55th Annual Report

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

Washington, May 15, 1969

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-Fifth Annual Report of the Board of Governors of the Federal Reserve System. This report covers operations for the year 1968.

Yours respectfully,

Wm. McC. Martin, Jr., *Chairman.*

Part 1—Review of 1968

Part 2—Records, Operations, and Organization

In 1968 restraint of inflationary pressures was the principal economic problem facing monetary policy. Federal Reserve efforts to curb such pressures, to foster a sustainable rate of economic expansion, and to help attain reasonable equilibrium in the balance of payments were aided by enactment in June of a package of fiscal restraint, including a 10 per cent surtax on personal and corporate income and certain constraints on Federal spending. As fiscal restraint was added to the monetary-fiscal policy mix, the rate of expansion in economic activity began to moderate in the second half of the year. But the rate of economic expansion remained higher than had generally been expected, and higher than appeared desirable in view of the need to restrain price advances and reduce inflationary expectations. As a result, monetary policy, which had become somewhat easier in the summer, moved toward greater restraint in the autumn. And as the year drew to a close, the banking system was again under reserve pressure, and most interest rates had reached new highs.

During the first half of 1968, expansion in real gross national product accelerated to an annual rate in excess of 6 per cent from just under 4 per cent in the second half of 1967. This surge in economic activity was spurred in the early months of the year by expanded consumer expenditures, continued increases in Federal defense outlays, and growth in residential construction. During the spring, growth in such final demands slowed, but a fast pace of expansion in over-all economic activity was sustained by a marked increase in inventory investment, partly in preparation for a possible steel strike in the summer. With demands generally strong and unit labor costs rising, price increases continued to be large and widespread over the first half.

The strengthening of domestic demand for goods and services, together with rising prices of domestically produced goods, led to a sharp increase in imports in the first half of the year. Although exports also were rising more rapidly than they had during most of 1967, the surplus in U.S. international transactions in goods and services dropped markedly.

The surge in economic activity, the deterioration in the U.S. foreign trade position, and the continuing very large deficit in the Federal budget highlighted the need for measures of fiscal restraint. While such measures were being considered, monetary policy actions were taken to restrain credit expansion and to make credit more costly. Effective in mid-January, reserve requirements against demand deposits in excess of $5 million at all member banks were increased by ½ of a percentage point; this action had been announced in late December 1967. Monetary restraint was intensified in subsequent months by restrictive open market operations and two increases in the discount rate, and during the March–June period there was little growth in bank reserves.

In mid-March the Federal Reserve discount rate was raised from 4½ to 5 per cent to strengthen the international position of the dollar and to combat domestic inflationary pressures. Evidences of domestic overheating were widespread. At the same time there was a large-scale movement out of many national currencies into gold, based partly on fears of a change in U.S. gold policy. The Governors of central banks actively participating in the gold pool met in Washington on March 16 and 17 and reached agreement on a number of issues connected with the role of gold and with currency speculation. Pressures in the gold market subsequently abated.

The Federal Reserve discount rate was raised again, to 5½ per cent, in mid-April. This increase, together with more restrictive open market operations, led to a further rise in market interest rates. At the same time, Regulation Q ceiling rates on large-denomination time certificates of deposit were raised—from 5½ per cent to a scale ranging from 5½ to 6¼ per cent depending on maturity—so as to avert a sharp contraction in outstanding bank deposits and bank credit. With market interest rates near the new Regulation Q ceilings, time deposit growth slowed and bank credit expansion moderated in the second quarter. Outstanding large-denomination CD's declined somewhat during the quarter, and banks with foreign branches greatly increased their borrowings of Euro-dollars.

Meanwhile, net inflows of deposits to savings and loan associations and mutual savings banks continued at around the reduced pace that had come to prevail since the last quarter of 1967. These institutions became somewhat more cautious, however, in making commitments for mortgages because they did not know how large a volume of savings would be withdrawn at the midyear interest-crediting period.

Passage of fiscal restraint legislation led to market expectations of declining interest rates, predicated for the most part on anticipations of a slower economic growth and an easier monetary policy. Longer-term interest rates and Treasury bill rates declined during the first part of the summer. A large volume of reserves was provided during the summer through System open market operations, which were conducted with a view to accommodating tendencies for short-term interest rates to decline and for somewhat less firm money market conditions to develop in the wake of the fiscal restraint legislation. Federal Reserve discount rates were reduced from 5½ to 5¼ per cent in mid-August, primarily to move the rate into closer alignment with the reduced level of short-term rates.

The reduced level of market interest rates enabled banks to acquire more funds through an accelerated expansion of time and savings deposits, particularly large-denomination CD's. As a result, banks greatly expanded their investments in U.S. Government and State and local government securities, and the prime loan rate charged businesses was reduced in late September. Net inflows of funds to thrift institutions did not show a resurgence, but they were sustained at around their previous reduced rates; and with uncertainties removed, these institutions increased their mortgage commitment activity.

As the summer progressed, demands for goods and services in the economy turned out to be stronger than most observers had anticipated. Private credit demands were exceptionally large during the third quarter—reflecting in part a sharp rise in consumer spending on durable goods as well as increased outlays by State and local governments. Business credit demands were sustained by a renewed expansion in fixed investment and by inventory accumulation at a rate that was only somewhat lower than in the second quarter. However, fiscal restraint was beginning to take hold. The rate of increase in Federal spending dropped sharply in the third quarter and declined further in the fourth. And as the higher tax rates reduced the growth of disposable personal income, consumer spending showed only a minor further rise after the burst of buying of durable goods in the summer.

Nevertheless, there was no diminution of price pressures. And an inflationary psychology was becoming embedded in decision-making for key sectors of the economy. Most notably, businesses enlarged their plans to buy plant and equipment. In financial markets, long-term interest rates rose sharply in the last few months of the year to new highs, while stock prices also advanced markedly from around midsummer until the last few weeks of the year.

In an effort to resist inflationary pressures and psychology, monetary policy actions became more restraining. Reserves were provided less readily through open market operations in the autumn, a period when a continued tendency for bank credit to expand rapidly suggested that both credit demands and demands for goods and services were remaining relatively strong. In these circumstances member banks were forced to increase their borrowings from the Federal Reserve to obtain reserve funds, and the rates on Federal funds and 3-month Treasury bills rose from their lows of the late summer and early autumn.

In mid-December the Federal Reserve discount rate was raised to 5½ per cent, and this action, in combination with firming through open market operations, led to further upward movements in interest rates.

As the year drew to a close, short-term market interest rates were above Regulation Q ceilings. Hence, banks were unable to roll over all of their maturing large-denomination CD's, and a sizable attrition of such outstanding deposits began to develop. The reduced supply and higher cost of funds to banks, including the high cost of Euro-dollar funds, led the banks to undertake adjustments that affected the terms and availability of credit to borrowers. In particular, banks raised the prime loan rate charged businesses by two stages in December to a level of 6¾ per cent; and they sharply reduced their acquisitions of U.S. Government and—late in the year—State and local government securities. Net inflows of funds to nonbank savings institutions increased at a slower rate toward the year-end—contributing, along with generally higher market interest rates, to a stiffening of borrowing costs and other terms in the mortgage market.

While monetary restraint was developing in the fourth quarter, the money stock rose at a somewhat faster rate than in the third. The difference in the rate of increase between the two quarters was influenced to a large extent by short-run net transfers of funds between private demand deposits and U.S. Government deposits. Over the second half as a whole, the money stock rose at an annual rate of just over 6 per cent, a somewhat slower rate of increase than in the first half of the year.

For the year as a whole the U.S. balance of payments showed an over-all surplus on either of the two usual methods of calculation, despite the virtual disappearance of the merchandise trade surplus. A massive net inflow of private capital took place through a number of channels. Foreigners supplied ample funds to the Euro-dollar deposit market, thus facilitating the borrowing there by U.S. banks. Foreign investors purchased an unprecedented volume of U.S. equity securities as well as of issues sold abroad by U.S. companies to comply with the requirements of the mandatory controls imposed at the beginning of the year. The Federal Reserve's foreign credit restraint program (discussed on pages 57–59), together with market conditions, produced a reversal of the previous year's net outflow of bank credit. And foreign monetary authorities made large purchases of U.S. Treasury nonmarketable securities.

The Federal Reserve, together with the U.S. Treasury, continued to participate actively during the year in the cooperative actions taken by monetary authorities of various countries to deal with speculation in the gold and foreign exchange markets.

The Federal Reserve's reciprocal currency arrangements with central banks of other countries were expanded further. The total swap network was enlarged from $7,080 million to $10,505 million. Substantial use was made of these swap facilities by central banks of other countries during the year. On December 31 outstanding swap drawings by the Bank of England and the Bank of France totaled about $1.6 billion. Federal Reserve commitments under outstanding swap drawings from continental European central banks, which had been about $1.8 billion at the end of 1967, were liquidated before the end of July; subsequently, the System drew again on its swap facilities with the Swiss and German central banks, and at the end of the year it had outstanding commitments of about $400 million. □

Period or announcement date	*Action*	*Purpose*
January 1	Issued revised and substantially more restrictive guidelines for banks and other financial institutions for restraint of foreign credits as a part of the President's balance of payments program.	To strengthen the U.S. balance of payments by achieving a net inflow of at least $500 million during 1968.
January through late June	Directed that System open market operations be conducted with a view to maintaining firm conditions in the money market and, from time to time, attaining firmer conditions or facilitating adjustments to increases in Federal Reserve Bank discount rates, with provisions for modification of operations depending on the course of bank credit developments.	To foster financial conditions conducive to resistance of inflationary pressures and to attainment of reasonable equilibrium in the country's balance of payments.
March 11	Imposed a new margin requirement of 70 per cent on loans made by "other lenders" (i.e., other than banks, brokers, and dealers) for the purpose of purchasing or carrying registered equity securities. Imposed a new margin requirement of 50 per cent on such loans made by banks or "other lenders" against securities convertible into registered equity securities. Lowered the margin requirement on such loans by brokers and dealers to 50 per cent.	To broaden the coverage of, and in most respects to tighten, the Board's regulations governing the use of credit in stock market transactions.
March 13	Announced revisions in the guidelines for banks and nonbank financial institutions issued under the President's balance of payments program.	To implement an agreement reached between the Governments of Canada and the United States.

