Page
Detroit Bank and Trust Company, Detroit, Mich.	Commercial State Bank of Roseville, Roseville, Mich.	386
Exchange State Bank, Lanark, Ill.	National Bank of Lanark, Lanark, Ill.	389
First Trust Company of Albany, Albany, N.Y.	North Creek National Bank, North Creek, N.Y.	384
Franklin County Trust Company, Greenfield, Mass.	Orange National Bank, Orange, Mass.	390
Manufacturers and Traders Trust Company, Buffalo, N.Y.	Bank of Perry, Perry, N.Y.	382
Quincy Trust Company, Quincy, Mass.	Dedham Trust Company, Dedham, Mass. (and change title to *Hancock Bank and Trust Company, Quincy, Mass.*)	391
Savings & Trust Company of Indiana, Indiana, Pa.	First National Bank of Saltsburg, Saltsburg, Pa.	376
Seattle Trust and Savings Bank, Seattle, Wash.	Olympia State Bank and Trust Company, Olympia, Wash.	385
Security Bank and Trust Co., Lincoln Park, Mich.	First National Bank of Allen Park, Allen Park, Mich.	375
State Bank of Albany, Albany, N.Y.	Emerson National Bank of Warrensburg, Warrensburg, N.Y.	379
Traverse City State Bank, Traverse City, Mich.	State Bank of Elk Rapids, Elk Rapids, Mich.	388
Union County Trust Company, Elizabeth, N.J.	Hillside State Bank, Hillside, N.J.	381
Wachovia Bank and Trust Company, Winston-Salem, N.C.	First National Bank of Morganton, Morganton, N.C.	377

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1967 [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—**Security Bank and Trust Co.,** Lincoln Park, Mich.	187.8	16	17
to merge with			
First National Bank of Allen Park, Allen Park, Mich.	8.7	1	

Summary Report by Attorney General (1-9-67)

Security Bank and Trust Company (Security Bank), the largest bank headquartered in the Allen Park–Lincoln Park area, having total assets of about $187.8 million, proposes to merge First National Bank of Allen Park (First National Bank), with assets of about $8.6 million.

Allen Park and Lincoln Park are adjoining communities, located about 10 miles southwest of Detroit. In addition to the merging banks, 5 other banks are headquartered in Security Bank's service area. However, the merging banks are the only banks with offices in Allen Park.

Since Security Bank's main office is only 2 miles from First National Bank's only office, it would appear that there is existing competition between these banks which would be eliminated by the proposed merger.

Approval of this merger would leave Security Bank as the only bank with offices in Allen Park and would enhance Security Bank's position as the largest bank headquartered in the general area.

Applicant notes that First National Bank's doubtful loans exceed its capital accounts and reserves. If these loans prove to be largely uncollectible, First National Bank's capital and hence its ability to continue making loans will be seriously impaired.

In view of the probable anticompetitive effects of the proposed merger, noted above, careful consideration should be given to the possibility of alternative solutions to First National Bank's problems.

Basis for Approval by Board of Governors (1-12-67)

Lincoln Park (population 54,000) and Allen Park (population 37,000) are contiguous, residential communities located about 9 miles southwest of Detroit. Security Bank operates 5 offices in Lincoln Park, 3 in Allen Park, and 8 in surrounding communities; First National Bank's sole office is in Allen Park. No other bank operates an office in Allen Park and, under State law, no bank other than the merging banks can establish a branch in Allen Park, either de novo or through merger. The area served by First National Bank lies wholly within the area served by Security Bank.

First National Bank is confronted with a serious capital problem for which there seems to be no feasible solution other than merger. Its loans in the "doubtful" and "loss" categories together almost equal the aggregate of its capital funds and reserves. Thus, its capital structure is grossly inadequate for continuing operations and unless corrective action is taken, it is likely that the condition of the bank will continue to deteriorate.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 merger would eliminate an alternative source of banking services from the Allen Park community, and its effect on competition would be substantially adverse. However, the merger would provide an orderly solution to the serious capital problem of First National Bank and would assure that the Allen Park community will not suffer the adverse impact that would result from continued deterioration in the bank's condition. Thus, the anticompetitive consequences would be clearly outweighed in the public interest by the effect of the transaction in avoiding the consequences likely to result if the serious capital problem of First National Bank is not resolved.

Name of bank, and type of transaction	Resources	In operation	To be operated
No. 2—**The Savings & Trust Company of Indiana,** Indiana, Pa.	22.6	1	2
to acquire the assets and assume deposit liabilities of			
The First National Bank of Saltsburg, Saltsburg, Pa.	3.1	1	

SUMMARY REPORT BY ATTORNEY GENERAL (12-16-66)

The Savings & Trust Company of Indiana, Pennsylvania, with total assets of $25.6 million, proposes to acquire by purchase The First National Bank of Saltsburg, which has total assets of $3.1 million, and to operate the acquired bank as a branch office.

Although the participating banks are located 20 miles apart, they appear to compete with one another to a limited extent. The instant transaction will eliminate such competition between the banks involved. However, the acquisition would not appear to affect significantly the structure of commercial banking in the service area of either bank.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (1-26-67)

The single office of Indiana Bank is in Indiana (population about 13,000), which is the seat of Indiana County and its largest municipality. Saltsburg (population about 1,000), the site of the sole office of Saltsburg Bank, is 22 miles southwest of Indiana. There is no significant competition between the 2 banks. Fourteen persons, including an officer and several directors of Indiana Bank, who own about 15 per cent of Indiana Bank's capital stock also own about 46 per cent of the capital stock of Saltsburg Bank. Even if this close relationship were terminated, the potential for the development of competition between the 2 banks is limited by the distance and mountainous terrain separating their offices.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 proposed acquisition would not materially affect banking competition in the area presently served by either bank. The principal effect of the transaction on banking needs and convenience would be in Saltsburg where Saltsburg Bank, in large part because of its small size, has been unable to meet local credit needs. The conversion of Saltsburg Bank into an office of Indiana Bank would provide for the Saltsburg community more convenient access to broader credit accommodations and to a generally wider range of banking services.

Name of bank	Resources	In operation	To be operated
No. 3—**Wachovia Bank and Trust Company**, Winston-Salem, N.C.	1,172.1	101	105
to merge with			
First National Bank of Morganton, Morganton, N.C.	16.7	4	

SUMMARY REPORT BY ATTORNEY GENERAL (12-14-66)

Wachovia Bank is the largest commercial bank in North Carolina and the 39th largest in the United States. It presently operates a statewide banking system composed of 95 offices in 34 North Carolina communities. Since 1960 Wachovia Bank has acquired 6 banks, which operated a total of 30 offices. As of June 30, 1966, Wachovia Bank had total assets of $1,172.1 million, total deposits of $979.5 million, net loans of $715.6 million, and capital accounts of $110.7 million.

First National Bank operates its home office and 3 branches in Burke County, which is in the western arm of North Carolina, approximately 50 miles from Wachovia Bank's nearest branch office. First National Bank has no merger history. As of June 30, 1966, it had total assets of $16.7 million, total deposits of $14.6 million, net loans of $8.2 million, and capital accounts of $1.9 million.

During the first 7 months of 1966, Wachovia Bank obtained $1.6 million in deposits and over $2 million in loans from Burke County. Wachovia Bank also competes for trust account business in First National Bank's service area. It presently has 32 trust accounts valued at $11.3 million from that area.

The proposed merger would eliminate the existing competition between Wachovia Bank and First National Bank and would eliminate potential competition between the 2 banks. North Carolina statutory law (N.C. Gen. Stat. § 53-62) permits any bank, with the prior approval of the State Banking Commissioner, to branch de novo into any area of the State. Wachovia Bank has demonstrated in the past its ability to branch de novo, and it presently has pending applications for permission to establish 4 de novo branches. It would therefore appear to be one of the most likely entrants into Burke County, where commercial banking is presently concentrated in only 2 banks.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

Finally, the proposed merger would continue a significant trend of acquisitions and mergers by the largest commercial banks in North Carolina. Since 1956, the number of North Carolina banks has decreased from 215 to 141, while combined deposits of all commercial banks in the State have increased from $2.23 billion to $4.49 billion. Wachovia Bank, the largest bank in North Carolina, has led this trend, having acquired 9 commercial banks since 1956. This acquisition trend has doubtless reduced significantly the establishment of de novo branches by the largest banks, thereby inhibiting the development of a more competitive banking structure within the State.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (3-16-67)

The head office of First National Bank is in Morganton (population about 9,200), which is nearly 100 miles west of Winston-Salem and the largest community in Burke County (population about 53,000). The bank operates a branch in Morganton and 2 other branches in Burke County. The State's fifth largest bank (The Northwestern Bank, North Wilkesboro), operates 2 branches in Morganton and 1 branch each in Valdese and Drexel, each of the latter communities being about 7 miles east of Morganton. There are no other banking offices in Burke County; however, The Northwestern Bank and 6 other banks, including the third, fourth, and ninth largest in the State, operate a total of 20 offices located 16 to 24 miles from Morganton in portions of 3 of the 7 counties that are contiguous to Burke County.

The merger would not eliminate any meaningful competition between Wachovia Bank and First National Bank. The nearest offices of Wachovia Bank to the offices of First National Bank are its branches in Asheville, some 54 miles west of Morganton. While Wachovia Bank derives a sizable dollar amount of business from Burke County, for the most part this business is beyond the capabilities of First National Bank; the remainder is of a type for which the bank puts forth little or no competitive effort.

Wachovia Bank, with about 22 per cent of the total commercial bank deposits in the State, is the largest bank in North Carolina. The acquisition of First National Bank would increase Wachovia Bank's share of the State's total commercial bank deposits by about .3 of 1 per cent. The 5 largest banks in North Carolina hold about 66 per cent of the State's commercial bank deposits. Viewed in terms of these statewide aggregates, the existing concentration of banking resources in North Carolina must be regarded as considerable. However, the proposed merger would enable Wachovia Bank to effect a market extension by establishing offices in a county that is located practically in the center of a group of 21 contiguous counties in which it presently has no offices.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 merger would have a significant effect on the banking convenience and needs in Burke County, an industrialized area which contains more than 800 business establisments, including over 100 manufacturers, but offices of only 2 banks. One of these 2 banks, First National Bank, has not been aggressive in making real estate loans and consumer instalment loans; it does not endeavor to offer certain services, such as construction loans and dealer floor plan loans, and, in general—albeit due in part to its size and low lending limit—makes available only a limited range of services relative to the needs of the communities it serves. While the replacement of First National Bank by offices of Wachovia Bank might afford some added convenience for the larger Burke County concerns, most of them have ready access to banking markets outside the area. The principal benefit of the merger would be the addition of a convenient alternative source of banking services for individuals, small local businesses, and intermediate-sized businesses on a scale commensurate with their needs.

The proposed merger would not result in any significantly adverse consequences for banking competition and would benefit the banking convenience and needs of the Burke County area.

Name of bank, and type of transaction	Resources (in millions of dollars)	In operation	To be operated
No. 4—**State Bank of Albany,** Albany, N.Y.	647.8	28	30
to merge with			
The Emerson National Bank of Warrensburg, Warrensburg, N.Y.	11.2	2	

SUMMARY REPORT BY ATTORNEY GENERAL (12-12-66)

The State Bank of Albany, New York, with branches located in 11 of the 15 counties comprising New York State's Fourth Banking District, proposes to merge with Emerson National Bank of Warrensburg, New York. As of December 31, 1965, State Bank had total deposits of $585.4 million, and Emerson Bank had total deposits of $10.1 million. The nearest office of State Bank to Emerson Bank is at Saratoga Springs, Saratoga County, 21 miles southwest of Emerson Bank's 1 branch office at Lake Luzerne, Warren County.

The merger, if consummated, would result in the elimination of some competition that exists between the merging banks. Moreover, although it is precluded from de novo branching into Warrensburg because of New York State banking law, which provides for "home office protection," State Bank could enter the Warren County market by opening a de novo branch in other communities where no home office is located. The merger would eliminate this potential competition between the merging banks.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

It should be noted that State Bank has acquired 8 banks in the Fourth Banking District since 1955, with deposits totaling $103.4 million. State Bank's 2 largest competitors (National Commercial Bank and Trust Company of Albany, and First Trust Company of Albany) have between them absorbed 19 banks in the district. This very pronounced merger trend, which has led to increasing concentration in the district, will be enhanced further by consummation of the instant merger.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (4-3-67)

Emerson National Bank, located in Warrensburg (population 2,300) in Warren County (population 44,000), operates its sole branch at Lake Luzerne, about 18 miles south of Warrensburg. State Bank of Albany is located 70 miles south of Warrensburg, and its nearest office to Emerson National Bank is its branch in Saratoga County (adjacent to Warren County at Saratoga Springs), about 21 miles south of Lake Luzerne.

Warren County is served by 20 banking offices operated by 5 locally headquartered banks of which Emerson National Bank is the third largest. State Bank has no branches in Warren County, and there is no meaningful competition between State Bank and Emerson National Bank. State Bank operates offices in 23 communities situated in 11 of the 15 counties that comprise the Fourth Banking District of New York. With 25 per cent of the total deposits and 20 per cent of the IPC [3] deposits, State Bank ranks second in size among the 41 commercial banks headquartered in the district. Emerson National Bank holds about 1 per cent of both the total and IPC [3] deposits in the district.

The area served by Emerson National Bank, which includes several Warren County communities but consists principally of Warrensburg, Lake Luzerne, and Lake George, depends primarily upon the resort activities, both summer and winter. Growth of the area is enhanced by the high level of residential construction—mainly year-round vacation homes—and the recent completion of a new interstate highway providing improved access to the area. Because of its low lending limit and lack of loanable funds, Emerson National Bank is unable to meet the credit needs of the area it serves. The bank's loans equal more than 70 per cent of its deposits, and a sizable portion of its loan portfolio represents loans which it originated but, because of the amount, it found necessary to share with other banks. The ability of Emerson National Bank to meet local credit needs is also impaired to some degree by the heavy dependence of the area it serves on resort activity; the bank recognizes that there is a limit to the amount of credit dependent on a single kind of local business that it can prudently concentrate in its loan portfolio.

The replacement of Emerson National Bank by offices of State Bank, with its larger lending limit, would provide an adequate and convenient source of credit for the area now served by Emerson National Bank and

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

would probably enhance the development of the local economy. In making loan funds available, State Bank would not be dependent on the volume of deposits derived from the local area, and its more diversified loan portfolio would enable the bank to cope readily with area credit needs despite the predominance of resort activity. In addition, State Bank would offer a broad range of other banking services, many of which are not now conveniently available to the customers of Emerson National Bank. This would be accomplished without any significantly adverse consequences for banking competition.

Name of bank, and type of transaction	Resources	In operation	To be operated
No. 5—**Union County Trust Company**, Elizabeth, N.J.	175.2	12	13
to merge with			
Hillside State Bank, Hillside, N.J.	6.7	1	

SUMMARY REPORT BY ATTORNEY GENERAL (11-30-66)

Union County Trust Company has assets of $175.2 million and deposits of $157.6 million. It operates 10 offices in Elizabeth and adjacent New Jersey communities.

Hillside State Bank has assets of $6.7 million and deposits of $5.8 million. Its single office is located in Hillside, New Jersey, a town of 23,150, adjacent to Elizabeth.

There is some actual competition between the merging banks. Moreover, because of their proximity and because de novo branching within the county is permitted under State law, there is a likelihood of increased competition between the 2 banks in the future.

Union County Trust Company holds approximately 27 per cent of the total IPC [3] deposits of the 8 banks with offices in the combined service area of the merging banks, and Hillside State Bank has just under 1 per cent of such deposits.

We conclude that the proposed merger would eliminate some actual as well as potential competition between the 2 institutions, and increase somewhat the concentration of banking resources in Union County.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (4-10-67)

Elizabeth (population 117,000) and Hillside (population 23,000) are adjoining communities in Union County, New Jersey. The main offices of the 2 banks are about 4 miles apart. Union Trust Company operates a branch system over a sizable portion of Union County, and it has an office

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 APPPROVAL BY BOARD OF GOVERNORS—Cont.

about 3.5 miles from Hillside Bank with no intervening offices. There are, however, 2 branches of the county's largest bank in Hillside, and branches of large Newark banks are within a 2-mile radius of Hillside and compete for business in that community.

Hillside Bank has had operational problems since its opening in November 1962. It sustained substantial operating losses in the first 2 years of its operation. Since that time, its capital position has continued to deteriorate. Efforts to raise additional capital have been unsuccessful, and in view of the heavy loan losses experienced by the bank in 1966, it appears that it would be extremely difficult at this time to attract new capital. Hillside Bank has also experienced serious management problems; it has had 3 presidents in its relatively brief existence and, although the present president is believed to be capable, additional executive personnel are necessary if Hillside Bank is to continue as an independent bank. In view of the bank's formidable internal problems, it is believed that it would be difficult to attract qualified officers.

It would appear that the area served by Hillside Bank is within the area served by Union Trust Company and some actual and potential competition would be eliminated by the merger. However, due to the difference in the size of the 2 banks and certain internal problems of Hillside Bank, it is the Board's opinion that no significant existing competition between the 2 institutions would be eliminated by the merger proposal and, further, that the proposed merger would not eliminate any significant potential competition, because it appears unlikely that Hillside Bank will develop into a viable competitor. Consummation of the proposal would not result in any significantly adverse consequences for banking competition and would provide a reasonable solution to Hillside Bank's internal problems.

Name of bank, and type of transaction	Resources (in millions of dollars)	In operation	To be operated
No. 6—**Manufacturers and Traders Trust Company,** Buffalo, N.Y.	792.5	66	67
to merge with			
The Bank of Perry, Perry, N.Y.	12.0	1	

SUMMARY REPORT BY ATTORNEY GENERAL (2-27-67)

This is an application by the second largest bank in Buffalo, New York, to merge with a small, independent bank located 54 miles east of Buffalo. The Bank of Perry's (the Merging Bank) service area is characterized by a relatively large number of small independent banks. The 2 banks do not compete with each other at present, and none of the other large Buffalo banks compete in the Perry area.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

The proposed merger would convert the Merging Bank into a branch of Manufacturers and Traders Trust Company (the Charter Bank), whose deposits would total nearly $692 million. Conceivably, further merger activity in the county involving other large Buffalo banks might be stimulated; otherwise, no competitive issues would appear to be raised by the proposed merger, either in the city of Buffalo or in Wyoming County.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (5-1-67)

Manufacturers and Traders Trust Company (hereafter referred to as M&T), headquartered in Buffalo, operates about 90 per cent of its total of 66 offices in the Buffalo Metropolitan Area. The sole office of Perry Bank is about 55 miles southeast of Buffalo at Perry (population about 5,000), the largest community in Wyoming County (population about 35,000).

M&T has no offices in Wyoming County; its nearest office to Perry is about 23 miles to the north in Batavia. Because of the distance separating the banks, and the presence of other banking offices in the intervening area, there is little competition existing between them. Nor does it appear that meaningful competition would develop between M&T and Perry Bank if they did not merge, although New York law permits a bank, subject to a home-office-protection feature, to branch de novo into Wyoming County. Because of Perry Bank's relatively small size, it does not appear probable that it would establish a branch near an office of M&T. The home-office-protection restriction, as well as the small size of the communities that might otherwise be available, would preclude M&T from establishing a new branch in or near Perry.

M&T, with 26 per cent of the deposits, is the second largest of the 37 commercial banks in the Ninth Banking District; Perry Bank, with less than one-half of 1 per cent of the deposits, ranks 14th. While the concentration of banking resources is high in the Buffalo Metropolitan Area, the relevant geographical market in this case consists of the area from which Perry Bank draws its business and in which concentration is not a factor.

Perry Bank derives most of its business from the Perry community and from the surrounding area within a radius of about 5 miles. There is evidence that Perry Bank has found it necessary to share with other banks some of the loans that it has originated. Further, Perry Bank has either refused or terminated several commercial and agricultural loans, most of which would have been provided by M&T. In addition, M&T would offer several services not offered by Perry Bank, including fiduciary and advisory services, consumer and small business revolving loans, and other specialized loans. In general, M&T would offer a broad range of banking services, many of which are now available to the customers of Perry Bank only through a branch of another bank 9 miles from Perry.

In summary, the proposed merger would not result in any significant adverse consequences for banking competition and would benefit the banking convenience and needs of the area served by Perry Bank.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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. 7—**First Trust Company of Albany,** Albany, N.Y.	141.8	12	15
to merge with			
The North Creek National Bank, North Creek, N.Y.	6.2	3	

SUMMARY REPORT BY ATTORNEY GENERAL (2-17-67)

This is a proposal to merge First Trust Company, the third largest of Albany's 5 commercial banks and an affiliate of BT New York Corporation, a bank holding company, and North Creek Bank, a small institution in a resort area some 85 miles north of Albany.

Competition between the merging banks does not appear to be substantial, owing to the distance between them. Nor would the acquisition of the small North Creek Bank materially alter the competitive position of First Trust Company in the areas in which it competes. However, the proposed merger may stimulate additional merger activity by small banks in the region of the North Creek Bank. Moreover, in view of the favorable growth prospects of the North Creek area, First Trust Company might be expected to increase its competitive efforts there through de novo branching, and the proposed merger would foreclose the prospect of this potential competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (6-19-67)

North Creek Bank is located in Warren County (population 44,000) at North Creek (population 2,250), approximately 85 miles north of Albany. It operates a branch at Indian Lake in Hamilton County and at Newcomb in Essex County, about 27 and 17 miles northwest and west, respectively, of North Creek. The nearest offices of another bank to the main office of North Creek are about 15 miles away; the nearest such offices to either of its branches are about 24 miles distant. First Trust Company's nearest office to an office of North Creek Bank is about 60 miles from North Creek. Neither bank derives more than a negligible amount of business from the areas served by the other.

While New York law permits a bank, subject to a home-office-protection feature, to branch de novo into the area served by North Creek Bank, it does not appear that meaningful competition would develop in the future between First Trust Company and North Creek Bank. Because of North Creek Bank's small size, it seems unlikely that it would establish a branch near an office of First Trust Company, and the home-office-protection restriction, as well as the small size of the communities that might otherwise be available, would preclude First Trust Company from establishing a new branch near an office of North Creek Bank. North Creek Bank is the only bank headquartered in North Creek, and its merger with First Trust Company would open the community to de novo branching.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 proposed merger would not have an adverse effect on banking competition and would result in the replacement of North Creek Bank by offices of First Trust Company, which would provide more convenient access to broader credit accommodations and a generally wider range of banking services for the North Creek, Indian Lake, and Newcomb communities.

No. 8—**Seattle Trust and Savings Bank,** Seattle, Wash.	104.6	14	17
to merge with			
Olympia State Bank and Trust Company, Olympia Wash.	19.7	3	

SUMMARY REPORT BY ATTORNEY GENERAL (5-23-67)

The proposed merger would combine the sixth largest commercial bank (out of 12) in the Seattle area with the smallest of 3 commercial banks in the Olympia area. The applicant banks serve 2 different geographic areas, approximately 60 miles apart. Therefore, we believe that the proposed merger would not eliminate any direct competition between the 2 banks, nor significantly increase concentration in the separate markets involved. Moreover, because of State law restrictions on de novo branching, neither bank could enter the market of the other; thus, with independent entry barred by statute, there is no loss of potential competition from the proposed merger.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (6-26-67)

Olympia Bank's main office is situated in Olympia (population about 18,000), the capital of the State of Washington; the bank's 2 branches are in Tumwater and Lacey, both of which are in surrounding Thurston County. Seattle Bank, located 62 miles northeast, operates all its branches in the county surrounding Seattle. Neither bank has an office in the area served by the other, and no office of Seattle Bank is closer than 46 miles to an office of Olympia Bank. Pierce County, including the major city of Tacoma, separates the service areas of the 2 banks and contains numerous banking offices. The home-office-protection restriction of State law would prevent either bank from expanding into the area served by the other except through the acquisition of an existing bank.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 principal effect of the transaction would be on the banking needs and convenience in Olympia. The conversion of the 3 offices of Olympia Bank into branches of Seattle Bank would provide for the inhabitants of Thurston County convenient access to an alternative source of broader credit accommodations and a generally wider range of banking services without adversely affecting banking competition.

Name of bank, and type of transaction	Resources (in millions of dollars)	In operation	To be operated
No. 9—**The Detroit Bank and Trust Company,** Detroit, Mich.	1,650.0	73	76
to consolidate with **Commercial State Bank of Roseville,** Roseville, Mich.	27.8	3	

SUMMARY REPORT BY ATTORNEY GENERAL (4-5-67)

Detroit Bank and Trust Company (Detroit Bank) is the second largest bank in the Detroit Metropolitan Area, with total deposits of $1,509 million; Commercial State Bank of Roseville (Commercial Bank), with deposits of $26 million, is the only bank in the suburban community of Roseville and the 20th largest bank in the Detroit Metropolitan Area.

Detroit Bank has 4 offices within 5 miles (by road) of 1 of Commercial Bank's 4 offices; and it no doubt constitutes a banking alternative for persons in suburban Roseville who work in downtown Detroit. It also appears to constitute an alternative source of commercial and industrial loans to medium and small businesses located in Roseville. (Detroit Bank has a somewhat higher proportion of its loan portfolio devoted to this type of loan.) The proposed merger would eliminate such competition.

According to the application, some 29 commercial banks compete in the Detroit Metropolitan Area. Banking concentration in the area is high—the 3 largest banks hold about 70 per cent of the metropolitan area's total deposits. Detroit Bank (which is the second largest) now holds about 18 per cent of the Detroit area's total IPC [3] demand deposits, and the proposed merger would add about 0.3 per cent to its market share. The merger would also, of course, eliminate from the market an apparently successful small competitor whose rate of growth since 1962 has been outstanding.