Period or announcement date	*Action*	*Purpose*
March 14	Discount rates increased from 4½ to 5 per cent at 9 Reserve Banks, effective March 15. (By March 22, the 5 per cent rate was in effect at all Reserve Banks.)	To strengthen the international position of the dollar and to curb inflationary pressures in the domestic economy.
April 18	Discount rates increased from 5 to 5½ per cent at 3 Reserve Banks, effective April 19. (By April 26, the 5½ per cent rate was in effect at all Reserve Banks.)	To restrain intensifying inflationary pressures and to strengthen the position of the dollar at home and abroad.
	Maximum interest rates payable by member banks on single-maturity time deposits of $100,000 or more revised, effective April 19, 1968, from 5½ per cent on all maturities to: *Per cent* — *Maturity group* 5½ — 30-59 days 5¾ — 60-89 days 6 — 90-179 days 6¼ — 180 days and over	To avoid a sharp contraction in outstanding bank deposits and bank credit.
June 7	Increased the margin requirement on loans by banks, brokers and dealers, and other lenders for the purpose of purchasing or carrying registered equity securities from 70 to 80 per cent. Increased the margin requirement on such loans by these lenders against securities convertible into registered equity securities from 50 to 60 per cent.	To prevent excessive use of credit to finance transactions in securities.
Late June through early September	Directed that System open market operations be conducted with a view to accommodating tendencies for short-term interest rates to decline and for somewhat less firm money market conditions to develop in	To foster financial conditions conducive to sustainable economic growth, continued resistance to inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

	connection with enactment of fiscal restraint legislation and to facilitating orderly adjustments to the reduction (in mid-August) in Federal Reserve Bank discount rates, with provisions for modification of operations depending on the course of bank credit developments.	
August 15	Discount rate reduced from 5½ to 5¼ per cent at one Reserve Bank, effective August 16. (By August 30, the 5¼ per cent rate was in effect at all Reserve Banks.)	To align the discount rate with the change in money market conditions that had occurred chiefly as a result of the enactment of the tax increase and the related expenditure constraints and the associated expectations of reduced Treasury demand for financing.
Early September to mid-December	Directed that System open market operations be conducted with a view to maintaining about the prevailing conditions in money and short-term credit markets, with provisions for modification of operations depending on the course of bank credit developments.	To foster financial conditions conducive to sustainable economic growth, continued resistance to inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.
After mid-December	Directed that System open market operations be conducted with a view to attaining firmer conditions in money and short-term credit markets while taking account of the effects of other possible monetary policy action, with provision for modification of operations depending on the course of bank credit developments.	To foster financial conditions conducive to the reduction of inflationary pressures, with a view to encouraging a more sustainable rate of economic growth and attaining reasonable equilibrium in the country's balance of payments.
December 17	Discount rates increased from 5¼ to 5½ per cent at 9 Reserve Banks, effective December 18. (By December 20, the 5½ per cent rate was in effect at all Reserve Banks.)	To foster financial conditions conducive to the reduction of inflationary pressures, with a view to encouraging a more sustainable rate of economic expansion and attaining reasonable equilibrium in the country's balance of payments.
December 23	Announced revised guidelines for restraint of foreign credits by banks and other financial institutions.	To continue the President's program, announced on January 1, 1968, to strengthen the U.S. balance of payments.

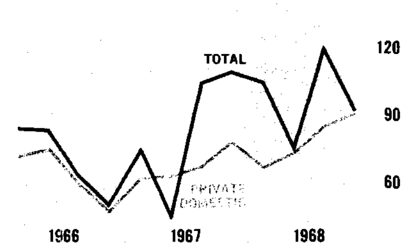
During 1968 the changing mix of fiscal and monetary policies—both as it developed and as it was expected to develop—gave rise to sharp variations in attitudes of credit market participants and to large swings in both the cost and the availability of lendable funds. Demands for credit remained generally strong, buoyed by a continued expansion of economic activity, which slowed only moderately after enactment of fiscal restraint measures at midyear. Demands for credit were larger, in fact, in the second half of the year than in the first—reflecting a third-quarter surge in consumer spending, increased activity in real estate markets, large offerings of State and local government securities, and sizable borrowing by the Federal Government to finance a larger-than-seasonal deficit.

Early in the year, with the Federal budget continuing to be expansive, with prospects for fiscal restraint in doubt, and with a progressive firming in monetary policy under way, market rates of interest rose. By spring, these higher rates had resulted in a moderation of inflows of funds to depositary institutions, particularly banks. Market rates began to decline, however, in response to the midyear shift in the fiscal-monetary policy mix. These declines made it possible for banks to more than recoup their earlier losses of CD funds and to increase sharply the share they advanced of total funds raised in credit markets.

As the second half of the year progressed, it became apparent that demand forces in the economy were stronger than most analysts had anticipated and that the restrictive impact of the fiscal legislation was going to be felt much more slowly than had been expected earlier. Monetary policy became more restrictive in the last few months of the year. Although the resulting constraint on reserve growth and the rise in market rates of interest began to slow deposit inflows to banks—and hence the increase in bank credit—it was not until the last few weeks of the year that the availability of funds to banks was sharply curtailed.

1. Volume raised by nonfinancial sectors

BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, ANNUAL RATES



2. Shares in funds supplied by selected institutions

PER CENT

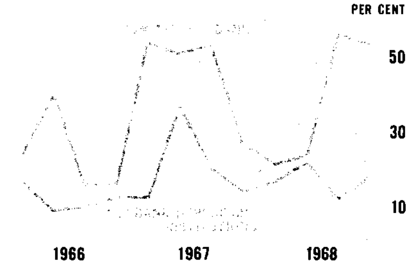


TABLE 1: BORROWING BY TYPE OF INSTRUMENT
In billions of dollars

Type of instrument	Calendar year 1967					Calendar year 1968				
	I	II	III	IV	Year	I	II	III	IV	Year
U.S. Govt. securities [1,2]	.5	−8.8	9.4	11.6	12.7	6.5	−2.7	8.4	4.7	16.9
State and local govt. issues [1]	4.1	3.8	3.1	3.6	14.6	3.7	3.8	4.6	4.3	16.5
Corporate securities [1]	5.4	6.1	6.6	6.1	24.1	5.0	5.5	5.0	5.4	21.0
Consumer instalment debt [3]	.6	.6	1.0	1.1	3.3	1.8	2.1	2.5	2.6	9.0
Mortgage debt [3]	3.9	5.1	6.6	7.1	22.7	6.8	6.5	6.4	7.3	27.1

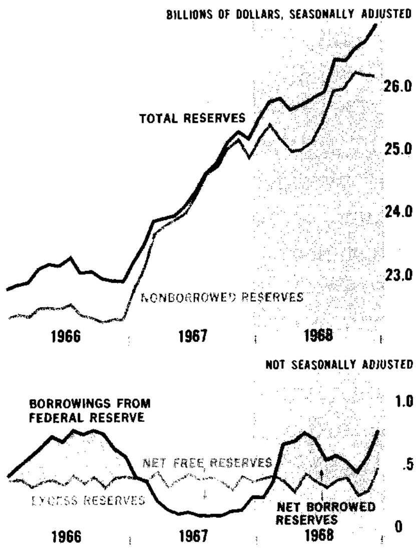
[1] Quarterly and yearly totals, not seasonally adjusted.
[2] Total net issues, flow of funds data.
[3] Quarterly and yearly changes, seasonally adjusted.

TABLE 2: BANK CREDIT
Seasonally adjusted changes, in billions of dollars

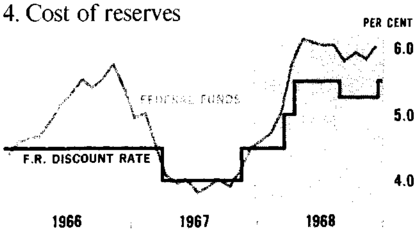
Component	Calendar year 1967 [1]					Calendar year 1968 [1]				
	I	II	III	IV	Year	I	II	III	IV	Year
Total loans and investments	11.0	4.7	12.9	7.4	36.0	6.0	5.3	17.0	9.7	38.0
Investments:										
U.S. Govt. securities	3.7	−1.4	5.5	−1.7	6.1	.2	.5	3.6	−2.3	2.0
Other securities	3.7	3.8	1.5	3.7	12.7	2.2	.3	3.1	3.5	9.1
Loans:										
Total	3.7	2.2	5.8	5.5	17.2	3.6	4.5	10.3	8.5	26.9
Business	2.3	1.9	1.5	2.0	7.7	1.5	1.8	2.3	2.8	8.4
Consumer	.2	.2	.7	.7	1.8	1.0	.8	1.5	1.6	4.9
Real estate	.7	.8	1.4	1.7	4.6	1.7	1.3	1.3	2.2	6.5
Securities	.4	−0.9	2.2	−0.4	1.3	−0.5	−0.5	3.8	−1.1	1.7

[1] Quarterly data are seasonally adjusted.
NOTE.—Figures for all commercial banks.

3. Bank reserves and borrowings



4. Cost of reserves



5. Interest rates

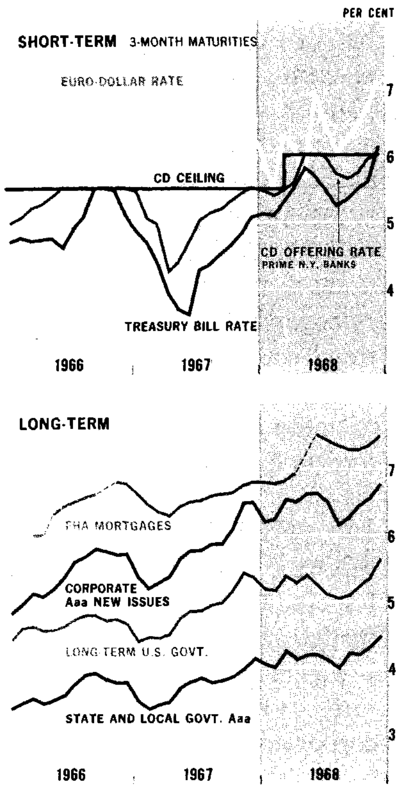


TABLE 3: DEPOSIT FLOWS

Annual rate of change, in per cent

Item	Calendar year 1967 [1]					Calendar year 1968 [1]				
	I	II	III	IV	Year	I	II	III	IV	Year
Total member bank deposits	15.4	8.7	13.7	7.2	11.7	7.0	1.2	13.1	12.4	8.6
Money stock	6.6	6.5	7.0	4.9	6.4	4.6	8.7	4.5	7.4	6.5
Time and savings deposits at banks	19.7	16.2	15.8	9.1	16.1	7.0	3.2	17.9	15.7	11.3
Savings accounts in nonbank thrift institutions	9.5	11.0	9.4	6.4	9.4	6.1	5.9	6.1	6.3	6.3

[1] Quarterly data are seasonally adjusted.

FIRST HALF OF YEAR

Demands for credit were relatively large in the first half of 1968, but as Federal Reserve monetary policy moved further toward restraint, interest rates rose fairly steadily and bank credit expansion was curtailed by spring. The rise in interest rates was accentuated at times by doubts as to whether the Congress would enact restrictive fiscal legislation, by uncertainties concerning prospects for peace in Vietnam, and by developments in international gold and foreign exchange markets. As enactment of fiscal restraint began to seem more likely in late spring, interest rates tended to stabilize, and some even began to decline. This trend was also encouraged by developments with respect to the Vietnam conflict and by progress in resolving difficulties related to international liquidity and the difficulties in the gold and foreign exchange markets.

DEMANDS FOR CREDIT

With the rapid expansion in economic activity, private demands for credit were well sustained during the first half of 1968. A further increase in plant and equipment outlays early in the year —together with continued efforts to build liquidity and restructure outstanding debt—led to relatively heavy public offerings of corporate securities, although these offerings were somewhat below the exceptional 1967 pace. Business borrowing of a shorter-term nature, through bank loans and dealer-placed commercial paper, began to accelerate in the spring, probably in response to financing of increased tax payments as well as more rapid accumulation of inventories.

A sharp rise in disposable personal income in the early months of 1968—when there was a large upward adjustment in social security benefits and a substantial advance in the minimum wage —led to greatly expanded consumer expenditures. This increase in outlays was concentrated in durable goods and was financed in part by a sharp rise in consumer instalment debt. The expansion in mortgage debt outstanding continued at a pace approximately as rapid as that reached in the latter half of 1967, when the impact of the late 1966 and early 1967 easing of monetary policy was reflected in a marked recovery in housing starts and construction outlays.

Borrowing in the capital markets by State and local governments also was large over the first half of the year—nearly equaling the record volume in the first half of 1967. Most of this borrowing was to cover continued heavy expenditures, although there was also a pronounced rise in issues of industrial revenue bonds—generated by fears that Federal tax exemption on these bonds would be removed.

Cash borrowing by the Federal Government continued to be sizable in the first quarter of 1968, when a further sharp rise in expenditures contributed to a sustained large budgetary deficit. Market doubts about the willingness of the Congress to enact fiscal restraint legislation that would reduce the huge deficit ($25 billion in the fiscal year 1968) contributed to upward pressures on interest rates. Federal demands in credit markets dropped sharply in the second quarter of 1968 when the Government drew down its cash balances contraseasonally as an alternative to borrowing to finance current outlays.

AVAILABILITY AND COST OF CREDIT

With increasing domestic and international pressures on the dollar and in the absence of fiscal action, the Federal Reserve had begun in late 1967 to implement a variety of measures designed to limit the availability and to increase the cost of credit. The discount rate was raised three times—from 4 per cent to 5½ per cent in steps of ½ percentage point—between November 1967 and April 1968. An increase of ½ percentage point in reserve requirements against demand deposits in excess of $5 million at member banks became effective around mid-January. Moreover, increasing pressure was placed upon member bank reserve positions through System open market operations.

As a result of these various policy actions, nonborrowed reserves of member banks declined slightly over the second quarter of 1968, after having risen at an annual rate of 4.5 per cent in the first quarter. Although member bank borrowings at the Reserve Banks increased, total reserves showed virtually no change in the spring quarter, following a relatively rapid rise in the winter. On a monthly-average basis, member bank borrowings reached a peak of nearly $750 million in May, roughly three times the January average.

The progressive tightening in money market conditions early in the year was reflected in a rise in the Federal funds rate—the rate at which banks lend excess reserves on an overnight basis—to 6 per cent and above in late spring as the availability of reserves to banks was restrained relative to demand. Commercial paper rates also rose rapidly: two increases in prime lending rates at banks—in November 1967 and in April 1968—induced some borrowers to shift to open market paper for funds. By mid-May most short-term rates had surpassed the peak levels reached in 1966, and the market rate on 3-month Treasury bills reached a high of 5.92 per cent. In late May, however, prospects for fiscal restraint improved and most short-term market rates of interest declined, with market yields on Treasury bills dropping 40 to 60 basis points by midyear.

Long-term interest rates—while fluctuating widely in response to developments in the Vietnam conflict, the proposed fiscal package, and the gold crisis—also tended to move higher during the first half of the year. By mid-May most long-term rates had also surpassed their previous highs. However, these rates began to decline somewhat after enactment of the fiscal restraint program in late June.

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Increased pressure on bank reserve positions, together with rising interest rates, led to reduced inflows of funds to the major types of financial institutions in the first half of 1968. As market yields became more attractive relative to those on time and savings deposits of banks and nonbank savings institutions, flows of funds began to bypass these intermediaries; as a result these institutions accounted for a much smaller share of the total credit supplied than during most of 1967. In the first half of 1968 depositary institutions supplied about 40 per cent of net funds raised in credit markets; this was about half of their share in 1967, but still a somewhat larger share than in the second half of 1966.

Net inflows of time and savings deposits at commercial banks slowed considerably in late 1967 and early 1968 and had dropped further by the spring of 1968. The bulk of the reduction in time and savings deposit growth in the second quarter stemmed from attrition of large-denomination CD's as short-term market rates surpassed the Regulation Q ceiling rates on such deposits.

In the early part of the year banks had been able to maintain their outstanding CD's, on balance, at the peak levels prevailing in late 1967 by keeping offering rates on these instruments at or near the Regulation Q ceiling. By late March, however, short-term interest rates on other money market instruments had risen enough that even the maximum CD offering rate of 5½ per cent then in effect for all maturities was relatively unattractive to large, interest-sensitive investors. In the first 3 weeks of April outstanding CD's at large commercial banks declined by more than $1.0 billion.

The Federal Reserve revised Regulation Q ceilings on CD's in mid-April. The ceiling rate on 30- to 59-day maturities was left at 5½ per cent, but rates for other maturities were raised as follows: to 5¾ per cent on 60 to 89 days, to 6 per cent on 90 to 179 days, and to 6¼ per cent on 180 days or more. Nevertheless, outstanding CD's continued to decline through mid-June, although much less rapidly than earlier. In an effort to offset this run-off of CD funds, major banks borrowed heavily in the Euro-dollar market, and liabilities of head offices to foreign branches increased about $1.5 billion between April and June. By the latter part of June short-term market rates of interest had declined enough to enable banks to attract CD funds again.

While consumer-type time and savings deposit inflows at commercial banks also were sustained comparatively well in the early months of the year, there was a marked slowing in growth following a large outflow of passbook savings deposits after the interest-crediting period at the end of March. Net savings inflows at nonbank thrift institutions—after slowing in late 1967—moderated only slightly further through mid-1968.

The increase in interest rates during the first half of 1968 also made it much more expensive to hold demand deposits, and in spite of an increased need for transactions balances associated with the accelerated rate of economic activity, growth in the money stock—private demand deposits plus currency outside banks—over the first quarter slowed to an annual rate of about 4.5 per cent from the 6.0 per cent pace in the last half of 1967. Although interest rates rose further in the second quarter, growth in the money stock accelerated to an annual rate of about 8.5 per cent. However, much of this increase reflected net transfers out of U.S. Government deposits. Moreover, the sharply increased pace of financial activity during the second quarter probably also contributed to the increase in holdings of money.

In view of reduced deposit inflows and heavy demands for credit, banks backed away from security investments and began to draw down liquidity positions, which they had rebuilt in 1967. After having acquired large amounts of U.S. Government securities during most of 1967, major reporting banks liquidated holdings of Treasury bills almost continuously from late in that year to mid-1968, although they did add to holdings of coupon issues during Treasury financings. Banks also found it necessary to cut back on their acquisitions of other securities, principally State and local government issues.

Pressures on security markets from bank portfolio adjustments were strongest after about mid-March when tight monetary policy and sustained attrition of CD's coincided with an accelerated demand for business loans. Consumer loan demands at banks were relatively strong throughout the first half of 1968, reflecting the broad expansion in consumer expenditures. The net increase in real estate loans at banks continued near the relatively advanced pace of the second half of 1967.

Despite reduced net inflows of funds, savings and loan associations were able to extend mortgage credit in the first half of 1968 at a rate only slightly less than that in the second half of 1967. In 1967 these institutions had used a substantial portion of new savings flows to rebuild liquid assets and to repay borrowing from the Federal Home Loan Bank Board. As in 1967, mutual savings banks devoted a somewhat larger share of their funds to the acquisition of corporate securities in the first half of 1968 than they had in other recent years, apparently to take advantage of the relatively attractive yields available on these securities.

SECOND HALF OF YEAR

In the second half of 1968 financial markets were influenced by several factors: a sharp shift in market attitudes early in the summer, brought on by enactment of the fiscal restraint program; continued and unexpectedly strong credit demands; a reversal of market expectations later in the year, when inflationary psychology became predominant as business activity remained relatively strong; and variation in Federal Reserve policy from accommodation of market ease to increased monetary restraint.

The Revenue and Expenditure Control Act of 1968, enacted in late June, provided for a 10 per cent surtax on personal and corporate incomes and for certain restraints on Federal spending. In the early summer participants in the securities markets generally anticipated that interest rates would decline as a result of the fiscal package, which was expected to moderate economic activity and to reduce reliance on monetary policy, as well as shift the Federal budget position from a large deficit to a modest surplus.

Reflecting these expectations, interest rates did decline as dealers in U.S. Government securities and other debt instruments bid aggressively for securities and increased sharply their inventories of Treasury bills and coupon issues. Positions of U.S. Government securities dealers alone nearly doubled from late June to early August—reaching a level of $6.1 billion during the first week in August. Moreover, commercial banks became large net buyers of both U.S. Government and State and local government securities at the attractive yields still available. Banks financed their purchases in large part through issuance of large-denomination CD's, which became competitive again as short-term market rates of interest declined.

The market yield on 3-month Treasury bills reached a low of 4.89 per cent in early August, about 100 basis points below the mid-May high. Over the same period long-term interest rates declined by 30 to 50 basis points from their earlier highs. In line with the declines in market rates resulting from the change in fiscal stance, Federal Reserve discount rates were reduced from 5½ to 5¼ per cent in mid-August.

By the fourth quarter of 1968, however, market attitudes had changed noticeably, and interest rates rose steadily during the quarter—reaching new highs in most cases. The continuing relatively strong business news and upward price pressures created doubts about the extent to which fiscal restraint was taking hold and led many to expect that monetary authorities would adopt a policy of greater restraint. As price pressures persisted, inflationary expectations became more widespread and were affecting business decisions. For example, plant and equipment surveys revealed that businesses had increased the volume of fixed investment outlays planned for the future. In financial markets prices of common stocks rose sharply, partly in response to a shift in investor interest from bonds to stocks. And Government securities dealers acted to reduce their holdings of both short- and long-term Treasury issues, thereby contributing to upward pressure on interest rates.

The initial decline and the subsequent sharp rise in interest rates during the second half of 1968, of course, were not wholly the product of changing expectations. The System increased the rate at which it supplied bank reserves through open market operations in the third quarter but in the autumn it sharply curtailed the supply of these reserves.

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In the months immediately following passage of the fiscal restraint measures, required reserves of member banks rose sharply in response to increased deposit inflows. The Federal Reserve supplied these reserves through open market operations. During the third quarter nonborrowed reserves of member banks rose at an annual rate of about 13 per cent. Total reserves, however, rose by less, as banks reduced their borrowings at the Federal Reserve Banks.

This expansion in reserves was accompanied by only a slight reduction in the Federal funds rate, since demands for very short-term funds were large. These demands stemmed in part from the build-up in dealer inventories of U.S. Government securities that resulted both from anticipation of interest-rate declines and from dealer underwriting of the large Treasury bill and coupon financings in July and August, which raised $5.7 billion of new cash. Banks too bought large amounts of the new Treasury issues, and major money market banks financed their acquisitions not only through issuance of CD's but also through short-term funds raised in the Federal funds and Euro-dollar markets.

After the initial favorable impact of the fiscal restraint package on market expectations waned, demands for very short-term credit and for bank reserves were reduced as dealers pared their inventories of securities and as banks became less willing buyers of U.S. Government issues. At the same time, however, the Federal Reserve made reserve funds less readily available to the banking system, thereby exerting additional upward pressure on the Federal funds rate and on Treasury bill rates.

Nonborrowed reserves of banks increased at an annual rate of only 3 per cent in the fourth quarter as a whole and actually declined during the last 2 months of the year. With open market operations providing fewer reserves, banks increased their borrowing at the Federal Reserve Banks. They were willing to pay higher interest rates for Euro-dollar funds abroad, although outstanding Euro-dollar borrowings showed little net change over the fourth quarter.