The proposed merger would substitute a bank almost 20 times the size of Commercial Bank as the sole bank in Roseville. The presence of such a large bank in the community might discourage others from establishing a new bank in Roseville and thereby raise barriers to entry in this submarket within the Detroit Metropolitan Area. This is significant because State law prohibits other banks from establishing branches in Roseville, but does not bar the establishment of new banks there.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 (9-28-67)

Detroit Bank serves the Detroit Metropolitan Area, which is comprised of the counties of Macomb, Oakland, and Wayne, and has a population in excess of 4 million. Roseville Bank, the only commercial bank in Roseville (population 60,000), is located in Macomb County about 3 miles from the northeastern boundary of Detroit. There are 40 offices of 11 banks situated within a 5-mile radius of the 3 offices of Roseville Bank, including an office of Detroit Bank located about 3 miles from an office of Roseville Bank and 2 others located about 4.5 miles from Roseville Bank's main office. These 3 offices of Detroit Bank obtain less than 3 per cent of their deposits from the Roseville area. State law precludes entry into Roseville by other banks through the establishment of de novo branches.

Roseville Bank, established in 1951, has not been aggressive in offering banking services and, although it enjoys exclusive branching privileges in Roseville, it has established only 1 office for each 20,000 residents. Its net income reached an all-time high in 1966, but its earnings were still somewhat below the average for other banks similarly situated. The capital of the bank needs to be strengthened, and the bank lacks management depth. In addition, there is serious disharmony among the directors of Roseville Bank. These considerations raise doubts about the future of the banks as an effective competitive force.

While it can be contended that there may be other feasible alternatives to this proposal, none can be realistically presented and documented in the framework within which this merger application is being considered. Proposals must be considered seriatim and only as those first presented are rejected. The anticompetitive effects of the particular proposal are not sufficient to warrant rejection and thereby require the negotiation of a second alternative. Meanwhile the weakening in the capacity to serve the community arising from the lack of managerial depth and disharmony among the directors should be remedied.

The consolidation would immediately and conclusively resolve the managerial and related problems of Roseville Bank, and the replacement of Detroit Bank would result in the addition of a more convenient alternative source of full-scale banking services for Roseville, without resulting in any significantly adverse consequences for banking competition.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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. 10—**Traverse City State Bank,** Traverse City, Mich.	41.6	4	5
to consolidate with			
State Bank of Elk Rapids, Elk Rapids, Mich.	2.8	1	

Summary Report by Attorney General (8-22-67)

Traverse City State Bank is the largest bank in the northwestern portion of Michigan's Lower Peninsula around Grand Traverse Bay. It operates 1 branch in Traverse City, the trade center for this area, and 2 others located, respectively, in Sutton's Bay and Kingsley, all in Grand Traverse County.

State Bank of Elk Rapids is located in Antrim County, about 17 miles northeast of Traverse City on the eastern shore of Grand Traverse Bay. It would appear that there is now little existing competition between the merging banks. Also, under Michigan State law, Traverse City Bank would be unable to branch de novo into Elk Rapids.

We conclude that the merger proposed would have little, if any, effect upon competition in the banking markets involved.

Basis for Approval by Board of Governors (10-12-67)

Traverse City Bank operates its main office and 1 branch in Traverse City (population 19,200) and a branch in each of 2 communities located 13 miles to the north and south of Traverse City, respectively. The sole office of Elk Rapids Bank is located in Elk Rapids (population 1,000), about 17 miles northeast of Traverse City. The nearest bank to Elk Rapids is located about 7 miles to the east. Although the areas served by each of the 2 banks overlap slightly, there is no meaningful competition between them. Traverse City Bank obtains some business from the Elk Rapids area because it has the resources to accommodate borrowers who need larger amounts of credit than are available at Elk Rapids Bank, and to provide other services not offered by Elk Rapids Bank. State law precludes de novo branching by either bank into communities in which the other has offices.

The chief executive officer of Elk Rapids Bank, who is also the bank's controlling stockholder, has been incapacitated by illness. Although the bank is presently being operated in a competent manner, the consolidation would assure the continuance of capable management. There would be no significant adverse effect on banking competition resulting from the consolidation, and the replacement of Elk Rapids Bank by an office of Traverse City Bank would provide the Elk Rapids community more convenient access to broader credit accommodations and to a generally wider range of banking services.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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—**Exchange State Bank,** Lanark, Ill. *to acquire the assets and assume deposit liabilities of*	3.7	1	[4] 1
The National Bank of Lanark, Lanark, Ill.	2.3	1	

Summary Report by Attorney General (9-18-67)

Exchange State Bank (Exchange Bank) of Lanark, Illinois, proposes to purchase the assets and assume the liability to pay deposits in the National Bank of Lanark (National Bank). The 2 banks operate their sole offices a block apart, in the small town of Lanark, Illinois.

The town of Lanark (population 1,500) is situated in Carroll County (population 19,500), a predominantly agricultural community, in the upper northwestern part of the State of Illinois. The markets of both banks are said to include the broader Lanark area (population 3,000) extending outward within a 12-mile radius of Lanark itself; 7 of Carroll County's 9 banks are included in this area.

The proposed acquisition involves 2 small banks which apparently rank fourth and sixth, respectively, among the 7 commercial banks competing in this broader Lanark area. The resulting bank would rank second largest among the remaining 6 banks; and would have a legal lending limit of $30,000.

Exchange Bank has about 9 per cent of Carroll County's total deposits and 10 per cent of the IPC [3] demand deposits. National Bank has 5 per cent of the county's total deposits and 7 per cent of the IPC [3] demand deposits.

Basis for Approval by Board of Governors (10-19-67)

The single offices of Exchange Bank and National Bank are the only banking offices in this small (population 1,500) and predominantly agricultural community. Each bank derives the preponderance of its business from an area within a radius of about 8 miles of Lanark. Five other banks (with deposits ranging from $1 million to $9 million), situated within 8 to 12 miles of Lanark, compete in this area.

National Bank has not been an aggressive competitor, and its loans are equal to only about 36 per cent of its deposits. It has made no effort to modernize its services, and its physical plant is in a serious state of disrepair. This, in addition to the size of the community it serves, makes it of dubious attractiveness to prospective buyers, and State law prohibiting branch banking makes acquisition of the bank unattractive for banks located outside Lanark. If the proposed acquisition by Exchange Bank were not approved, it seems likely that business realities would lead the present owners of National Bank to liquidate the institution. If National Bank were liquidated, it is probable that the vast majority of its customers would continue to prefer the convenience of banking locally and would

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1967 [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—Cont.

transfer their business to Exchange Bank. Thus, in terms of new business acquired by Exchange Bank, the ultimate consequences of the proposed acquisition would not differ materially from those that would result from the outright liquidation of National Bank. The proposal would reduce the alternative sources of banking services in the Lanark community from 2 to 1, but it appears that National Bank would be eliminated in any event, and combining the operations of National Bank and Exchange Bank, as the proposal contemplates, would probably result in a significant gain in operating efficiency that would benefit the consumers of banking services in the Lanark community.

Name of bank	Resources	In operation	To be operated
No. 12—**Franklin County Trust Company,** Greenfield, Mass.	21.6	2	3
to merge with			
The Orange National Bank, Orange, Mass.	4.6	1	

SUMMARY REPORT BY ATTORNEY GENERAL (9-29-67)

The Franklin County Trust Company (Franklin Bank) proposes to merge The Orange National Bank (Orange Bank). Both banks are located in Franklin County (population 54,864) in the western part of Massachusetts. Franklin Bank is located in Greenfield (population 17,690), and Orange Bank is located in Orange (population 6,154).

There are 5 banks in Franklin County, of which Franklin Bank is the largest and Orange Bank is the fourth largest. There is a considerable distance between the closest offices of the 2 banks—approximately 20 miles —and in the circumstances it seems doubtful that there is a substantial amount of direct competition between the 2 institutions. Within Franklin County, Franklin Bank holds about 43 per cent of the total deposits and 36 per cent of the total IPC [3] demand deposits, while Orange Bank accounts for 10 per cent and 11 per cent, respectively, of such deposits.

Under Massachusetts law, Franklin Bank would be permitted to open a de novo branch in the town of Orange (Mass. G.L. c. 172, § 11). It would appear to be the most probable entrant into this market since (i) it is the largest bank in the county and (ii) only banks headquartered in the county would be permitted to branch de novo into Orange. Accordingly, the proposed merger would involve some lessening of potential competition resulting from the elimination of Franklin Bank as a potential entrant into this market.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 (11-15-67)

Franklin County Trust Company (Franklin Bank) operates its head office and sole branch in Greenfield (population about 18,000); the sole office of Orange Bank is about 20 miles east of Greenfield in Orange (population about 6,000). There is no meaningful competition between Franklin Bank and Orange Bank, and the development of competition between the 2 banks through de novo branching seems improbable in view of the small size of Orange Bank and of the community it serves. The principal competition for Orange Bank is furnished by 3 offices of 2 commercial banks located within a 4-mile radius of Orange in Athol (population about 12,000), situated in adjacent Worcester County, and it does not appear that either of these banks would be adversely affected by the proposed transaction. The larger credit needs of the area are not being met by Orange Bank, due, in part, to its lending limit of $30,000. The conversion of Orange Bank into an office of Franklin Bank would provide for the Orange community more convenient access to broader credit accommodations and to a generally wider range of banking services.

Name of bank	Resources	In operation	To be operated
No. 13—**Quincy Trust Company,** Quincy, Mass. *to merge with*	29.8	6	12
Dedham Trust Company, Dedham, Mass. *and change its title to* **Hancock Bank and Trust Company,** Quincy, Mass.	17.5	6	

SUMMARY REPORT BY ATTORNEY GENERAL (10-30-67)

Quincy Trust Company and Dedham Trust Company are both located in Norfolk County, the fastest growing county in the Boston Standard Metropolitan Area.

Quincy Trust Company, organized in 1915, maintains its head office in Quincy and 7 branch offices located within a radius of 4 miles from Quincy. Dedham Trust Company, organized in 1958, has its head office in Dedham and 5 branches located 1 to 20 miles from Dedham.

All branches of both the merging banks are located in Norfolk County, Massachusetts. Norfolk County is the fastest growing county in the Boston Metropolitan Area. It had a population of 510,256 in 1960 (compared to 392,308 in 1950); and it lies generally to the south of the city of Boston.

Norfolk County is served by 10 commercial banks with the 2 largest—Norfolk County Trust Company and South Shore National Bank—having offices located throughout most of the county and accounting for over 70 per cent of the county's IPC [3] demand deposits. Quincy Trust and Dedham Trust appear to be the fourth and fifth largest banks in the county.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

The closest present branches of the merging banks are in Randolph, a town of 18,900 adjacent to Quincy. Quincy Trust's Randolph branch is in fact within walking distance of Dedham Trust's Randolph office, and the merging banks plan to discontinue Quincy Trust's Randolph branch if the proposed merger is approved. In Randolph the merging banks constitute the only banking alternatives to the 2 large countywide banks—Norfolk County Trust Company and South Shore National Bank.

With the exception of the Randolph branches, noted above, the closest branch offices of these merging banks would appear to be about 6 miles apart, with some banking alternatives in between. Quincy Trust has branches scattered throughout Quincy, Braintree, Weymouth, and Randolph. Dedham Trust has its branches in Needham, Norwood, Walpole, and, of course, Dedham. These are fairly distinct areas to the south of Boston.

We conclude that the proposed merger would at least involve elimination of direct competition in Randolph.

The proposed merger would cause an increase in concentration in Norfolk County. Quincy Trust now controls 7.5 per cent of total Norfolk County IPC [3] demand deposits, and its merger with Dedham Trust would give it a market share of 11.2 per cent.

These market shares may overstate the situation somewhat, since they do not reflect the presence of the major Boston banks in Suffolk County, which adjoins both Dedham and Quincy on the north. The 2 merging banks together account for only .8 per cent of the IPC [3] demand deposits in the Boston Standard Metropolitan Statistical Area (which is no doubt an unrealistically large market).

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (11-30-67)

Quincy (1960 population 87,000), the largest city in Norfolk County, is located about 8 miles south of downtown Boston, which is situated in adjoining Suffolk County. Quincy Trust Company's 6 branches are all in Norfolk County and within a radius of 6 miles of its main office. Dedham (1960 population 24,000) is about 9 miles west of Quincy and about 10 miles southwest of downtown Boston. All of Dedham Trust Company's offices are also in Norfolk County. The town of Randolph (population 22,000), in which each bank operates a branch, is the only place where the service areas of the 2 banks overlap. Each bank derives about 4 per cent of its IPC [3] deposits from the area served by the other. If the merger is consummated, Quincy Trust's office in Randolph, which was opened in 1964 and has generated little business, would be closed.

For notes see p. 393.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1967 [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—Cont.

Neither Quincy Trust nor Dedham Trust has an office in the western rural area of Norfolk County, the only area where the development of competition between them through de novo branching would seem likely. Norfolk County Trust Company and South Shore National Bank, the 2 largest banks in the county, have been extending their branch systems to include towns in western Norfolk County. The bank resulting from the proposed merger would be in a stronger position than either Quincy Trust or Dedham Trust to establish branches in these towns and thereby offer competition for offices of the county's largest banks.

The respective lending limits of the proponent banks are $400,000 and $260,000. The resulting institution would be a stronger corporate enterprise with a lending limit of $700,000. This would be helpful to commercial customers in the present service areas of Quincy Trust and Dedham Trust. The merger would result in the elimination of Quincy Trust's branch in Randolph, but 4 offices of 3 banks would remain, and these include 3 offices of Norfolk County's 2 largest banks. Moreover, the Randolph branch of Quincy Trust is quite small, and, it appears, unprofitable; it is questionable whether the branch would continue to operate if the proposed merger were not approved. The merger would have a slightly adverse effect on competition; and while the potential benefits for banking convenience and needs are also limited, they are sufficient to cause the Board to conclude that the application should be approved.

---

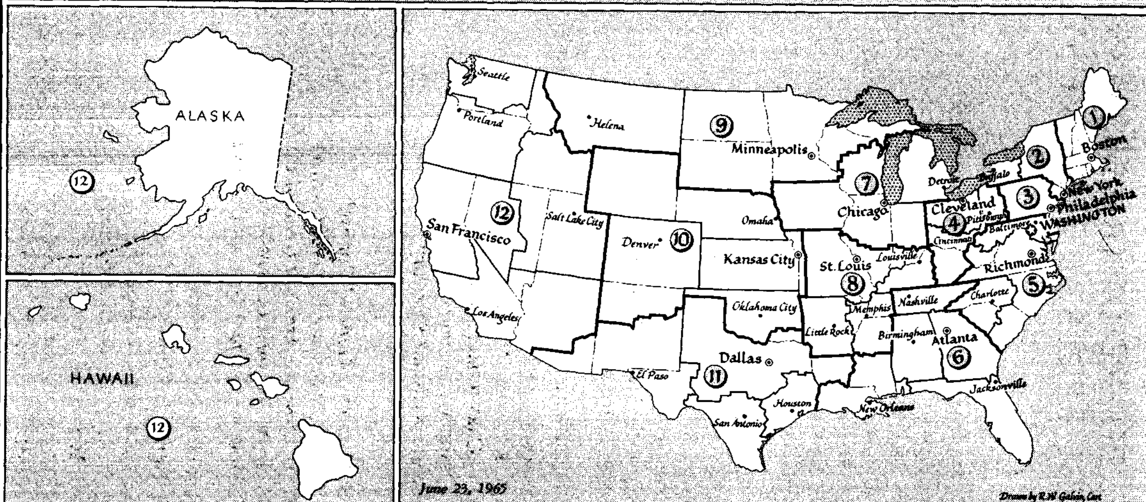
[1] During 1967 the Board disapproved 2 mergers, etc. However, under Section 18(c) of the Federal Deposit Insurance Act, only those transactions approved by the Board must be described in its ANNUAL REPORT to Congress.

[2] Each transaction was proposed to be effected under the charter of the first-named bank.

[3] The abbreviation "IPC" designates deposits of individuals, partnerships, and corporations.

[4] Head office of The National Bank of Lanark will be closed.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis



NOTE.—For a complete description of each Federal Reserve district see *Description of Federal Reserve Districts—Territorial Composition of Each Head Office and Branch, Including Population and Land Area,* a pamphlet published in April 1966. This pamphlet is available upon request from the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(December 31, 1967)

	Term expires
WM. McC. MARTIN, JR., of New York, *Chairman*	January 31, 1970
J. L. ROBERTSON of Nebraska, *Vice Chairman*	January 31, 1978
GEORGE W. MITCHELL of Illinois	January 31, 1976
J. DEWEY DAANE of Virginia	January 31, 1974
SHERMAN J. MAISEL of California	January 31, 1972
ANDREW F. BRIMMER of Pennsylvania	January 31, 1980
WILLIAM W. SHERRILL of Texas	January 31, 1968

DANIEL H. BRILL, *Senior Adviser to the Board*
ROBERT C. HOLLAND, *Adviser to the Board*
ROBERT SOLOMON, *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, *Associate 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*
ALBERT R. KOCH, *Deputy Director*
J. CHARLES PARTEE, *Associate Director*
KENNETH B. WILLIAMS, *Adviser*
STEPHEN H. AXILROD, *Associate Adviser*
LYLE E. GRAMLEY, *Associate Adviser*
STANLEY J. SIGEL, *Associate Adviser*
TYNAN SMITH, *Associate Adviser*
JAMES B. ECKERT, *Assistant Adviser*
MURRAY S. WERNICK, *Assistant Adviser*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

DIVISION OF INTERNATIONAL FINANCE

ROBERT SOLOMON, *Director*
ROBERT L. SAMMONS, *Associate Director*
A. B. HERSEY, *Adviser*
REED J. IRVINE, *Adviser*
SAMUEL I. KATZ, *Adviser*
JOHN E. REYNOLDS, *Adviser*
RALPH C. WOOD, *Adviser*

DIVISION OF BANK OPERATIONS

JOHN R. FARRELL, *Director*
M. B. DANIELS, *Assistant Director*
JOHN N. KILEY, JR., *Assistant Director*

DIVISION OF EXAMINATIONS

FREDERIC SOLOMON, *Director*
BRENTON C. LEAVITT, *Assistant Director*
JAMES C. SMITH, *Assistant Director*
LLOYD M. SCHAEFFER, *Chief Federal Reserve Examiner*
FREDERICK R. DAHL, *Assistant Director*
JACK M. EGERTSON, *Assistant Director*
THOMAS A. SIDMAN, *Assistant Director*
CHARLES C. WALCUTT, *Assistant Chief Federal Reserve Examiner*

DIVISION OF PERSONNEL ADMINISTRATION

EDWIN J. JOHNSON, *Director*
JOHN J. HART, *Assistant Director*

DIVISION OF ADMINISTRATIVE SERVICES

JOSEPH E. KELLEHER, *Director*
HARRY E. KERN, *Assistant Director*

OFFICE OF THE CONTROLLER

JOHN KAKALEC, *Controller*

OFFICE OF DEFENSE PLANNING

INNIS D. HARRIS, *Coordinator*

DIVISION OF DATA PROCESSING

LAWRENCE H. BYRNE, JR., *Director*
LEE W. LANGHAM, *Assistant Director*
JOHN H. RHINEHART, *Assistant Director*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL OPEN MARKET COMMITTEE

(December 31, 1967)

MEMBERS

WM. McC. MARTIN, JR., *Chairman* (Board of Governors)
ALFRED HAYES, *Vice Chairman* (Elected by Federal Reserve Bank of New York)
ANDREW F. BRIMMER (Board of Governors)
J. DEWEY DAANE (Board of Governors)
DARRYL R. FRANCIS (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
SHERMAN J. MAISEL (Board of Governors)
GEORGE W. MITCHELL (Board of Governors)
J. L. ROBERTSON (Board of Governors)
CHARLES J. SCANLON (Elected by Federal Reserve Banks of Cleveland and Chicago)
WILLIAM W. SHERRILL (Board of Governors)
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

ROBERT C. HOLLAND, *Secretary*

MERRITT SHERMAN, *Assistant Secretary*
KENNETH A. KENYON, *Assistant Secretary*
ARTHUR L. BROIDA, *Assistant Secretary*
CHARLES MOLONY, *Assistant Secretary*
HOWARD H. HACKLEY, *General Counsel*
DAVID B. HEXTER, *Assistant General Counsel*
DANIEL H. BRILL, *Economist*
ERNEST T. BAUGHMAN, *Associate Economist*

J. HOWARD CRAVEN, *Associate Economist*
GEORGE GARVY, *Associate Economist*
A. B. HERSEY, *Associate Economist*
HOMER JONES, *Associate Economist*
ALBERT R. KOCH, *Associate Economist*
J. CHARLES PARTEE, *Associate Economist*
JAMES PARTHEMOS, *Associate Economist*
ROBERT SOLOMON, *Associate Economist*

ALAN R. HOLMES, *Manager, System Open Market Account*
CHARLES A. COOMBS, *Special Manager, System Open Market Account*

During 1967 the Federal Open Market Committee met at intervals of three or four weeks as indicated in the Record of Policy Actions taken by the Committee (see pp. 85–206 of this Report).

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL ADVISORY COUNCIL

(December 31, 1967)

MEMBERS

District No. 1—John Simmen, President, Industrial National Bank of Rhode Island, Providence, Rhode Island.

District No. 2—R. E. McNeill, Jr., Chairman of the Board, Manufacturers Hanover Trust Company, New York, New York.

District No. 3—Harold F. Still, Jr., President, Central-Penn National Bank of Philadelphia, Philadelphia, Pennsylvania.

District No. 4—John A. Mayer, Chairman of the Board and Chief Executive Officer, Mellon National Bank and Trust Company, Pittsburgh, Pennsylvania.

District No. 5—J. Harvie Wilkinson, Jr., Chairman of the Board, State-Planters Bank of Commerce and Trusts, Richmond, Virginia.

District No. 6—Sam M. Fleming, President, Third National Bank in Nashville, Nashville, Tennessee.

District No. 7—Henry T. Bodman, Chairman of the Board, National Bank of Detroit, Detroit, Michigan.

District No. 8—A. M. Brinkley, Jr., Chairman of the Board and Chief Executive Officer, Citizens Fidelity Bank and Trust Company, Louisville, Kentucky.

District No. 9—John A. Moorhead, President, Northwestern National Bank of Minneapolis, Minneapolis, Minnesota.

District No. 10—Roger D. Knight, Jr., Chairman of the Board, Denver United States National Bank, Denver, Colorado.

District No. 11—Robert H. Stewart, III, Chairman of the Board, First National Bank in Dallas, Dallas, Texas.

District No. 12—Frederick G. Larkin, Jr., President, Security First National Bank, Los Angeles, California.

OFFICERS

JOHN A. MOORHEAD, *President*

SAM M. FLEMING, *Vice President*

HERBERT V. PROCHNOW, *Secretary*

WILLIAM J. KORSVIK, *Assistant Secretary*

EXECUTIVE COMMITTEE

JOHN A. MOORHEAD, *ex officio*

SAM M. FLEMING, *ex officio*

ROGER D. KNIGHT, JR.

ROBERT H. STEWART, III

JOHN A. MAYER

Meetings of the Federal Advisory Council were held on February 20–21, May 15–16, September 18–19, and November 20–21, 1967. The Board of Governors met with the Council on February 21, May 16, September 19, and November 21. 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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES

(December 31, 1967)

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston	Erwin D. Canham	Charles W. Cole
New York	Everett N. Case	Kenneth H. Hannan
Philadelphia	Willis J. Winn	Bayard L. England
Cleveland	Joseph B. Hall	Logan T. Johnston
Richmond	Edwin Hyde	Wilson H. Elkins
Atlanta	Jack Tarver	Edwin I. Hatch
Chicago	Franklin J. Lunding	Elvis J. Stahr
St. Louis	Frederic M. Peirce	Smith D. Broadbent, Jr.
Minneapolis	Joyce A. Swan	Robert F. Leach
Kansas City	Dolph Simons	Dean A. McGee
Dallas	Carl J. Thomsen	Max Levine
San Francisco	Frederic S. Hirschler	S. Alfred Halgren

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 November 30–December 1, 1967.

Mr. Hyde, Chairman of the Federal Reserve Bank of Richmond, who was elected Chairman of the Conference and of the Executive Committee in December 1966, served in that capacity until the close of the 1967 meeting. Mr. Thomsen, Chairman of the Federal Reserve Bank of Dallas, and Mr. Winn, Chairman of the Federal Reserve Bank of Philadelphia, served with Mr. Hyde as members of the Executive Committee; Mr. Thomsen also served as Vice Chairman of the Conference.