In furtherance of its policy of monetary restraint, the Federal Reserve raised the discount rate from 5¼ to 5½ per cent in mid-December. Later in the month the market rate on 3-month Treasury bills reached a peak of 6.29 per cent, an increase of about 130 basis points in a little more than 4 months. Yields on new high-grade corporate issues (with 5-year call protection) had risen to 6.92 per cent, and those on long-term U.S. Government securities to 5.90 per cent, representing increases of 80 and 100 basis points, respectively, from their August lows.

FINANCIAL FLOWS

During the third quarter of 1968 both the amount of funds raised by all borrowers and the amount raised by the private sector rose sharply to levels well in excess of previous records. All sectors combined raised about one-third more funds than they had on the average during the first two quarters of the year. While cash borrowing by the Federal Government increased substantially, State and local governments, businesses, and consumers together accounted for more than half the rise. Private borrowing was relatively well maintained into the fourth quarter, but the net amount of Treasury cash borrowing declined. After having built up its balance in the third quarter through large new security issues, the Federal Government reduced its cash balance to help finance its relatively large fourth-quarter budgetary deficit.

Consumers increased their borrowing during the summer as they expanded their outlays further, particularly for durable goods. They financed their increased expenditures not only by borrowing more but also by reducing their saving rate sharply.

The volume of corporate borrowing in the bond market after midyear remained at about the first-half rate as plant and equipment expenditures—after declining in the second quarter—rose at a pace nearly as fast as in the first quarter. Short-term borrowing by businesses actually accelerated in the second half, particularly in the last few months of the year when inventory accumulation increased. Demand for mortgage credit also remained large, on balance, as the backlog of housing demand led to a sharp advance in construction activity toward the end of the year. And credit demands by State and local governments reached new highs, reflecting in part the rush to issue industrial revenue bonds before the year-end, when under the terms of legislation enacted at midyear the Federal tax exemption on such bonds of over $5 million would terminate.

BANK DEPOSITS AND CREDIT

Although short-term market rates of interest had begun to fall after mid-May, it was not until the end of June that they had declined enough relative to the maximum rate of interest that banks could pay on time and savings deposits to permit a significant net expansion of such deposits. In the third quarter banks added nearly $3.0 billion to their outstanding CD's, or about $1.0 billion more than they had lost earlier. Inflows of consumer-type time and savings deposits also began to show a rather steady increase from the somewhat reduced pace of the second quarter.

With market rates of interest rising during the autumn, growth in total time and savings deposits at banks moderated, and toward the year-end expansion became quite limited. From the end of September through the first week of December banks were able to add $2 billion to their outstanding CD's—bringing the total increase since midyear to more than $5.0 billion. But by the latter part of December most short-term market rates were again above the Regulation Q ceilings applicable to large-denomination CD's. Outstanding CD's declined considerably more than seasonally during the last 3 weeks of the year.

Meanwhile, inflows of consumer-type time and savings deposits in the fourth quarter were well sustained, in part because some depositors were reluctant to withdraw funds before the year-end interest-crediting period. Stepped-up promotional campaigns and the expansion of the types of time deposit accounts offered by banks also helped to maintain these inflows.

Growth in private demand deposits at banks in the third quarter was reduced sharply from the second-quarter rate, but then spurted in the last 2 months of the year. The third-quarter growth in these deposits was restrained in part by net transfers of funds to U.S. Government deposits. In addition, an abatement in financial activity probably reduced needs for transactions balances. Toward the year-end, reductions in U.S. Government deposits to finance the budgetary deficit, resurgent stock market activity, and possibly expectations of rising interest rates contributed to the expansion in private cash balances. Over the second half as a whole the money stock rose at an annual rate of about 6 per cent, somewhat slower than in the first half.

With their total deposits—time and demand together—rising sharply after midyear, commercial banks were able to accommodate a much greater share of the growing demands for credit. They advanced about half of the total funds raised in markets during that period, compared with slightly more than 20 per cent in the first half.

Banks used a substantial portion of their deposit inflows to acquire securities, in part to rebuild their holdings of liquid assets—which had been depleted earlier in the year—and also to take advantage of the relatively high yields on intermediate- and long-term State and local government and Federal Government issues in a period when interest rates were expected to decline further. In July and August alone banks added $3.5 billion to their holdings of U.S. Government securities, mainly during the Treasury financings. Moreover, banks accelerated their net acquisitions of other securities markedly after midyear. Increases in holdings of securities accounted for about 40 per cent of total bank credit expansion during the third quarter.

In the fourth quarter, with deposit inflows slowing, banks were less active in the securities markets. They reduced their holdings of U.S. Government securities, on balance, in part to help finance continued large loan demands. And by December banks had sharply reduced the rate at which they took State and local government securities into portfolio.

Growth in bank loans accelerated sharply after midyear. But more than a third of the increase in the third quarter was in security loans, reflecting the build-up in dealer inventories. The reversal of market expectations in the autumn led to a reduction in dealer inventories and in outstanding security loans in the last few months of the year.

Business, consumer, and real estate loans at banks all rose more in the second half of the year than in the first half. Business borrowing increased as a result of both accelerated tax payments and a continued high level of economic activity—including the resumption of large expenditures on plant and equipment after midyear and a substantial pick-up in the rate of inventory accumulation in the fourth quarter. By industry category, the rise in business loans was much the largest in retail trade; nevertheless, public utilities, construction, and service industries also increased their borrowing substantially at banks. With sizable demands for loans and with available funds becoming more limited and more costly, banks raised the prime loan rate in three stages from 6¼ per cent (to which it has been reduced by most banks in September) to 7 per cent by shortly after the year-end.

FLOWS TO OTHER DEPOSITARY INSTITUTIONS

The sharp increase in flows of deposits to banks during the second half of 1968 was not matched at savings and loan associations and mutual savings banks. Because the savings that currently flow into these institutions are less interest-sensitive than those that flow into large-denomination CD's, which are an important element in banks' time deposits, the nonbank thrift institutions had not been so adversely affected as banks by the rise in market interest rates in the second quarter. Similarly, they were not so favorably affected by the decline in interest rates during the summer. Over the second half of 1968 as a whole, deposits at nonbank thrift institutions increased at an annual rate of a little more than 6 per cent, only a little faster than in the second quarter.

Savings and loan associations extended mortgage credit in the latter half of 1968 at a somewhat faster pace than they had earlier in the year. They also increased the rate at which they made new mortgage commitments, which had been held back in the spring in anticipation, prior to the tax increase, of a substantial withdrawal of deposits around the midyear interest-crediting period. Mutual savings banks also increased their mortgage lending in the second half; some of this lending was financed by cutbacks in acquisitions of corporate securities. □

Demands, Resource Use, and Prices

1968 marked the eighth consecutive year of expansion in output, employment, and incomes from the cyclical low in early 1961. Real GNP increased by 5 per cent, double the rise of 1967. The 1968 rate had been exceeded in four of the seven preceding years, but this had occurred in periods when the margin of unutilized manpower resources had been larger. By late 1968 the unemployment rate had declined to 3.3 per cent, its lowest level in 15 years. Although the capacity utilization rate in manufacturing did not quite match the reduced level of 1967, prices throughout the year were under severe upward pressure. According to the GNP deflator, prices advanced almost 4 per cent, the largest increase in more than a decade.

Unit labor costs again rose considerably—by about 4 per cent. Even though the rise in output per man-hour was larger than in 1967, it did not equal the exceptionally rapid increases in average wage rates, which reflected—among other influences—strong demands for labor, a large statutory increase in minimum wages, and marked advances in consumer prices.

The surplus on U.S. net exports of goods and services in 1968 was less than half that of 1967. The sharp decline was attributable to the virtual disappearance of the surplus on merchandise trade, which amounted to only $100 million as compared with $3.5 billion in 1967. Imports continued the rise that had begun in the final quarter of 1967, and for the year as a whole they increased by 23 per cent. Exports too made gains during the year, but the gains were not nearly enough to offset the surge in imports.

In view of the continued rapid growth in economic activity and employment and the persistent rise in prices during the first half of the year, fiscal measures to dampen the inflationary expansion were enacted in late June to give support and aid to monetary and credit policies. As a result, during the second half the Federal Government's fiscal position moved from large deficit to balance, and the rate of growth in both current-dollar and real GNP moderated.

Nevertheless, there was an unexpectedly long lag between enactment of the fiscal restraint program and dampening of inflationary expansion. The underlying strength of demand was even stronger than had been anticipated. Futhermore, inflationary expectations became still more widespread and were an influential element in decisions with respect to capital spending programs, wage negotiations, and pricing policies. At the year-end businesses were expanding their expenditures for fixed capital and inventories at rapid rates and were planning to expand fixed investment outlays considerably further in 1969.

DEMANDS

An unusual feature of the pattern of demands during 1968 was that final sales and inventory investment alternated as major sources of short-run expansion in GNP. As Table 4 shows, final sales surged in the first and third quarters; in the second and fourth quarters these sales slowed, but the rate of inventory accumulation increased and tended to take up the slack. But over-all growth in GNP in both current and constant prices was significantly faster in the first half than in the second.

The rapid rise in activity in 1968 had its roots in events during the preceding year. Thus, in the second half of 1967, after virtually no growth in the first half, real GNP was increasing again, at an annual rate of 3.8 per cent, and price increases were widespread and substantial. Expansion accelerated in the first quarter of 1968 as consumer spending climbed at a record rate. For the most part this upsurge was in response to an exceptionally large gain in consumer income as increases in the statutory minimum wage and in social security benefits augmented a substantial rise in income from much higher employment and higher wage rates. Furthermore, the rate of personal saving—which had been very high in 1967, especially near the year-end—declined somewhat.

TABLE 4: GROSS NATIONAL PRODUCT

Item	1967	1968	1968[1] I	II	III	IV
	In billions of dollars					
Total	**789.7**	**860.6**	**831.2**	**852.9**	**871.0**	**887.4**
Inventory change	6.1	7.7	2.1	10.8	7.5	10.6
Final sales	*783.6*	*852.9*	*829.1*	*842.1*	*863.5*	*876.8*
Private[1]	693.0	752.9	732.0	742.0	762.3	775.0
Federal	90.6	100.0	97.1	100.0	101.2	101.7
	Change from preceding period: In billions of dollars					
Total	**42.1**	**70.9**	**20.2**	21.7	**18.1**	**16.4**
Inventory change	−8.6	1.6	−6.2	8.7	−3.3	3.1
Final sales	*50.8*	*69.3*	*26.4*	*13.0*	*21.4*	*13.3*
Private[2]	37.6	59.9	22.8	10.1	20.2	12.7
Federal	13.2	9.4	3.6	2.9	1.2	.5
	In per cent					
GNP in current dollars	5.6	9.0	10.0	10.4	8.5	7.5
GNP in 1958 dollars	2.4	5.0	6.4	6.2	5.1	3.4
GNP implicit deflator (1958 = 100)	3.1	3.8	3.7	4.0	3.6	3.9

[1] Quarterly figures are at seasonally adjusted annual rates.
[2] Adjusted to include State and local governments.
Note.—Basic data from Dept. of Commerce.