On December 1, 1967, Mr. Thomsen, Chairman of the Dallas Bank, was elected Chairman of the Conference and of the Executive Committee to serve for the succeeding year; Mr. Peirce, Chairman of the Federal Reserve Bank of St. Louis, was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. Winn, Chairman of the Philadelphia Bank, was elected as the other member of the Executive Committee.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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 five or seven 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 I. Tucker	Chairman of the Board, Vermont National Bank, Brattleboro, Vt.	1967
Lawrence H. Martin	President, The National Shawmut Bank, Boston, Mass.	1968
Charles A. Beaujon, Jr.	President, The Canaan National Bank, Canaan, Conn.	1969
Class B:		
James R. Carter	President, Nashua Corporation, Nashua, N.H.	1967
W. Gordon Robertson	Chairman and Chief Executive Officer, Bangor Punta Corporation, Bangor, Maine	1968
F. Ray Keyser, Jr.	Counsel, Vermont Marble Company, Proctor, Vt.	1969
Class C:		
Erwin D. Canham	Editor in Chief, The Christian Science Monitor, Boston, Mass.	1967
Charles W. Cole	President Emeritus, Amherst College, Amherst, Mass.	1968
Howard W. Johnson	President, Massachusetts Institute of Technology, Cambridge, Mass.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont.	**District 2 — New York**	*Term expires Dec. 31*
Class A:		
George A. Murphy	Chairman of the Board, Irving Trust Company, New York, N.Y.	1967
Robert G. Cowan	Chairman of the Board, National Newark & Essex Bank, Newark, N.J.	1968
Eugene H. Morrison	President, Orange County Trust Company, Middletown, N.Y.	1969
Class B:		
Arthur K. Watson	Chairman of the Board, IBM World Trade Corporation, and Vice Chairman of the Board, International Business Machines Corporation, Armonk, N.Y.	1967
Milton C. Mumford	Chairman of the Board, Lever Brothers Company, New York, N.Y.	1968
Maurice R. Forman	President, B. Forman Co., Inc., Rochester, N.Y.	1969
Class C:		
James M. Hester	President, New York University, New York, N.Y.	1967
Kenneth H. Hannan	Executive Vice President, Union Carbide Corporation, New York, N.Y.	1968
Everett N. Case	President, Alfred P. Sloan Foundation, New York, N.Y.	1969

Buffalo Branch

Appointed by Federal Reserve Bank:		
J. Wallace Ely	President, Security Trust Company, Rochester, N.Y.	1967
John D. Hamilton	Chairman of the Board, Marine Midland Chautauqua National Bank, Jamestown, N.Y.	1967
Arthur S. Hamlin	President, The Canandaigua National Bank and Trust Company, Canandaigua, N.Y.	1968
E. Perry Spink	Chairman of the Board, Liberty National Bank and Trust Company, Buffalo, N.Y.	1969
Appointed by Board of Governors:		
Robert S. Bennett	General Manager, Lackawanna Plant, Bethlehem Steel Corporation, Buffalo, N.Y.	1967
Carl A. Day	Executive Vice President, Bausch & Lomb Inc., Rochester, N.Y.	1968
Gerald F. Britt	President, L-Brooke Farms, Inc., Byron, N.Y.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont.

District 3 — Philadelphia

		Term expires Dec. 31
Class A:		
Lloyd W. Kuhn	President, The Bendersville National Bank, Bendersville, Pa.	1967
Howard C. Petersen	Chairman of the Board, The Fidelity Bank, Philadelphia, Pa.	1968
Robert C. Enders	President, Bloomsburg Bank–Columbia Trust Company, Bloomsburg, Pa.	1969
Class B:		
Philip H. Glatfelter, III	President, P. H. Glatfelter Co., Spring Grove, Pa.	1967
Henry A. Thouron	Chairman of the Board and President, Hercules, Incorporated, Wilmington, Del.	1968
Edward J. Dwyer	President, ESB Incorporated, Philadelphia, Pa.	1969
Class C:		
Willis J. Winn	Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pa.	1967
D. Robert Yarnall, Jr.	President, Yarway Corporation, Blue Bell, Pa.	1968
Bayard L. England	Chairman of the Board, Atlantic City Electric Company, Atlantic City, N.J.	1969

District 4 — Cleveland

Class A:		
Seward D. Schooler	President, Coshocton National Bank, Coshocton, Ohio	1967
Everett D. Reese	Chairman of the Board, The City National Bank and Trust Company, Columbus, Ohio	1968
Richard R. Hollington	President, The Ohio Bank and Savings Company, Findlay, Ohio	1969
Class B:		
David A. Meeker	Chairman of the Board and Chief Executive Officer, The Hobart Manufacturing Company, Troy, Ohio	1967
Walter K. Bailey	Chairman of the Board, The Warner and Swasey Company, Cleveland, Ohio	1968
R. Stanley Laing	President, The National Cash Register Company, Dayton, Ohio	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont.	**District 4 — Cleveland — Cont.**	*Term expires Dec. 31*
Class C:		
Joseph B. Hall	Former Chairman of the Board, The Kroger Co., Cincinnati, Ohio	1967
Logan T. Johnston	Chairman of the Board, Armco Steel Corporation, Middletown, Ohio	1968
Albert G. Clay	President, Clay Tobacco Company, Mt. Sterling, Ky.	1969
	Cincinnati Branch	
Appointed by Federal Reserve Bank:		
Kroger Pettengill	President, The First National Bank, Cincinnati, Ohio	1967
Jacob H. Graves	President, The Second National Bank and Trust Company, Lexington, Ky.	1968
John W. Humphrey	President, The Philip Carey Manufacturing Company, Cincinnati, Ohio	1969
Robert J. Barth	President, The First National Bank, Dayton, Ohio	1969
Appointed by Board of Governors:		
Barney A. Tucker	President, Burley Belt Fertilizer Company, Lexington, Ky.	1967
Graham E. Marx	President, The G. A. Gray Company, Cincinnati, Ohio	1968
John N. Stauffer	President, Wittenberg University, Springfield, Ohio	1969
	Pittsburgh Branch	
Appointed by Federal Reserve Bank:		
Edwin H. Keep	President, First National Bank, Meadville, Pa.	1967
Robert C. Hazlett	President, Wheeling Dollar Savings & Trust Co., Wheeling, W. Va.	1968
Charles M. Beeghly	Chairman of the Board and Chief Executive Officer, Jones and Laughlin Steel Corporation, Pittsburgh, Pa.	1969
Thomas L. Wentling	President, First National Bank of Westmoreland, Greensburg, Pa.	1969
Appointed by Board of Governors:		
Robert Dickey, III	President, Dravo Corporation, Pittsburgh, Pa.	1967
F. L. Byrom	President, Koppers Company, Inc., Pittsburgh, Pa.	1968
Lawrence E. Walkley	President, Westinghouse Air Brake Company, Pittsburgh, Pa.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont.

District 5 — Richmond

		Term expires Dec. 31
Class A:		
George Blanton, Jr.	President, First National Bank, Shelby, N.C.	1967
William A. Davis	President, The Peoples Bank, Mullens, W.Va.	1968
Robert C. Baker	President and Chairman of the Board, American Security and Trust Company, Washington, D.C.	1969
Class B:		
Robert R. Coker	President, Coker's Pedigreed Seed Company, Hartsville, S.C.	1967
Charles D. Lyon	President, The Potomac Edison Company, Hagerstown, Md.	1968
Thaddeus Street	President, Carolina Shipping Company, Charleston, S.C.	1969
Class C:		
Edwin Hyde	President, Miller and Rhoads, Inc., Richmond, Va.	1967
Wilson H. Elkins	President, University of Maryland, College Park, Md.	1968
Robert W. Lawson, Jr.	Managing Partner, Steptoe and Johnson, Charleston, W.Va.	1969

Baltimore Branch

		Term expires Dec. 31
Appointed by Federal Reserve Bank:		
Martin Piribek	Executive Vice President, The First National Bank, Morgantown, W.Va.	1967
Adrian L. McCardell	President, First National Bank of Maryland, Baltimore, Md.	1967
Joseph B. Browne	President, Union Trust Company of Maryland, Baltimore, Md.	1968
John P. Sippel	President, The Citizens National Bank, Laurel, Md.	1969
Appointed by Board of Governors:		
Leonard C. Crewe, Jr.	Chairman of the Board, Maryland Specialty Wire, Inc., Cockeysville, Md.	1967
E. Wayne Corrin	President, Consolidated Gas Supply Corporation, Clarksburg, W.Va.	1968
Arnold J. Kleff, Jr.	Manager, Baltimore Plant, American Smelting and Refining Company, Baltimore, Md.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont. **District 5 — Richmond — Cont.** *Term expires Dec. 31*

Charlotte Branch

Appointed by Federal Reserve Bank:

Wallace W. Brawley....President, National Bank of Commerce, Spartanburg, S.C.......................... 1967

C. C. Cameron.........Chairman of the Board and President, First Union National Bank of North Carolina, Charlotte, N.C......................... 1967

G. Harold Myrick......President and Trust Officer, First National Bank, Lincolnton, N.C.................. 1968

J. Willis Cantey........President, The Citizens and Southern National Bank of South Carolina, Columbia, S.C.... 1969

Appointed by Board of Governors:

William B. McGuire....President, Duke Power Company, Charlotte, N.C.................................. 1967

John L. Fraley.........Executive Vice President, Carolina Freight Carriers Corporation, Cherryville, N.C..... 1968

James A. Morris.......Vice President, Division of Advanced Studies and Research, University of South Carolina, Columbia, S.C.......................... 1969

District 6 — Atlanta

Class A:

D. C. Wadsworth, Sr....President, The American National Bank, Gadsden, Ala.......................... 1967

John W. Gay..........President, The First National Bank, Scottsboro, Ala.................................. 1968

William B. Mills.......President, The Florida National Bank, Jacksonville, Fla............................ 1969

Class B:

James H. Crow, Jr......Vice President, The Chemstrand Corporation, Decatur, Ala........................... 1967

Harry T. Vaughn.......President, United States Sugar Corporation, Clewiston, Fla.......................... 1968

Philip J. Lee...........Vice President, Seaboard Coast Line Railroad Company, Jacksonville, Fla............... 1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont. **District 6 — Atlanta — Cont.**

		Term expires Dec. 31
Class C:		
Jack Tarver	President, Atlanta Newspapers, Inc., Atlanta, Ga.	1967
Edwin I. Hatch	President, Georgia Power Company, Atlanta, Ga.	1968
John A. Hunter	President, Louisiana State University, Baton Rouge, La.	1969
Birmingham Branch		
Appointed by Federal Reserve Bank:		
Rex J. Morthland	President, The Peoples Bank and Trust Company, Selma, Ala.	1967
C. Willard Nelson	President, State National Bank, Decatur, Ala.	1967
Major W. Espy	Chairman, The Headland National Bank, Headland, Ala.	1968
Will T. Cothran	President, Birmingham Trust National Bank, Birmingham, Ala.	1969
Appointed by Board of Governors:		
C. Caldwell Marks	Chairman of the Board, Owen-Richards Company, Inc., Birmingham, Ala.	1967
Eugene C. Gwaltney, Jr.	Vice President, Russell Mills, Inc., Alexander City, Ala.	1968
Mays E. Montgomery	General Manager, Dixie Home Feeds Company, Athens, Ala.	1969
Jacksonville Branch		
Appointed by Federal Reserve Bank:		
William R. Barnett	Chairman, Barnett First National Bank, Jacksonville, Fla.	1967
Dudley Cole	President, Florida First National Bank, Ocala, Fla.	1967
Andrew P. Ireland	President, The American National Bank, Winter Haven, Fla.	1968
L. V. Chappell	President, First National Bank, Clearwater, Fla.	1969
Appointed by Board of Governors:		
Henry Cragg	Chairman of the Board and Chief Executive Officer, Minute Maid Company, Orlando, Fla.	1967
Castle W. Jordan	President, Associated Oil and Gas Company, Coral Gables, Fla.	1968
Henry King Stanford	President, University of Miami, Coral Gables, Fla.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont. **District 6 — Atlanta — Cont.** *Term expires Dec. 31*

Nashville Branch

Appointed by Federal Reserve Bank:

S. N. Brown...........President, Union National Bank, Fayetteville, Tenn.................................... 1967

J. A. Hill..............President, Hamilton National Bank, Morristown, Tenn............................ 1967

Moses E. Dorton.......President, The First National Bank, Crossville, Tenn.................................... 1968

Andrew Benedict, Jr.....President, First American National Bank, Nashville, Tenn......................... 1969

Appointed by Board of Governors:

Robert M. Williams....President, ARO, Inc., Arnold Engineering Development Center, Tullahoma, Tenn..... 1967

Alexander Heard.......Chancellor, Vanderbilt University, Nashville, Tenn.................................... 1968

James E. Ward.........President, Baird-Ward Printing Company, Nashville, Tenn......................... 1969

New Orleans Branch

Appointed by Federal Reserve Bank:

Robert M. Hearin......President, First National Bank, Jackson, Miss. 1967

W. Richard White......President, First National Bank of Jefferson Parish, Gretna, La....................... 1967

Donald L. Delcambre...President, The State National Bank, New Iberia, La.................................... 1968

A. L. Gottsche.........President, First National Bank, Biloxi, Miss... 1969

Appointed by Board of Governors:

Kenneth R. Giddens....President, WKRG-TV, Inc., Mobile, Ala...... 1967

Frank G. Smith, Jr......Vice President, Mississippi Power and Light Company, Jackson, Miss.................. 1968

George B. Blair........General Manager, American Rice Growers Cooperative Association, Lake Charles, La.... 1969

District 7 — Chicago

Class A:

John H. Crocker.......Chairman of the Board, The Citizens National Bank, Decatur, Ill....................... 1967

Harry W. Schaller......President, The Citizens First National Bank, Storm Lake, Iowa....................... 1968

Kenneth V. Zwiener....Chairman of the Board, Harris Trust and Savings Bank, Chicago, Ill.................. 1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont.

District 7 — Chicago — Cont.

		Term expires Dec. 31
Class B:		
William E. Rutz	Director and Member of Executive Committee, Giddings and Lewis Machine Tool Company, Fond du Lac, Wis.	1967
Joseph O. Waymire	Vice President and Treasurer, Eli Lilly and Company, Indianapolis, Ind.	1968
William H. Davidson	President, Harley-Davidson Motor Company, Milwaukee, Wis.	1969
Class C:		
Franklin J. Lunding	Chairman, Finance Committee, Jewel Companies, Inc., Chicago, Ill.	1967
Elvis J. Stahr	President, Indiana University, Bloomington, Ind.	1968
Emerson G. Higdon	President, The Maytag Company, Newton, Iowa	1969

Detroit Branch

Appointed by Federal Reserve Bank:		
Raymond T. Perring	Chairman of the Board, The Detroit Bank and Trust Company, Detroit, Mich.	1967
B. P. Sherwood, Jr.	President, Security First Bank and Trust Company, Grand Haven, Mich.	1968
John H. French, Jr.	President, City National Bank, Detroit, Mich.	1969
George L. Whyel	President, Genesee Merchants Bank and Trust Company, Flint, Mich.	1969
Appointed by Board of Governors:		
James William Miller	President, Western Michigan University, Kalamazoo, Mich.	1967
Guy S. Peppiatt	Chairman of the Board, Federal-Mogul Corporation, Detroit, Mich.	1968
Max P. Heavenrich, Jr.	President, Heavenrich Bros. & Company, Saginaw, Mich.	1969

District 8 — St. Louis

Class A:		
Bradford Brett	President, The First National Bank, Mexico, Mo.	1967
Harry F. Harrington	Chairman of the Board, The Boatmen's National Bank, St. Louis, Mo.	1968
Cecil W. Cupp, Jr.	President, Arkansas Bank and Trust Company, Hot Springs, Ark.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont.	**District 8 — St. Louis — Cont.**	*Term expires Dec. 31*
Class B:		
Mark Townsend	Chairman of the Board, Townsend Lumber Company, Inc., Stuttgart, Ark.	1967
Sherwood J. Smith	Vice President, Whirlpool Corporation, Evansville, Ind.	1968
Roland W. Richards	Senior Vice President, Laclede Steel Company, St. Louis, Mo.	1969
Class C:		
Smith D. Broadbent, Jr.	Owner, Broadbent Hybrid Seed Co., Cadiz, Ky.	1967
Frederic M. Peirce	President, General American Life Insurance Company, St. Louis, Mo.	1968
William King Self	President, Riverside Industries, Marks, Miss.	1969

Little Rock Branch

Appointed by Federal Reserve Bank:		
Ross E. Anderson	Chairman of the Board, The Commercial National Bank, Little Rock, Ark.	1967
Louis E. Hurley	President, The Exchange Bank & Trust Company, El Dorado, Ark.	1968
Ellis E. Shelton	President, The First National Bank, Fayetteville, Ark.	1969
Wayne A. Stone	President, Simmons First National Bank, Pine Bluff, Ark.	1969
Appointed by Board of Governors:		
Reeves E. Ritchie	President, Arkansas Power & Light Company, Little Rock, Ark.	1967
Carey V. Stabler	President, Little Rock University, Little Rock, Ark.	1968
Jake Hartz, Jr.	President, Jacob Hartz Seed Co., Inc., Stuttgart, Ark.	1969

Louisville Branch

Appointed by Federal Reserve Bank:		
J. E. Miller	Executive Vice President, Sellersburg State Bank, Sellersburg, Ind.	1967
John H. Hardwick	Chairman and Chief Executive Officer, The Louisville Trust Company, Louisville, Ky.	1968
Wm. G. Deatherage	President, Planters Bank & Trust Co., Hopkinsville, Ky.	1969
Paul Chase	President, The Bedford National Bank, Bedford, Ind.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont.

District 8 — St. Louis — Cont.

Louisville Branch — Cont.

		Term expires Dec. 31
Appointed by Board of Governors:		
Richard T. Smith	Farmer, Madisonville, Ky.	1967
C. Hunter Green	Vice President, Southern Bell Telephone and Telegraph Company, Louisville, Ky.	1968
Lisle Baker, Jr.	Executive Vice President, The Courier-Journal & Louisville Times Company, Louisville, Ky.	1969

Memphis Branch

Appointed by Federal Reserve Bank:		
Leon C. Castling	President, First National Bank, Marianna, Ark.	1967
W. W. Hollowell	President, The First National Bank, Greenville, Miss.	1968
Allen Morgan	President, The First National Bank, Memphis, Tenn.	1969
Con T. Welch	President, Citizens Bank, Savannah, Tenn.	1969
Appointed by Board of Governors:		
James S. Williams	Assistant Vice President, American Greetings Corporation, Osceola, Ark.	1967
Sam Cooper	President, HumKo Products Division, National Dairy Products Corporation, Memphis, Tenn.	1968
William L. Giles	President, Mississippi State University, State College, Miss.	1969

District 9 — Minneapolis

Class A:		
John F. Nash	President, The American National Bank, St. Paul, Minn.	1967
Curtis B. Mateer	Executive Vice President, The Pierre National Bank, Pierre, S. Dak.	1968
John Bosshard	Executive Vice President, First National Bank, Bangor, Wis.	1969
Class B:		
Neil G. Simpson	President, Black Hills Power and Light Company, Rapid City, S. Dak.	1967
John H. Toole	President, Toole and Easter Company, Missoula, Mont.	1968
Leo C. Studness	Manager, Studness Company, Devils Lake, N. Dak.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont. **District 9 — Minneapolis — Cont.** *Term expires Dec. 31*

Class C:

Name	Position	Term expires Dec. 31
Byron W. Reeve	President, Lake Shore, Inc., Iron Mountain, Mich.	1967
Robert F. Leach	Attorney, Oppenheimer, Hodgson, Brown, Wolff and Leach, St. Paul, Minn.	1968
Joyce A. Swan	Executive Vice President and Publisher, Minneapolis Star and Tribune, Minneapolis, Minn.	1969

Helena Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
B. Meyer Harris	President, The Yellowstone Bank, Laurel, Mont.	1967
Charles H. Brocksmith	President, First Security Bank of Glasgow N. A., Glasgow, Mont.	1968
Glenn H. Larson	President, First State Bank, Thompson Falls, Mont.	1968

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Edwin G. Koch	President, Montana College of Mineral Science and Technology, Butte, Mont.	1967
C. G. McClave	President, Montana Flour Mills Company, Great Falls, Mont.	1968

District 10 — Kansas City

Class A:

Name	Position	Term expires Dec. 31
Kenneth H. Peters	President, The First State Bank, Larned, Kans.	1967
Burton L. Lohmuller	Chairman of the Board, The First National Bank, Centralia, Kans.	1968
Eugene H. Adams	President, The First National Bank, Denver, Colo.	1969

Class B:

Name	Position	Term expires Dec. 31
Robert A. Olson	President, Kansas City Power and Light Company, Kansas City, Mo.	1967
Stanley Learned	Vice Chairman of the Board, Phillips Petroleum Company, Bartlesville, Okla.	1968
Fred W. Gilmore	President, Union Stock Yards Company, Omaha, Nebr.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont. **District 10 — Kansas City — Cont.**

		Term expires Dec. 31
Class C:		
Dolph Simons	Editor and President, The Lawrence Daily Journal-World, Lawrence, Kans.	1967
Dean A. McGee	Chairman of the Board, Kerr-McGee Corporation, Oklahoma City, Okla.	1968
Willard D. Hosford, Jr.	Vice President and General Manager, John Deere Company, Omaha, Nebr.	1969

Denver Branch

Appointed by Federal Reserve Bank:		
Armin B. Barney	Chairman of the Board, Colorado Springs National Bank, Colorado Springs, Colo.	1967
J. P. Brandenburg	President, The First State Bank, Taos, New Mex.	1968
Theodore D. Brown	President, The Security State Bank, Sterling, Colo.	1968
Appointed by Board of Governors:		
Cris Dobbins	President, Ideal Cement Company, Denver, Colo.	1967
D. R. C. Brown	President, Aspen Skiing Corporation, Aspen, Colo.	1968

Oklahoma City Branch

Appointed by Federal Reserve Bank:		
Howard J. Bozarth	President, City National Bank and Trust Company, Oklahoma City, Okla.	1967
Guy L. Berry, Jr.	President, The American National Bank and Trust Company, Sapulpa, Okla.	1968
C. M. Crawford	President, First National Bank, Frederick, Okla.	1968
Appointed by Board of Governors:		
C. W. Flint, Jr.	Chairman of the Board, Flint Steel Corporation, Tulsa, Okla.	1967
F. W. Zaloudek	Manager, J. I. Case Equipment Agency, Kremlin, Okla.	1968

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont. **District 10 — Kansas City — Cont.** *Term expires Dec. 31*

Omaha Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Henry D. Kosman	Chairman of the Board, Scottsbluff National Bank, Scottsbluff, Nebr.	1967
John W. Hay, Jr.	President, Rock Springs National Bank, Rock Springs, Wyo.	1967
W. B. Millard, Jr.	Chairman of the Board, Omaha National Bank, Omaha, Nebr.	1968

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
John T. Harris	Merchant and cattleman, McCook, Nebr.	1967
Henry Y. Kleinkauf	President, Natkin & Company, Omaha, Nebr.	1968

District 11 — Dallas

Class A:

Name	Position	Term expires Dec. 31
J. Edd McLaughlin	President, Security State Bank & Trust Company, Ralls, Tex.	1967
Ralph A. Porter	President, The State National Bank, Denison, Tex.	1968
Murray Kyger	Chairman of the Board, The First National Bank, Fort Worth, Tex.	1969

Class B:

Name	Position	Term expires Dec. 31
H. B. Zachry	Chairman of the Board, H. B. Zachry Company, San Antonio, Tex.	1967
J. B. Perry, Jr.	Real estate development, Lufkin, Tex.	1968
C. A. Tatum, Jr.	President, Texas Utilities Company, Dallas, Tex.	1969

Class C:

Name	Position	Term expires Dec. 31
Carl J. Thomsen	Senior Vice President, Texas Instruments Incorporated, Dallas, Tex.	1967
Kenneth S. Pitzer	President and Professor of Chemistry, Rice University, Houston, Tex.	1968
Max Levine	Retired Chairman of the Board, Foley's, Houston, Tex.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont. **District 11 — Dallas — Cont.** *Term expires Dec. 31*

El Paso Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Robert F. Lockhart	President, The State National Bank, El Paso, Tex.	1967
Joe B. Sisler	President, The Clovis National Bank, Clovis, N. Mex.	1968
Robert W. Heyer	Director and Consultant, Southern Arizona Bank & Trust Company, Tucson, Ariz.	1969
Archie B. Scott	President, The Security State Bank, Pecos, Tex.	1969

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Gordon W. Foster	Vice President, Farah Manufacturing Company, Inc., El Paso, Tex.	1967
Joseph M. Ray	President, The University of Texas, Texas Western College, El Paso, Tex.	1968
C. Robert McNally, Jr.	Rancher, Roswell, N. Mex.	1969

Houston Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
A. G. McNeese, Jr.	Chairman of the Board, Bank of the Southwest National Association, Houston, Tex.	1967
Henry B. Clay	President, First Bank and Trust, Bryan, Tex.	1968
W. G. Thornell	President, The First National Bank, Port Arthur, Tex.	1969
John E. Whitmore	President, Texas National Bank of Commerce, Houston, Tex.	1969

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Edgar H. Hudgins	Ranching—Partner in J. D. Hudgins, Hungerford, Tex.	1967
R. M. Buckley	President, Eastex, Incorporated, Evadale, Tex.	1968
Geo. T. Morse, Jr.	President and General Manager, Peden Iron & Steel Company, Houston, Tex.	1969

San Antonio Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Max A. Mandel	President, The Laredo National Bank, Laredo, Tex.	1967
James T. Denton, Jr.	President, Corpus Christi Bank and Trust, Corpus Christi, Tex.	1968

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont.

District 11 — Dallas — Cont.

San Antonio Branch — Cont.