In the first quarter of 1968 demand for automobiles benefited from a spillover from the fourth quarter of 1967, when a prolonged strike at a major producer had greatly limited the availability of new cars. In addition, outlays for residential construction showed a sizable expansion, stemming from an earlier upward trend in housing starts, and business expenditures for fixed capital continued to grow. Finally, there was a further large rise in Federal purchases, particularly for defense. Even though inventory investment was much less than in the preceding quarter, real GNP and the industrial production index rose at annual rates of about 6.5 and 6.0 per cent, respectively. The labor market tightened further, and increases in wage rates averaged

6 to 7 per cent annually; this was somewhat more than in 1967 and appreciably faster than growth in productivity. As a result, unit labor costs rose considerably further, and with demands brisk, strong upward pressures on prices continued.

In the second quarter consumer spending rose only half as much as it had in the first, and business outlays for fixed capital declined. While defense spending continued to rise strongly, the increase in total final sales was only about half that for the first quarter; indeed, after adjustment for price increases private final sales were unchanged. However, inventory accumulation expanded considerably, and the rise in real GNP almost matched the first-quarter growth. The index of industrial production also continued to climb, and the rise in the GNP price deflator accelerated.

The Revenue and Expenditure Control Act of 1968 imposed a 10 per cent surcharge on corporate income taxes and on most individual income taxes. For corporations the surcharge was made retroactive to January 1; and for individuals, to April 1. For persons or families with small taxable incomes, however, the surcharge was less than 10 per cent, and for those in the lowest brackets there was no surcharge. Withholdings on personal income were raised enough in July to cover most of the increase in current liabilities, but the increase in withholdings did not cover the increased liability for the April–June period. The Act also imposed limitations on expansion of Federal spending in the fiscal year 1969.

Partly in view of the sharp slowing of expansion in final sales in the second quarter, expectations were widespread that fiscal restraint would cause an almost immediate and substantial dampening of the expansion in real growth and that as a result the rapid advance in prices would taper off. As it turned out, the third-quarter rise in Federal purchases was the smallest in 3 years, despite a general pay raise in July for Federal civilian employees and members of the Armed Forces. Defense outlays changed little, as expenditures connected with the war in

Vietnam began to level off. And with the tax surcharge going into effect on withholdings about July 15, the third-quarter rise in personal disposable income was less than half the average for the first half of the year.

But the widespread expectations that the rise in output would slow markedly failed to materialize in the short run, mainly because consumers increased their spending by reducing sharply their rate of current saving. Moreover, record sales of new automobiles—stimulated in part by forthcoming price advances on the 1969 models to be introduced in late September—were facilitated by a rapid expansion of instalment credit.

In addition to the unexpected surge in consumer spending, housing starts in the third quarter increased to the highest rate since early 1964. This rise reflected in part the release of mortgage funds that had been held back pending the successful outcome of efforts to raise permissible ceilings on mortgage interest rates in several States. But it also indicated the strength of the backlog of demand for new homes and the belief in many quarters that effective fiscal restraint would permit substantial easing in credit availability. Business spending for plant and equipment rebounded from its dip in the second quarter, but as indicated above, inventory accumulation was less than in the second quarter.

Thus, although the Federal deficit declined from an annual rate of more than $10 billion in the second quarter to $3 billion in the third (as measured in the national income accounts), expansion in real GNP was at an annual rate of 5 per cent, only moderately below that of the first half. While the quarterly GNP price deflator slowed from its rate of advance in the first half, the monthly consumer price index increased a little faster than it had earlier because of a sharp jump in mortgage interest rates, and inflationary expectations became widespread.

In the fourth quarter growth of real GNP slowed to an annual rate of 3.4 per cent, with total final sales much less expansive than in the third quarter. Consumer expenditures showed one of the smallest increases in recent years in dollar terms, and in real terms they were unchanged. Auto sales declined somewhat from the very high third-quarter rate, and sales of nondurable goods rose little. Federal spending for goods and services increased by only a small amount. Nevertheless, there were still many indications of exuberance: businesses, in particular, appeared to be preparing for a prolonged period of expansion and were raising sharply their current and prospective outlays for fixed capital. Housing starts edged up further, and expenditures for residential construction—which had changed relatively little in the first three quarters—rose considerably. Inventory accumulation increased, and industrial production advanced at an annual rate of 5 per cent. And prices, as measured by the GNP deflator, rose as fast as they had in the first half of the year.

CONSUMER EXPENDITURES AND INCOME

Strong surges in consumer spending in the first and third quarters alternated with much smaller increases in the second and fourth quarters—particularly the fourth. To some extent this pattern reflected variations in the growth of personal disposable income, but it also stemmed from large swings in the saving rate. For the four quarters, the personal saving rate was successively 7.1, 7.5, 6.3, and 6.8 per cent. The big decline in the third quarter made possible roughly $7 billion of additional consumer spending. The high rate of saving for the year as a whole—6.9 per cent—had been exceeded to a significant degree only once in the preceding 15 years—in 1967, when the annual average had been 7.4 per cent.

The recent high rates of saving may reflect to some extent the higher levels of real as well as money income in the past few years. Per capita disposable income measured in constant dollars increased 3.0 per cent in 1968 and was 29 per cent above its level in 1961—the year when the last recession reached its trough. High rates of saving in recent years have been accompanied by a bulge in additions to consumer holdings of financial assets; this was particularly true in 1967 and 1968. However, after 2 years of diminished growth, consumer instalment and mortgage debt rose sharply in 1968 as automobile purchases (including imports) expanded to a record 9.6 million units and home purchases increased considerably.

In 1968 wage and salary income, transfer payments, and interest income all expanded strongly, whereas rents, proprietors' income, and dividends—continuing the pattern of changes in other recent years—showed less rapid increases. Wages and salaries accounted for 67.6 per cent of total personal income in 1968, compared with an average of 67.0 per cent in the period 1960 through 1966, a large shift for this component. Disposable personal income was 69.0 per cent of GNP in the first half of 1968, about the same as the 1960–66 average proportion, but then it declined to 68.0 per cent in the second half, when the surtax became effective.

High levels of real income, large reserves of assets, and relatively favorable consumer debt positions have been suggested as reasons for the limited impact of the increase in the surtax on consumer spending in the third quarter. An additional factor may have been the greater impact of the tax on high-income groups than on lower-middle-income and low-income groups. While it is usual for changes in income to be followed by gradual adjustments in expenditures, the big bulge in consumer spending in the third quarter in the face of a "halving" of the growth in disposable income was unusual.

More than two-fifths of the increase of 8.5 per cent in total consumer expenditures from the year 1967 to the year 1968 represented increases in prices, but the growth of almost 5 per cent in the physical volume of takings was substantial. Prices of services rose considerably more than did those of goods—reflecting in part the relatively larger wage component of services. Prices of nondurable goods went up more than prices of durable goods.

RESIDENTIAL CONSTRUCTION

Private housing starts exceeded 1.5 million units in 1968, one-sixth more than in 1967 and the largest number since 1964. Starts of both single-family and multifamily units increased, but the latter rose more in both absolute and percentage terms and for the year accounted for 40 per cent of all starts, a new high. The increase of over one-fifth in expenditures for residential construction reflected higher costs per unit as well as, with some lag, the higher level of starts. The market for new homes and apartments remained strong throughout the year, despite higher costs and the highest mortgage interest rates since the 1920's. Vacancy rates continued to decline, reaching the lowest levels in more than 10 years.

In the first quarter of 1968 housing starts were at an annual rate of 1.5 million, but they declined somewhat in the second quarter—reflecting tight money conditions and the fact that a number of States still had relatively low usury ceilings, which tended to curtail the flow of mortgage funds. By the middle of the year ceilings had been lifted in some heavily populated States in the Northeast, and a surge in housing starts followed. In the third quarter, even though mortgage market conditions improved only moderately, starts recovered to a 1.5-million annual rate, and in the fourth quarter they rose to an even higher rate—1.6 million. In December the volume of outstanding mortgage commitments was still very large, but conditions in the mortgage market were tending to moderate the expansion in new commitment activity.

INVESTMENT IN FIXED CAPITAL

Business investment in fixed capital increased by about 8 per cent in 1968. This increase compares with only 3 per cent in 1967 but was far short of the average annual rise of one-sixth in the 1964–66 period. About half of the 1968 increase represented higher prices of structures and of producers' durable equipment. Indeed, increased costs apparently accounted for all of the current-dollar increase in outlays for structures.

The sharp fourth-quarter rise in spending for fixed capital reflected to some extent a make-up for the failure of businesses to realize plans in the first three quarters as indicated by successive shortfalls in actual from planned spending shown in Commerce–Securities and Exchange Commission surveys. Nonetheless, the strength of plant and equipment outlays in the fourth quarter may have also reflected an increase in expansion plans, in part in response to widespread inflationary expectations.

The intentions expressed by businesses in late 1968 to increase spending for plant and equipment were somewhat surprising in view of the substantial volume of unused capacity in manufacturing but not so surprising in view of the further rise of 6 per cent in 1968 in corporate profits after tax, including the surcharge. This rise, inflationary expectations, the rapid pace of technological changes, frequent shifts in styles and models, and the continuing strong pressures to reduce costs—all served to stimulate plans for new plant and equipment spending. Although industrial output rose more than 4 per cent in 1968 and has risen 15 per cent since 1965, additions to capacity have more than kept pace with the increase in output. The capacity utilization rate in manufacturing had fallen from more than 90 per cent in 1966 to 85 per cent in 1967, and it remained close to that level in 1968.

Following the pronounced inventory adjustment during the first half of 1967, which brought the annual rate of accumulation down from $20 billion in the fourth quarter of 1966 to $2 billion in the second quarter of 1967, inventory investment picked up after mid-1967. When consumer expenditures showed an unexpectedly strong spurt in early 1968, there was a sharp drop in the rate of accumulation. Subsequently, the rate moved up and for the remainder of the year averaged well above the 1967 rate. In view of the large increase in final sales, however, inventory accumulation in 1968 was relatively moderate—about $7.5 billion (GNP basis), compared with $6.1 billion in 1967 and the exceptionally high rate of nearly $15 billion in 1966.

In late 1967 and the first half of 1968 business inventory accumulation was augmented by substantial additions to steel stocks in anticipation of a possible strike on July 31. In the second quarter of 1968 there was also a large build-up in auto stocks. The reduction in steel output after the wage settlement proved to be less than expected as demands from both consumer-goods and producer-durable-goods industries became more vigorous. Even with auto sales at new record levels during most of the second half, there was a sizable further increase in auto stocks, and at the year-end such stocks were relatively high.

Stock/sales ratios for durable goods remained high in 1968. At manufacturers, inventories did not appear to be excessive in view of the level of unfilled orders. The stock/sales ratio at durable goods retailers, which in 1967 had not fully readjusted to levels existing before the Vietnam war, was rising again in late 1968. The ratio for nondurable goods, which had been reduced to record low levels in the third quarter of 1968, also moved up somewhat late in the year.

FEDERAL SECTOR, NATIONAL INCOME ACCOUNTS

The Federal deficit fell to an annual rate of about $9.5 billion in the first half of the calendar year 1968 from about $12.5 billion in the second half of 1967. Receipts rose briskly early in the year, in part because of rising profits and incomes but also because of the retroactive liabilities under the 10 per cent corporate surcharge. Moreover, an increase in the taxable wage ceiling effective January 1 led to higher contributions for social insurance. On the other hand social security benefits were increased in the first quarter, and Federal expenditures, particularly for defense, rose rapidly in the first half of the year.

In the third quarter the deficit fell sharply as withholdings of individual income taxes were increased to reflect the 10 per cent surtax. Another factor tending to reduce the deficit was the cutback in Federal expenditures in the fiscal year 1969 from the rate of outlays proposed in the January 1968 budget as required by the Revenue and Expenditure Control Act of 1968. Since expenditures for the war in Vietnam were exempted from the cutback—as were some other relatively uncontrollable categories such as interest on the debt and social security benefits—the realized net decline from the aggregate expenditure figures as proposed in January is likely to be considerably smaller.

As a result of the tax surcharge and the constraints on Federal spending, the deficit of the Federal Government as estimated in the NIA fell from about $12.5 billion in the calendar year 1967 to an annual rate of $9.5 billion in the first half of 1968 and of less than $3 billion in the third quarter. And in the fourth quarter the NIA budget was in balance. For the calendar year as a whole, the deficit was a little over $5 billion.

LABOR MARKETS

Reflecting strong demands in most sectors of the economy, the labor market continued to tighten in 1968. Expansion in employment was most pronounced early in the year and again in the fourth quarter. Employment rose more rapidly than the labor force, and the unemployment rate dipped to 15-year lows—3.3 per cent at the year-end, and 3.6 per cent for the year as a whole. Nonfarm payroll employment rose by 2.1 million persons—slightly more than in 1967—with more than four-fifths of the expansion occurring in nonmanufacturing activities. Employment increases in trade, in services and finance, and in State and local government each exceeded 500,000 in 1968. Manufacturing employment increased by 300,000. Farm employment, including both farm operators and family and hired labor, declined further.

The civilian labor force increased by 1.4 million in 1968—

about the expected "normal" rise as estimated from population growth in working-age brackets and trends in participation rates. The increase included 800,000 adult women, 500,000 adult men, and 100,000 teenagers.

In manufacturing, employment was essentially unchanged between June and October. During the latter part of this period, employment gains in several industry groups were offset by declines in steel—where inventories had been built up to record levels in anticipation of a late-summer strike, which did not materialize. With the inventory adjustment in steel well along in late 1968, manufacturing employment was again on an upswing, having spurted by more than 160,000 between October and December. Indications of renewed strength were widespread among both durable and nondurable goods industries, but they tended to be more definite in industries manufacturing producers' durable goods, in line with the step-up in business fixed investment programs.

The average work-week in manufacturing in 1968 was little changed from the preceding year, but it edged lower from September to December as employers in most industries reduced hours of work and increased the number of their employees.

Responding to a turnaround in building activity, employment in construction rose more than 50,000 in 1968, and the unemployment rate fell to 6.9 per cent, the lowest rate since the Korean war. A strong thrust in the final quarter raised construction employment to about the 1966 peak.

Developments in the manufacturing and construction industries were especially influential on the demand for men employees; the jobless rate for married men fell to an average of 1.6 per cent for the year, and at the year-end it was at a post-World-War-II low of 1.4 per cent. The rate for all adult men averaged 2.2 per cent for the year as a whole and was down to virtually a frictional rate of 1.8 per cent at the year-end. In 1968 the adult male labor force registered its second successive large increase, after a decade of much slower growth. These additional men contributed substantially to the fulfillment of increased manpower needs and helped to limit labor shortages during the year. Relatively large increases in the adult male civilian labor force will be common in coming years because of high post-World-War-II birth rates.

The bulk of the gain in nonfarm employment was concentrated in the service sector. Close to four-fifths of the total employment increase was accounted for by trade, finance, services, and State and local government. Since women account for a large part of employment in these activities, demands for their services continued firm, and their unemployment rate edged down to 3.8 per cent.

The Federal Government contributed little to the rise in employment in 1968, and after midyear Federal employment began to decline because of limitations on hiring and spending incorporated in the revenue and expenditures legislation. At the end of the year Federal employment was nearly 80,000 below its June peak.

In general, the pattern of demand in 1968 favored adult, full-time workers; teenage unemployment was virtually unchanged at nearly 13 per cent. As in other recent years, large numbers of unemployed teenagers were competing for a limited supply of part-time jobs during the school year, and during the summer the labor market was flooded with youngsters seeking full-time summer jobs or career opportunities. High levels of demand and a tight market for adults apparently are not sufficient to reduce unemployment of youngsters to acceptable levels, even though the number of teenagers in the labor force is no longer expanding at the rapid rates of the 1963–66 period. Jobless rates for Negro and other nonwhite youngsters—typically at very high levels—averaged 25 per cent in 1968. How to motivate, train, and provide job opportunities for young people, especially nonwhite youth, continues to be a key national problem.

Among nonwhite adults, however, high unemployment yielded in 1968 to the pressures of strong demand. Employment gains for this group exceeded the increase in the labor force, and their unemployment rates declined to the lowest levels since the Korean war. Nevertheless, unemployment rates for nonwhite men and women (3.9 and 6.3 per cent, respectively) were still nearly double the comparable rates for white adults.

WAGES AND COSTS

Average hourly earnings of workers in private nonfarm industries rose 7.3 per cent over the year ending in December 1968, significantly more than the 5.0 per cent increase in the previous 12-month period. The largest percentage increases were recorded in retail trade and in some service industries, where the increase in the minimum wage and the tight labor market had the greatest relative impact. For production workers in manufacturing, hourly earnings rose by 6.5 per cent.

A key factor making for large increases in wages was the accelerated rise in consumer prices, which generated demands for wage increases to offset increased living costs in addition to the usual demands that aim to provide a higher standard of living and additional fringe benefits. In 1968 more than 4.5 million workers covered by renegotiated major collective bargaining agreements received median first-year wage increases of 7.5 per cent, compared with a median first-year wage increase of 5.6 per cent in 1967 covering about the same number of workers.

The pattern of a substantially higher first-year increase had been a feature of the contract settlement with the major automobile companies in the final months of 1967. During 1968 this pattern spread to contracts negotiated in the glass, can, aluminum, aerospace, and steel industries in manufacturing and to the telephone, railroad, bituminous coal, and copper industries in nonmanufacturing activities. All of these contracts call for subsequent-year wage increases that are considerably smaller than the first-year boosts.

At the end of 1968 major collective bargaining agreements covering nearly 2.6 million workers contained provisions for cost-of-living adjustments; this number was only slightly more than a year earlier. The trends in recent years toward (1) establishing a maximum limit on the amount of the adjustment as well as a guaranteed minimum and (2) the substitution of annual for quarterly escalator adjustments were continued. In the automobile and farm equipment industries the provision for a maximum adjustment limited the size of the annual adjustment to amounts that were smaller than the increase in consumer prices in 1968.

Responding in part to the upswing in production, the increase in manufacturing productivity was stepped up in 1968, with output per man-hour rising nearly 2.5 per cent; although this increase was considerably larger than the 1.0 per cent rise in 1967, it was considerably below the average of 3.9 per cent for the years 1960 through 1965. Despite the productivity gain in 1968, unit labor costs rose 4.2 per cent—nearly as much as in 1967—because increases in hourly compensation accelerated to nearly 7 per cent; this was the largest rise in hourly compensation since 1951 and compared with about 5.5 per cent in 1967.

PRICES

Inflationary pressures, which had begun to accumulate in late 1965 with the intensification of the war in Vietnam, became even stronger in 1968. As was noted above, pressures of demands on labor resources were acute, the rise in wage rates accelerated sharply, and unit labor costs continued to show a pronounced upward thrust.

In such a setting, and with some industrial materials and foodstuffs in limited supply, wholesale prices of industrial commodities increased more than in any other year since 1957; prices of farm products and processed foods and feeds recovered much of their 1967 decline; and both the consumer price index and the broader GNP implicit price deflator showed the largest increases in 17 years.

In the course of 1968, as in each of the two preceding years, the pattern of wholesale prices of industrial commodities was influenced by fluctuations in the intensity of demand pressures as well as by special supply situations. Thus, the year began and ended with industrial prices rising at a fast rate, whereas for a brief period in the late spring and early summer these prices showed little change. The temporary ebb in the upward movement of industrial prices accompanied the abrupt slowing in the second quarter of the expansion in private final sales—which had been very strong in the first quarter—and widespread expectations that fiscal legislation would appreciably reduce the rate of expansion in total demands. Average price increases for a variety of industrial materials and products slowed during that period.

Also contributing to the virtual halt in the industrial price rise in the spring were the repercussions of the settlement in early April of the 8½ month strike in the copper industry. High and rising demands for copper products during that strike had been met by bidding up prices of copper scrap and foreign copper, which in turn were translated into sharp increases in prices of copper and brass mill products. Altogether, average prices of copper items increased nearly 30 per cent from early July 1967, just before the strike, to March 1968—and this price increase made a significant contribution to the sharp rise in average prices of all industrial commodities over that period. With restoration of domestic primary output following settlement of the strike, copper ingots advanced to 42 cents per pound from the pre-strike level of 38 cents. Nevertheless, average prices in the basic industry declined 18 per cent from March to July, with scrap, imported copper, and brass and copper products down sharply.

During the late summer consumer and business demands—for housing and autos in particular—held at much higher levels than had been anticipated; consumer prices except for foods continued to rise at a fast pace; and the rapid pace of wage increases showed no abatement. Under such conditions, wholesale prices of industrial commodities resumed their upward course. Major factors in the sharp increase in the industrial average from July to December included: a 2.3 per cent increase in prices of steel mill products following the July 31 wage settlement—an increase half as large as the rise for the preceding 3 years combined; a sizable increase in prices of new autos; a renewed, fast rate of increase in prices of producers' equipment; and an extraordinarily large further rise in prices of lumber and plywood, supplies of which were limited relative to unexpectedly large demands.

Altogether, wholesale prices of industrial commodities increased at an annual rate of about 3.5 per cent in the first 4 months of 1968—continuing the sharp upswing of the last half of 1967. In the second half of 1968 they were rising at a rate close to 3 per cent. The rise for the year averaged 2.5 per cent; this compared with about 1.5 per cent in 1967 and 2 per cent in 1966.

The recovery in 1968 in average wholesale prices of foods and foodstuffs reflected a substantial rise in prices of livestock and products; supplies of these items leveled off following the large increase in 1967, while consumer demands expanded substantially further. For the year average prices of livestock and products were up 4 per cent and were almost back to the 15-year high reached in 1966. Prices of crops and products on the average were unchanged from 1967 and were less than 1.5 per cent below the post-World-War-II record of 1966.

Consumer prices rose at a rapid pace throughout 1968. In December the index was 4.7 per cent above a year earlier, and the average for the year was 4.2 per cent above 1967. The advance in 1968 was nearly half again as large as the increase in each of the two preceding years and was more than three times the average annual increase in the first 5 years of this long period of economic expansion.

Consumer price increases were widespread for both commodities and services. For commodities the rise at retail generally exceeded by an appreciable margin the rise at wholesale, because upward labor and other cost pressures were generally stronger at the distributive level. Moreover, consumer demands —though varying from quarter to quarter—were generally strong; total personal consumption expenditures in 1968 were nearly $42 billion—or 8.5 per cent—higher than in 1967. In 1967 these expenditures had increased 5.7 per cent.

Retail prices of food, which had been about unchanged in 1967, showed a sizable increase in 1968. However, toward the end of the year they tended to stabilize as supplies of meats and of fruits and vegetables were expanding again. Among other commodities there were especially large increases in prices of apparel and furniture, and prices of new cars, appliances, and housefurnishings rose substantially. For the year, retail prices of nonfood commodities averaged 3.7 per cent higher than in 1967; this rise contrasts with increases of 2.5 per cent and 1.3 per cent in 1967 and 1966, respectively.

As usual, the rise in prices of services exceeded that for commodities. For the year service costs included in the consumer price index were 5.2 per cent above 1967—compared with increases of 4.4 per cent and 3.8 per cent in the two preceding years—and at the year-end they were running 6 per cent above late 1967. Much of the acceleration in the rise in 1968 stemmed from a spurt in mortgage interest charges and other costs of owning and maintaining a home and from a larger rise in rent. In December, rent was up nearly 3 per cent from a year earlier, as compared with a 2 per cent rise during the year 1967, and household services less rent were up nearly 8 per cent, more than double the rise during the preceding year. Costs of medical care services continued sharply upward—rising more than 7 per cent from December 1967 to December 1968—almost as much as during 1967. □

U.S. Balance of Payments

During 1968 transactions in goods and services between the United States and the rest of the world showed the smallest net export balance this country has had in many years. Nevertheless, owing to massive inflows of private capital, the net reserve position of the United States—gold stock, position in the International Monetary Fund, and net asset-liability position against foreign official reserve holders—improved somewhat in the course of the year.

The shift in private capital flows toward the United States involved investors, lenders, and business creditors both here and abroad and reflected diverse influences. Among these influences were the greatly tightened controls on outflows from the United States of corporate investment funds and of U.S. bank credit to borrowers abroad; the unusually high interest rates in this country and the interest equalization tax (IET), both of which served to reinforce the effectiveness of the capital controls; a sharp growth in European investors' holdings of U.S. equity securities; and movements of liquid funds out of other currencies into the Euro-dollar market, facilitating a great increase in the use of Euro-dollar resources by U.S. banks.

In addition to the inflows of private capital, investments by foreign monetary authorities in over-1-year time deposits at U.S. banks and in certain types of U.S. Government securities helped to reduce the balance of payments deficit as measured on the liquidity basis. Indeed, the liquidity balance moved into surplus in the second half of the year, partly as a result of repatriations of funds late in the year by U.S. companies influenced by changing conditions in financial markets as well as by the direct investment control regulations.

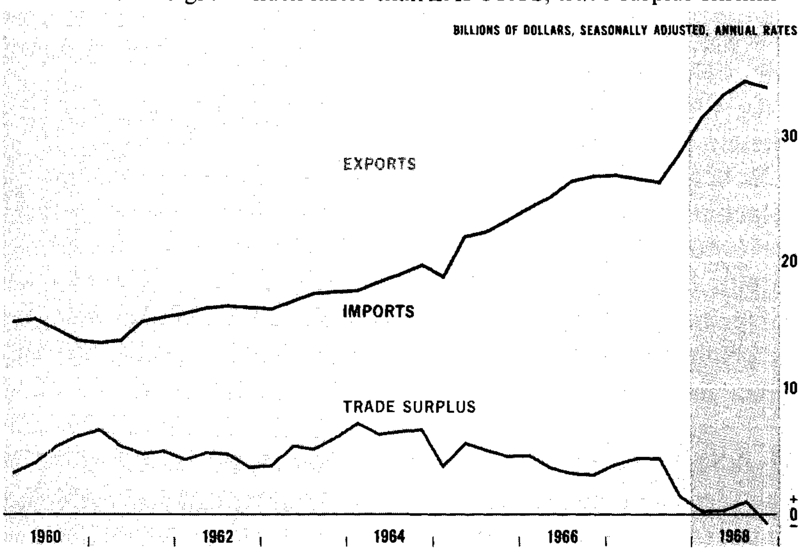
TRANSACTIONS IN GOODS AND SERVICES

The surplus on goods and services fell sharply early in 1968 and remained low. For the year it amounted to about $2 billion, far below the balance of $4.8 billion achieved in 1967 or the average surplus of $7.0 billion in 1963–65.

Merchandise exports responded well to the general upswing in world demand, and their value in the second half of the year was 13 per cent greater than in the second half of 1967. Gains in exports to Western Europe, Canada, and Latin America were especially noteworthy. Increases were concentrated in nonagricultural products, particularly in machinery and equipment.

The shrinkage in the trade surplus was the result of an unprecedently large rise in merchandise imports. A new upswing in imports had started in the last few months of 1967—after a 13-month pause—and the rise continued through the first three quarters of 1968. For the year as a whole imports were 23 per cent greater in value than in 1967; and in the second half of the year, at an annual rate of $34.1 billion, they were 25 per cent larger than in the second half of 1967. The trade surplus, which in 1967 had amounted to $3.5 billion, nearly vanished in the first half of 1968 and remained virtually zero in the second

6. As IMPORTS grow much faster than EXPORTS, trade surplus shrinks



half, when merchandise exports were at an annual rate of $34.2 billion.

The 25 per cent increase in value of imports from the second half of 1967 to the second half of 1968 accompanied a 10 per cent increase in the current value of GNP. While exceptionally rapid growth of automobile imports from Canada under the 1965 agreement accounted for several percentage points of the 25 per cent increase, there were also large advances in almost all other categories of imports. Under the conditions of recent years, with general prosperity in the United States and with U.S. consumer prices rising since late 1965 by more than 3 per cent a year, rapidly growing imports of finished manufactures have assumed increasing importance within the total. Partly for this reason, the trend of growth in total imports has accelerated. From 1963 to 1968 imports rose at an average rate of 14 per cent a year, compared with an average rate of 5 per cent over the preceding 10 years. The exceptionally rapid rise in imports after September 1967 reflected not only the accelerated trend but also the cyclical acceleration usually seen during a period of exceptionally rapid growth of national income in money terms.

Net receipts from current transactions other than merchandise trade increased a little in 1968. Income and fees received from direct foreign investments were substantially higher than in 1967, but much of this gain was offset by larger payments of interest to foreigners. Net tourist expenditures were reduced slightly from the 1967 peak related to the Canadian EXPO 67. Military expenditures abroad, which had risen rapidly in the two preceding years, increased more slowly and amounted to $4.6 billion in 1968.

REMITTANCES AND PENSIONS

Private unilateral transfers, at $0.75 billion, were a little smaller than in 1967, when contributions to Israel had been unusually large. Pensions and other miscellaneous transfers by the U.S. Government were about unchanged, at $0.4 billion.

U.S. GOVERNMENT CREDITS AND ECONOMIC AID GRANTS

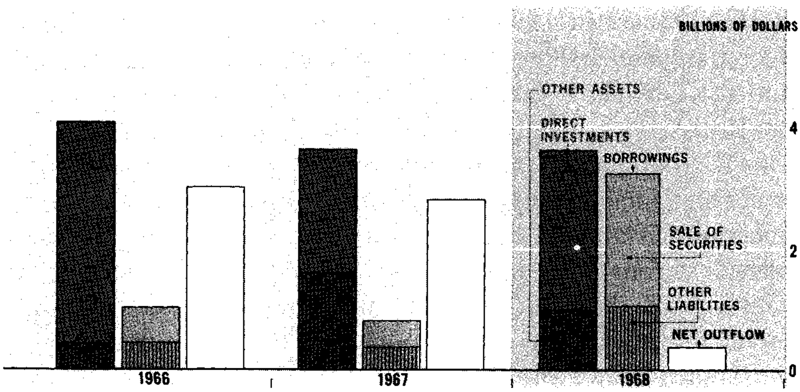
Economic aid grants by the U.S. Government declined a little further in 1968, to $1.7 billion. U.S. Government credits to foreign countries, net of repayments, were also slightly reduced, at $2.3 billion. Disbursements were somewhat higher, but so were repayments on outstanding credits despite the postponement of the instalment of the 1946 loan due from the United Kingdom at the end of the year. Repayments by foreign governments ahead of schedule amounted to about $250 million.

PRIVATE CAPITAL FLOWS

For the first time in many years, the net flow of private capital in 1968 was inward—to the United States from the rest of the world—instead of outward. Total inflows, including $3.4 billion of foreign liquid funds moving to the United States through commercial banks abroad, exceeded total outflows by nearly $5 billion. In 1967 there had been a net outflow approaching $2 billion. (These figures exclude all changes in the liquid and near-liquid claims of foreign monetary authorities on the United States and—in 1967—the U.K. liquidation of its special portfolio of U.S. securities, and they also exclude some relatively small changes in certain nonliquid liabilities of the U.S. Government to other foreign official and private creditors.)

Capital and credit transactions by **U.S. businesses other than banks,** apart from transactions in securities of unaffiliated companies, gave rise to a net capital outflow of only $0.3 billion in 1968, far below the $2.9 billion outflow of the preceding year. The announced goal for the year 1968 of the mandatory regulations imposed on direct investors was to reduce by $1 billion (as compared with 1967) the amount of direct investment outflow to countries other than Canada—defined, for this purpose, as including subsidiaries' undistributed foreign profits but as excluding use of funds borrowed abroad by U.S. companies. This goal was surpassed, primarily by increased borrowing abroad rather than by cutting back on investment outlays. Besides borrowings of the foreign operating subsidiaries themselves, new issues of convertible debentures and other bonds in Europe by affiliated financing subsidiaries incorporated in the United States were very large. These issues exceeded $2 billion, compared with $450 million in 1967. However, some of the proceeds of these issues were temporarily invested at short term abroad instead of being transferred to operating subsidiaries immediately; such funds remained available for financing of direct investment in the future without use of new funds from the United States.

7. U.S. CORPORATIONS reduce their net capital outflow through a massive increase in BORROWINGS ABROAD



In addition to bond financing, U.S. businesses increased other liabilities to foreigners by about $1 billion in 1968. Part of this increase reflected loans obtained from banks abroad for financing direct investment; and part represented receipt of advance payments on aircraft export contracts and other commercial credits, which are not related to the direct investment control program. Also—as required by the regulations, though not counting against the ceiling—there was a net return flow of liquid assets held abroad by U.S. businesses apart from the proceeds of past or current bond issues in Europe; this reversed the outflow of such funds that had occurred in 1967.

Under the Federal Reserve's foreign credit restraint program, discussed on pages 57–59, **U.S. banks' claims on foreigners** covered by the program were reduced by about $600 million in 1968. The net reflow for all U.S. bank-reported claims, including those handled by banks for their domestic customers, amounted to $250 million, in sharp contrast to a net outflow the year before of about $450 million.

The $2.6 billion shift in flows of corporations' investments and borrowings and the $0.7 billion shift in flows of U.S. bank-reported credits were both facilitated by the relatively easy credit conditions during 1968 in some European countries, especially Germany. A third important shift in flows was little affected by credit market conditions: **net foreign purchases of U.S. corporate stocks** attained in 1968 an extraordinary total of $2.0 billion, Such purchases had begun to increase about the middle of 1967, and the net inflow that year reached $0.8 billion (apart from net British sales, mainly from the United Kingdom's official portfolio). Continuation of an inflow of such massive proportions is not explainable merely as a reaction to political and economic uncertainties abroad, but reflects also a change in investor preferences through increased familiarity with the investment advantages of the U.S. equities market. There was also some increase in the inflow of foreign capital for direct investment in the United States—to more than $350 million in 1968 from $250 million in 1967.

Transactions in foreign securities resulted in a net capital outflow from the United States close to that of the preceding year—about $1.3 billion, net of redemptions. Sales of newly issued foreign bonds in the United States remained relatively high at $1.6 billion, though still concentrated in Canadian issues and those of the World Bank and other international institutions in consequence of the diversion of other issuers to the growing European market. The IET continued to play a role in preventing other foreign issues here and also served to hold down net U.S. purchases of outstanding foreign stocks and bonds to as little as $0.2 billion.

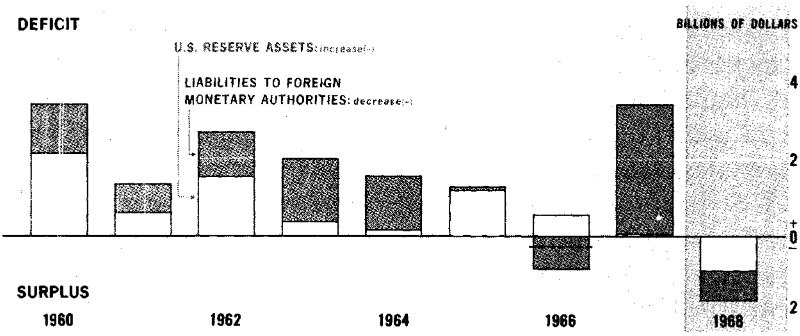
Bond issues of international and regional institutions sold in this country—included in the figure cited above—reached a record of nearly $0.5 billion. As a partial offset to this outflow of capital, however, the international institutions in 1968 added $0.2 billion to their **holdings of liquid and near-liquid assets** in the United States. Foreign private holders other than banks also increased their liquid assets in this country. The 1968 growth in these assets, $0.4 billion, was slightly larger than the annual average of such inflows since 1963.

A fourth major change in capital flows in 1968 was a new mushrooming of the **inflow of liquid funds to the United States through banks abroad.** The liabilities of U.S. banks to their foreign branches operating in the Euro-dollar market together with other U.S. liquid liabilities to banks abroad rose by $3.4 billion, compared with $1.3 billion in 1967 and $2.7 billion in 1966. The inflow thus generated may be viewed as a response to the efforts of U.S. banks to enlarge their lendable resources, but its very large size in 1968 was clearly a result of heavy speculative flows of foreigners' funds out of sterling and the French franc, which contributed to the ready availability of funds in the Euro-dollar market. Nearly $2 billion of the inflow occurred during May and June, at the time of the civil disturbances in France, when severe drains on French official reserves of gold and foreign exchange were occasioned not only by losses of exports but also by capital flight from the franc.

Later in the year the acute speculative crisis of November, this time centered on the German and French currencies, was not accompanied by any rise in U.S. liabilities to commercial banks abroad. Speculation on an upward revaluation of the German mark was a powerful magnet pulling funds into marks rather than dollars. In December, despite the beginning of a reflow out of marks, year-end influences—including repatriations of U.S. direct investors' funds—caused extremely tight conditions in the Euro-dollar market and produced a more-than-seasonal decline in U.S. banks' use of Euro-dollar resources.

8. LIABILITIES TO FOREIGN COMMERCIAL BANKS increase by record amount in 1968 and ...

OFFICIAL RESERVE TRANSACTIONS reflect over-all surplus



OFFICIAL RESERVE TRANSACTIONS

With the massive shift in private capital flows from 1967 to 1968, which more than offset the deterioration in net exports of goods and services, the over-all balance of payments changed from very large deficit in 1967 to considerable surplus in 1968 as measured on the official settlements basis. In fact, the change from a deficit of $3.4 billion to a surplus of $1.6 billion was even greater than can be explained by the recorded and estimated data available at present. It is possible that additional capital inflows that have not been measured served to offset the unmeasured and unidentified outpayments that predominated all through the earlier years of the decade.

Despite the substantial balance of payments surplus to be covered by official settlements, the gold stock of the United

States declined in 1968 by $1.2 billion. Sales of $1.4 billion were made in the first quarter, largely in support of the gold pool operations to keep the price of gold in private markets from rising much above the official price of $35 an ounce. Following the devaluation of sterling in November 1967, widespread speculation had developed on the possibility of a rise in the official price of gold against all currencies. To counter this, massive sales were made by the gold pool. Speculation on a rise in the private price of gold—if and when the gold pool operations were terminated—mounted to a peak of intensity in March.

On March 17 the Governors of the central banks of the active members of the gold pool issued a communiqué in Washington, announcing that they would no longer sell gold except to monetary authorities and expressing the opinion that it was no longer necessary, in view of the prospective creation of Special Drawing Rights (SDR's) in the International Monetary Fund, for central banks to buy gold from the market. During the rest of 1968 the price of gold fluctuated without rising above $43 an ounce on the London market. (Developments during 1968 related to SDR's and the March 17 communiqué are discussed on pages 328–32.)

The massive speculative purchases of gold in late 1967 and early 1968 created a floating supply of gold that played an important role in stabilizing gold prices subsequently. Another effect of the purchases, immediately felt, was to put a strain on the balances of payments and the reserve positions of the countries out of whose currencies speculators on gold were moving. During the period of speculation there was no significant net decline in private foreign liquid dollar claims on the United States. It appears therefore that on balance the rush to gold was financed by drains on the net reserves of other countries. Foreign purchases of gold from the United States, whether through the gold pool or through purchases by monetary authorities directly from the U.S. Treasury, had their counterpart in reducing the outstanding claims on the United States of foreign monetary authorities (rather than of private holders) or in increasing U.S. holdings of international reserve assets other than gold.

During the year 1968 as a whole U.S. holdings of convertible foreign currencies (mainly sterling and French francs) increased on balance by $1.2 billion, and the U.S. net position in the International Monetary Fund was enlarged by $0.9 billion. Total reserve assets, including gold, thus showed a net increase of $0.9 billion. The effect of the official settlements surplus of $1.6 billion, given these changes in reserve assets, was to reduce outstanding U.S. liabilities to foreign monetary authorities by $0.7 billion. Such liabilities fell very sharply during the first half of 1968, the period of the rush to gold and of the civil disturbances in France. During that half year U.S. liquid and near-liquid liabilities to foreign monetary authorities shrank by $2.4 billion. In the second half year, when U.S. reserve assets rose by $1.6 billion, U.S. liabilities to foreign reserve holders rose by $1.7 billion; particularly large increases in both accounts occurred in November in connection with the crisis in speculation on the German mark. □

Foreign Credit Restraint Program

During 1968 the Board of Governors 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 on January 1, 1968, and described in the ANNUAL REPORT for 1967.

The President, by Executive Order 11387 dated January 1, 1968, made mandatory the program administered by the Department of Commerce for nonfinancial corporations and gave the Board of Governors the authority to impose regulations relating to the foreign transactions of banks and other financial institutions. However, in view of the degree of cooperation exhibited by financial institutions since the program was begun in early 1965, the Board elected to continue it as voluntary in nature.

On March 1, 1968, because of a difficult financial situation that developed for Canada early in the year, all transactions with that country were exempted from restriction under U.S. balance of payments programs. Changes in foreign claims by U.S. financial institutions on residents of Canada were excluded from the ceiling after February 29,1968. Bank claims on Canada increased by $46 million between that date and December 31, 1968. Claims of nonbank financial institutions on Canada of all maturities increased $405 million in 1968.

The objective of the 1968 program was to reduce covered assets outstanding by at least $500 million—$400 million by the banks and $100 million by the nonbank financial institutions. Actual reductions during the year totaled $852 million. As of December 31, 1968, banks had reduced their covered assets outstanding by $612 million (Table 5), and nonbank financial institutions had reduced such assets by $240 million (Table 6).

Financial institutions continued to follow the priorities set forth in the guidelines. Bank ceilings were reduced by a total of $226 million related to repayment of term loans to developed

TABLE 5: FOREIGN CREDITS OF U.S. BANKS

Item	End of year 1965	End of year 1966	End of year 1967	1968 Mar. 31	1968 June 30	1968 Sept. 20	1968 Dec. 31
Number of reporting banks	161	148	151	153	153	154	161
	Millions of dollars						
Total foreign credits subject to ceiling	9,652	9,496	9,865	9,396	9,203	9,156	9,253
Ceiling to end of 1968	....	10,360	10,409	9,984	9,886	9,784	9,729
Net expansion of credit since December 1964	+156	−3	+370	−99	−292	−339	−242
Net leeway for further expansion of credit with ceiling for 1968	....	864	544	588	683	628	476

countries of continental Western Europe. There was a further reduction in the ceiling by $222 million representing 40 per cent of the amount of short-term credits to those countries outstanding on December 31, 1967. Short-term credits outstanding to those countries declined by $118 million during the year.

Long-term investments by nonbank financial institutions in developed countries other than Canada and Japan declined by $145 million in 1968.

On December 23, 1968, the President accepted a recommendation from the Cabinet Committee on the Balance of Payments that the balance of payments programs be continued in 1969 in substantially the same form as in 1968. On the same day the Board of Governors issued revised guidelines for banks and nonbank financial institutions.

The 1969 guidelines for banks maintain the ceiling at the 1968 level—that is, 103 per cent of the end-1964 base figure, or the 1967 ceiling plus one-third of the difference between that amount and 2 per cent of total assets as of December 31, 1966, whichever is greater. Banks were requested to continue to reduce their ceilings each month by the amount of repayment of long-term loans to developed countries of continental Western Europe outstanding on December 31, 1967. Banks also were asked to

TABLE 6: FOREIGN ASSETS OF REPORTING NONBANK FINANCIAL INSTITUTIONS
Amounts shown in millions of dollars

Type of asset	Amount Dec. 31, 1968	Change from Dec. 31, 1967	
		Amount	Per cent
SUBJECT TO GUIDELINE			
Deposits and money market instruments, foreign countries except Canada	16	−35	−69.1
Short- and intermediate-term credits, foreign countries except Canada[1]	234	−60	−20.4
Long-term investments, "other" developed countries:[2]			
Investment in financial businesses[3]	112	8	7.6
Investment in nonfinancial businesses[3]	8	([4])	−1.8
Long-term bonds and credits	616	−42	−6.4
Stocks (except those acquired after Sept. 30, 1965, in U.S. markets, from U.S. investors)	456	−110	−19.5
TOTAL holdings subject to guideline	**1,443**	**−240**	**−14.2**
Adjusted base-date holdings[5]	1,597	([6])	([6])
Target ceiling[7]	1,517	([6])	([6])
NOT SUBJECT TO GUIDELINE			
Investments in Canada:			
Deposits and money market instruments	130	10	8.4
Short- and intermediate-term credits[1]	149	15	11.2
Investment in financial businesses[3]	586	18	3.1
Investment in nonfinancial businesses[3]	44	1	2.8
Long-term bonds and credits	7,906	404	5.4
Stocks	1,344	−43	−3.1
Bonds of international institutions, all maturities	984	81	8.9
Long-term investments in Japan and the developing countries:			
Investment in financial businesses[