		Term expires Dec. 31
Appointed by Federal Reserve Bank:		
J. R. Thornton	Chairman of the Board and President, State Bank and Trust Company, San Marcos, Tex.	1969
T. C. Frost, Jr.	President, The Frost National Bank, San Antonio, Tex.	1969
Appointed by Board of Governors:		
Harold D. Herndon	Independent oil operator, San Antonio, Tex.	1967
Francis B. May	Chairman, Department of General Business, The University of Texas, Austin, Tex.	1968
W. A. Belcher	Veterinarian and rancher, Brackettville, Tex.	1969

District 12 — San Francisco

		Term expires Dec. 31
Class A:		
Charles F. Frankland	Chairman of the Board and Chief Executive Officer, The Pacific National Bank, Seattle, Wash.	1967
Ralph V. Arnold	Chairman of the Board and Chief Executive Officer, First National Bank and Trust Company, Ontario, Calif.	1968
Carroll F. Byrd	Chairman of the Board and President, The First National Bank, Willows, Calif.	1969
Class B:		
Marron Kendrick	President, Schlage Lock Company, San Francisco, Calif.	1967
Herbert D. Armstrong	Treasurer, Standard Oil Company of California, San Francisco, Calif.	1968
Joseph Rosenblatt	Honorary Chairman of the Board, The Eimco Corporation, Salt Lake City, Utah	1969
Class C:		
Frederic S. Hirschler	Director, The Emporium Capwell Company, Oakland, Calif.	1967
Bernard T. Rocca, Jr.	Chairman of the Board, Pacific Vegetable Oil Corporation, San Francisco, Calif.	1968
S. Alfred Halgren	Vice President, Carnation Company, Los Angeles, Calif.	1969

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont. **District 12 — San Francisco — Cont.** *Term expires Dec. 31*

Los Angeles Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Sherman Hazeltine	Chairman of the Board and Chief Executive Officer, First National Bank of Arizona, Phoenix, Ariz.	1967
Harry J. Volk	President, Union Bank, Los Angeles, Calif.	1968
Carl E. Schroeder	President, The First National Bank, Orange, Calif.	1968

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Arthur G. Coons	President Emeritus, Occidental College, Newport Beach, Calif.	1967
J. L. Atwood	Chairman of the Board and President, North American Aviation, Inc., El Segundo, Calif.	1968

Portland Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
E. J. Kolar	Chairman of the Discount Committee, United States National Bank of Oregon, Portland, Ore.	1967
E. W. Firstenburg	Chairman of the Board and President, First Independent Bank, Vancouver, Wash.	1968
Charles F. Adams	President, The Oregon Bank, Portland, Ore.	1968

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Graham J. Barbey	President, Barbey Packing Corporation, Astoria, Ore.	1967
Robert F. Dwyer	Lumberman, Portland, Ore.	1968

Salt Lake City Branch

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
William E. Irvin	President, The Idaho First National Bank, Boise, Idaho	1967
Alan B. Blood	Executive Vice President, Barnes Banking Company, Kaysville, Utah	1968
Newell B. Dayton	Chairman of the Board, Tracy-Collins Bank and Trust Company, Salt Lake City, Utah	1968

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Royden G. Derrick	President, Western Steel Company, Salt Lake City, Utah	1967
Peter E. Marble	Rancher, Deeth, Nev.	1968

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

DIRECTORS—Cont. **District 12 — San Francisco — Cont.**

Seattle Branch

		Term expires Dec. 31
Appointed by Federal Reserve Bank:		
Maxwell Carlson	President, The National Bank of Commerce, Seattle, Wash.	1967
A. E. Saunders	President, The Puget Sound National Bank, Tacoma, Wash.	1968
Philip H. Stanton	President, Washington Trust Bank, Spokane, Wash.	1968
Appointed by Board of Governors:		
William McGregor	Vice President, McGregor Land and Livestock Company, Hooper, Wash.	1967
Robert D. O'Brien	Chairman of the Board and Chief Executive Officer, Pacific Car and Foundry Company, Renton, Wash.	1968

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—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 Ansgar R. Berge Luther M. Hoyle, Jr. G. Gordon Watts	Daniel Aquilino R. W. Eisenmenger Harry R. Mitiguy Parker B. Willis
New York	Alfred Hayes William F. Treiber	Harold A. Bilby John J. Clarke Felix T. Davis Marcus A. Harris Robert G. Link T. M. Timlen, Jr.	William H. Braun, Jr. Charles A. Coombs Edward G. Guy Alan R. Holmes Fred W. Piderit, Jr. Thomas O. Waage
Buffalo		Angus A. MacInnes, Jr.	
Philadelphia	Karl R. Bopp Robert N. Hilkert	Edward A. Aff Joseph R. Campbell David P. Eastburn David C. Melnicoff Lawrence C. Murdoch, Jr. Harry W. Roeder	Hugh Barrie Norman G. Dash William A. James G. William Metz James V. Vergari
Cleveland	W. Braddock Hickman Walter H. MacDonald	George E. Booth, Jr. Roger R. Clouse William H. Hendricks Harry W. Huning Maurice Mann	Paul Bridenbach Elmer F. Fricek John J. Hoy Frederick 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 R. E. Sanders, Jr.	J. G. Dickerson, Jr. Upton S. Martin James Parthemos Joseph F. Viverette
Baltimore		D. F. Hagner	
Charlotte		E. F. MacDonald Stuart P. Fishburne	

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—Cont.

PRESIDENTS and VICE PRESIDENTS—Cont.

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Atlanta	Harold T. Patterson Monroe Kimbrel	Harry Brandt J. E. McCorvey Richard A. Sanders Charles T. Taylor	John T. Harris Brown R. Rawlings R. M. Stephenson
Birmingham		Edward C. Rainey	
Jacksonville		T. C. Clark	
Nashville		Robert E. Moody, Jr.	
New Orleans		Morgan L. Shaw	
Chicago	Charles J. Scanlon Hugh J. Helmer	Ernest T. Baughman Paul C. Hodge Richard A. Moffatt Leland M. Ross Bruce L. Smyth	A. M. Gustavson L. H. Jones H. J. Newman Harry S. Schultz Jack P. Thompson
Detroit		Russel A. Swaney	
St. Louis	Darryl R. Francis Dale M. Lewis	Leonall C. Andersen Gerald T. Dunne Homer Jones John W. Menges Joseph C. Wotawa	Marvin L. Bennett W. W. Gilmore Stephen Koptis Howard H. Weigel Orville O. Wyrick
Little Rock		John F. Breen	
Louisville		Donald L. Henry	
Memphis		Eugene A. Leonard	
Minneapolis	Hugh D. Galusha, Jr. M. H. Strothman, Jr.	W. C. Bronner Kyle K. Fossum C. W. Groth Howard L. Knous	F. J. Cramer L. G. Gable Douglas R. Hellweg
Helena		Clement A. Van Nice	
Kansas City	George H. Clay John T. Boysen	Wilbur T. Billington Raymond J. Doll Carl F. Griswold, Jr. Maurice J. Swords Clarence W. Tow	D. R. Cawthorne J. R. Euans M. L. Mothersead R. E. Thomas
Denver		John W. Snider	
Oklahoma City		Howard W. Pritz	
Omaha		George C. Rankin	

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANKS and BRANCHES, Dec. 31, 1967—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 T. W. Plant Thomas R. Sullivan	James L. Cauthen James A. Parker W. M. Pritchett
El Paso		Fredric W. Reed	
Houston		J. Lee Cook	
San Antonio		Carl H. Moore	
San Francisco	Eliot J. Swan A. B. Merritt	J. L. Barbonchielli D. M. Davenport E. J. Martens J. B. Williams	J. Howard Craven Irwin L. Jennings W. F. Scott
Los Angeles		P. W. Cavan Gerald R. Kelly	
Portland		William M. Brown	
Salt Lake City		Arthur L. Price	
Seattle		W. R. Sandstrom	

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. Swan, President of the Federal Reserve Bank of San Francisco, and Mr. Ellis, President of the Federal Reserve Bank of Boston, were elected Chairman of the Conference and Vice Chairman, respectively, in March 1967, and served in those capacities during the remainder of 1967.

Mr. Donald V. Masten of the Federal Reserve Bank of San Francisco and Mr. Philip A. Shaver of the Federal Reserve Bank of Boston were appointed Secretary of the Conference and Assistant Secretary, respectively, in March 1967, and served during the remainder of the year.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Index

Page

Absorption of exchange charges on checks, legislative recommendation .. 329
Acceptance powers of member banks ... 325
Acceptances, bankers':
  Authority to purchase and to enter into repurchase agreements ... 86–87, 113
  Federal Reserve Bank holdings ... 337, 348, 350
  Federal Reserve earnings on ... 337, 358
  Open market transactions during 1967 ... 356
Assets and liabilities:
  Banks, by classes ... 368
  Board of Governors ... 344
  Federal Reserve Banks ... 348, 353
Balance of payments (*See* U.S. balance of payments)
Bank Examination Schools ... 326
Bank examiners, home mortgage loans to, legislative recommendation ... 332
Bank holding companies:
  Board actions with respect to ... 322
  Legislation relating to tax status of distributions of ... 328
Bank mergers and consolidations ... 321, 374–93
Bank premises, Federal Reserve Banks and branches . 340, 348, 350, 352, 357
Bank supervision by Federal Reserve System ... 318
Banking offices:
  Changes in number ... 370
  Par and nonpar offices, number ... 372
Board of Governors:
  Audit of accounts ... 343
  Building annex ... 343
  Delegation of certain functions, rules on ... 341
  Income and expenses ... 343–46
  Legislative recommendations ... 329
  Litigation ... 333
  Members and officers ... 396
  Policy actions ... 72–84
  Regulations (*See* Regulations)
  Rules, revisions in ... 85, 341
  Salaries:
    Legislation regarding ... 328
    Total for 1967 ... 345
Branch banks:
  Banks, by classes, changes in number ... 370
  Federal Reserve:
    Bank premises ... 340, 357
    Directors ... 401

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

Branch banks—Continued
  Federal Reserve—Continued
    Vice Presidents in charge 419
  Foreign branches of member banks:
    Foreign activities of national banks, revision of Regulation M 73
    Number 323
    Special study 309
Capital accounts:
  Banks, by classes 368
  Federal Reserve Banks 349, 351, 353
Chairmen and Deputy Chairmen of Federal Reserve Banks 400
Clearing and collection:
  Par clearance, legislative recommendation 329
  Revision of Regulation J and revocation of Regulation G 77
  Volume of operations 362
Collateral for Federal Reserve credit, legislative recommendation 329
Commercial banks:
  Assets and liabilities 368
  Banking offices, changes in number 370
  Foreign credit restraint program 17–21, 78, 82, 327
  Number, by class of bank 368
  Par clearance, legislative recommendation 329
Commingled investment account prohibited, court opinion 333
Condition statement of Federal Reserve Banks 348–53
Defense production loans 338, 365
Deposits:
  Banks, by classes 368
  Demand deposits:
    Graduated reserve requirements on, legislative recommendation 330
    Reserve requirements against certain demand deposits, increases 81
  Federal Reserve Banks, tables 349, 351, 353, 366
  Time and savings deposits:
    Christmas and vacation club accounts, savings and certain time deposits, reductions in reserve requirements 72
    Maximum permissible interest rates on:
      Flexible authority to set, extension of law 327
      Table 363
Deputy Chairmen of Federal Reserve Banks 400
Directors, Federal Reserve Banks and branches 401
Discount rates at Federal Reserve Banks:
  Decrease 74
  Increase 79
  Table 364

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

INDEX

Page

Discounts and advances by Federal Reserve Banks:
  Collateral for Federal Reserve credit, legislative recommendation 329
  Earnings on 337, 358
  Special study 309
  Volume 338, 348, 350, 352, 354, 362, 366
Dividends:
  Federal Reserve Banks 336, 359, 360
  Member banks 369
Earnings:
  Federal Reserve Banks 336, 358, 360
  Member banks 369
Examinations:
  Federal Reserve Banks 318
  Foreign banking and financing corporations 325
  Member banks 318
  State member banks 318
Executive officers of member banks, loans to:
  Amendment of Federal Reserve Act 327
  Amendment to Regulation O excluding certain indebtedness arising from use of charge accounts and credit-card or check-credit plans .. 76
  Reporting requirements 320
Expenses:
  Board of Governors 343–46
  Federal Reserve Banks 336, 358, 360
  Member banks 369
Federal Advisory Council 399
Federal agency obligations, Federal open market operations and/or Federal Reserve Bank holdings 87, 327, 348, 350, 356
Federal Open Market Committee:
  Audit of System Account 318
  Continuing authorizations 114
  Foreign currency operations (*See* Foreign currency operations)
  Meetings 85, 398
  Members and officers 398
  Operations in domestic securities, review 207, 208–75
  Operations in foreign currencies, review 14–17, 207, 276–308
  Policy actions 85–206
  Rules, revisions in 85, 341
  U.S. Govt. agency obligations (*See* Federal agency obligations)
Federal Reserve Act:
  Section 9A, addition to law prohibiting gambling activities and lottery ticket sales by State member banks 328
  Section 10, amendment, salaries of members of Federal Reserve Board 328

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

Federal Reserve Act—Continued
Section 19, legislative recommendation relating to absorption of exchange charges for clearing checks . . . 329
Sections 19 and 14(b), amendments relating to interest on deposits, reserves of member banks, and open market operations . . . 327
Section 22(g), amendment relating to loans to executive officers of member banks . . . 76, 327
Section 24, amendment relating to real estate loans by national banks . . 327
Federal Reserve Agents . . . 400
Federal Reserve Banks:
Assessment for expenses of Board of Governors . . . 345, 358
Bank premises . . . 340, 348, 350, 352, 357
Branches (*See* Branch banks, Federal Reserve)
Capital accounts . . . 349, 351, 353
Chairmen and Deputy Chairmen . . . 400
Collection of checks and other items, revision of Regulation J . . . 77
Condition statement . . . 348–53
Directors . . . 401
Discount mechanism, special study . . . 309
Discount rates:
Decrease . . . 74
Increase . . . 79
Table . . . 364
Dividends . . . 336, 359, 360
Earnings and expenses . . . 336, 358, 360
Examination . . . 318
Foreign and international accounts . . . 339
Lending authority of, legislative recommendation . . . 329
Officers and employees, number and salaries . . . 362
Presidents and Vice Presidents . . . 419
Profit and loss . . . 359
Purchase of obligations of foreign govts., legislative recommendation . . 332
U.S. Govt. securities:
Holdings . . . 337, 348, 350, 352, 354, 366
Open market transactions during 1967 . . . 356
Special certificates purchased directly from the U.S. . . . 355
U.S. Govt. agency obligations (*See* Federal agency obligations)
Volume of operations . . . 338, 362
Federal Reserve notes:
Condition statement data . . . 348–53
Cost of printing, issue, and redemption . . . 345
Interest paid to Treasury . . . 336, 359, 360
Federal Reserve System:
Bank supervision by . . . 318

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

Federal Reserve System—Continued
  Foreign credit restraint program 17–21, 78, 82, 327
  Foreign currency operations (*See* Foreign currency operations)
  Map of Federal Reserve districts 395
  Membership 320
  Public information (*See* Public information)
  Special studies 309
  Training activities 326
Financial flows in 1967 46
Fiscal agency function, premature disclosure of information 338
Foreign activities of national banks, revision of Regulation M 73
Foreign banking and financing corporations:
  Amendments to Regulation K 73
  Examination and operation 325
Foreign branches of member banks:
  Foreign activities of national banks, revision of Regulation M 73
  Number 323
  Special study 309
Foreign credit restraint program 17–21, 78, 82, 327
Foreign currency operations:
  Authorization for 88, 114, 133, 150, 184, 192, 205
  Federal Reserve earnings on foreign currencies 358
  Foreign Currency Directive 92, 114
  Legislative recommendation regarding purchase of obligations of foreign govts. by Federal Reserve Banks 332
  Review of operations 14, 207, 276–308
Gold certificate reserves of Federal Reserve Banks, tables 348, 350, 352
Govt. securities (*See* U.S. Govt. securities)
Guidelines for banks and nonbank financial institutions 17–21
Home mortgage loans to bank examiners, legislative recommendation . . . 332
Income, expenses, and dividends, member banks 369
Information, public (*See* Public information)
Insured commercial banks:
  Assets and liabilities 368
  Banking offices, changes in number 370
  Graduated reserve requirements on demand deposits, legislative recommendation 330
  Par clearance, legislative recommendation 329
Interest on deposits:
  Maximum rates on time and savings deposits, flexible authority for supervisory agencies to set, extension of law 327
Interest rates:
  Discount rates at Federal Reserve Banks:
    Decrease 74

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

Interest rates—Continued
  Discount rates at Federal Reserve Banks—Continued
    Increase 79
    Table 364
  Regulation V loans 365
  Review of monetary policy, bank reserves, and interest rates 3
  Time and savings deposits:
    Maximum rates on, flexible authority for supervisory agencies to set, extension of law 327
    Table of maximum permissible rates 363
Interlocking relationships between national bank and its commingled investment account prohibited, court opinion 333
International liquidity plan 311
Investments:
  Banks, by classes 368
  Commingled investment account by national bank prohibited, court opinion 333
  Federal Reserve Banks 348, 350, 352
  Revenue bond underwriting by national banks, court decision under review 335
  Small business investment companies, acquisition of stock of, legislation 327
Legislation:
  Antitrust exemptions for voluntary foreign credit restraint agreements or programs, extension 327
  Bank examiners, home mortgage loans to, legislative recommendation 332
  Executive officers of member banks, loans to 327
  Gambling activities and lottery ticket sales by State member banks prohibited 328
  Lending authority of Reserve Banks, legislative recommendation 329
  Margin requirements for over-the-counter securities, legislative recommendation 331
  Par clearance, legislative recommendation 329
  Public information, amendment of law with respect to 341
  Purchase of obligations of foreign govts. by Federal Reserve Banks, legislative recommendation 332
  Rate ceilings on deposits, flexible authority for Federal supervisory agencies to set maximum, extension 327
  Real estate loans by national banks, amendment to Section 24 of Federal Reserve Act 327
  Reserve requirements:
    Graduated reserve requirements on demand deposits, legislative recommendation 330
    Time deposits of member banks, extension 327
  Salaries of members of Federal Reserve Board 328

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

Legislation—Continued
  Small business investment companies, acquisition of stock of ... 327
  Tax status of bank holding company distributions ... 328
  U.S. Govt. agency obligations, open market operations in, extension ... 327
Liquidity, international monetary plan ... 311
Litigation:
  Baker, Watts & Co. et al. v. *Saxon* ... 335
  Detroit Bank & Trust Co. et al. v. *Saxon and Board of Governors of Federal Reserve System* ... 335
  Investment Company Institute et al. v. *Camp* ... 333
Loans:
  Banks, by classes ... 368
  Executive officers of member banks, loans to (*See* Member banks)
  Federal Reserve Banks:
    Collateral for Federal Reserve credit, legislative recommendation ... 329
    Earnings on discounts and advances ... 337, 358
    Special study on Federal Reserve discount mechanism ... 309
    Volume of discounts and advances ... 338, 348, 350, 352, 362, 366
  Home mortgage loans to bank examiners, legislative recommendation ... 332
  Real estate loans by national banks, legislation ... 327
  Regulation V loans ... 338, 365
Margin requirements:
  Legislative recommendation relating to over-the-counter securities ... 331
  Table ... 363
Member banks:
  Acceptance powers ... 325
  Assets, liabilities, and capital accounts ... 368
  Banking offices, changes in number ... 370
  Examination ... 318
  Executive officers of, loans to:
    Amendment of Federal Reserve Act ... 327
    Amendment to Regulation O excluding certain indebtedness arising from use of charge accounts and credit-card or check-credit plans 76
    Reporting requirements ... 320
  Foreign branches:
    Foreign activities of national banks, revision of Regulations M ... 73
    Number ... 323
    Special study ... 309
  Income, expenses, and dividends ... 369
  Number ... 321, 368
  Par clearance, legislative recommendation ... 329
  Reserve requirements:
    Certain demand deposits, increases in reserve requirements against ... 81

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

Member banks—Continued
  Reserve requirements—Continued
    Christmas and vacation club accounts, savings and certain time deposits, reductions in reserve requirements 72
    Graduated reserve requirements on demand deposits, legislative recommendation 330
    Table 364
    Time deposits, extension of law permitting Board of Governors to fix higher reserve requirements on 327
  Reserves and related items 366
Membership in Federal Reserve System 320
Mergers (*See* Bank mergers and consolidations)
Monetary policy:
  Digest of principal policy actions 22
  Review of monetary policy, bank reserves, and interest rates 3
  Special study of its effects on economic activity 310
Mutual savings banks 368, 370
National banks:
  Assets and liabilities 368
  Banking offices, changes in number 370
  Commingled investment account prohibited, court opinion 333
  Foreign activities of, revision of Regulation M 73
  Foreign branches:
    Number 323
    Special study 309
  Number 321, 368
  Real estate loans, legislation 327
  Revenue bond underwriting, court decision under review 335
Nonbank financial institutions, foreign credit restraint program 17–21, 78, 82, 327
Nonmember banks:
  Assets and liabilities 368
  Banking offices, changes in number 370
Par and nonpar banking offices, number 372
Par clearance, legislative recommendation 329
Policy actions, Board of Governors:
  Discount rates at Federal Reserve Banks:
    Decrease 74
    Increase 79
  Guidelines for foreign credit restraint program 78, 82
  Regulation D, Reserves of Member Banks:
    Christmas and vacation club accounts, savings and certain time deposits, reductions in reserve requirements relating to 72
    Reserve requirements against certain demand deposits, increases in 81

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

Policy actions, Board of Governors—Continued
Regulation F, Securities of Member State Banks:
Amendments 75, 80
Regulation G, Collection of Noncash Items:
Revocation 77
Regulation J, Collection of Checks and Other Items by Federal Reserve Banks:
Revision 77
Regulation K, Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act:
Amendments 73
Regulation M, Foreign Activities of National Banks:
Revision 73
Regulation O, Loans to Executive Officers of Member Banks:
Amendment excluding certain indebtedness arising from use of charge accounts and credit-card or check-credit plans 76
Policy actions, digest 22
Policy actions, Federal Open Market Committee:
Authority to effect transactions in System Account, including current economic policy directive 85–206
Continuing authority directive on domestic operations 86, 113
Continuing authorizations 114
Foreign currency operations:
Authorization for 88, 114, 133, 150, 184, 192, 205
Foreign Currency Directive 92, 114
Presidents of Federal Reserve Banks:
Conference 421
List 419
Salaries 362
Profit and loss, Federal Reserve Banks 359
Public information:
Amendment of law with respect to, and Board and Federal Open Market Committee revised or amended rules to conform 85, 341
Real estate loans by national banks, legislation 327
Record of policy actions (*See* Policy actions)
Regulations, Board of Governors:
D, Reserves of Member Banks:
Christmas and vacation club accounts, savings and certain time desposits, reductions in reserve requirements relating to 72
Reserve requirements against certain demand deposits, increases in .. 81
Delegation of certain functions, rules on 341
F, Securities of Member State Banks:
Amendments 75, 80

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

Regulations, Board of Governors—Continued
G, Collection of Noncash Items:
Revocation ... 77
J, Collection of Checks and Other Items by Federal Reserve Banks:
Revision ... 77
K, Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act:
Amendments ... 73
M, Foreign Activities of National Banks:
Revision ... 73
O, Loans to Executive Officers of Member Banks:
Amendment excluding certain indebtedness arising from use of charge accounts and credit-card or check-credit plans ... 76
Repurchase agreements:
Bankers' acceptances ... 86–87, 113, 348, 350, 356
Federal agency obligations ... 348, 350, 356
U.S. Govt. securities ... 86, 348, 350, 355, 356, 366
Reserve requirements:
Graduated reserve requirements on demand deposits, legislative recommendation ... 330
Member banks:
Certain demand deposits, increases in reserve requirements against 81
Christmas and vacation club accounts, savings and certain time deposits, reductions in reserve requirements ... 72
Table ... 364
Time deposits of, extension of law permitting Board of Governors to fix higher reserve requirements on ... 327
Reserves:
Federal Reserve Banks, tables ... 348–53
International liquidity plan ... 311
Member banks:
Reserve requirements (*See* Reserve requirements)
Reserves and related items ... 366
Review of monetary policy, bank reserves, and interest rates ... 3
Revenue bond underwriting by national banks, court decision under review 335
Salaries:
Board of Governors ... 328, 345
Federal Reserve Banks ... 362
Savings bond meetings ... 337
Savings deposits (*See* Deposits)
Securities (*See also* U.S. Govt. securities):
Margin requirements for over-the-counter securities, legislative recommendation ... 331
Member State banks, amendments to Regulation F ... 75, 80

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

Securities—Continued
Revenue bond underwriting by national banks, court decision under review ... 335
Small business investment companies, acquisition of stock of, legislation ... 327
U.S. Govt. agency obligations (*See* Federal agency obligations)
Special Drawing Rights ... 311
Special studies by Federal Reserve System ... 309–10
State member banks:
Assets and liabilities ... 368
Banking offices, changes in number ... 370
Changes in control of, reports on ... 319
Examination ... 318
Foreign branches, number and special study ... 309, 323
Gambling activities and lottery ticket sales by, prohibited ... 328
Mergers and consolidations ... 321, 374–93
Number ... 321, 368
Securities of, amendments to Regulation F ... 75, 80
Swap arrangements (See Foreign currency operations)
System Open Market Account:
Audit ... 318
Authority to effect transactions in ... 85–206
Operations in domestic securities, review ... 207, 208–75
Operations in foreign currencies, review ... 14, 207, 276–308
Time deposits (*See* Deposits)
Training activities ... 326
U.S. balance of payments:
Foreign credit restraint program ... 17–21, 78, 82, 327
International liquidity plan ... 311
Review ... 37
U.S. Govt. securities:
Bank holdings, by class of bank ... 368
Federal Reserve Bank holdings ... 337, 348, 350, 352, 354, 366
Federal Reserve earnings on ... 336, 358
Open market operations ... 85–206, 207, 208–75, 356
Repurchase agreements ... 86, 348, 350, 355, 356, 366
Special certificates purchased directly from the U.S. ... 355
Study of market by Treasury and Federal Reserve ... 309
U.S. Govt. agency obligations (*See* Federal agency obligations)
V loans ... 338, 365

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis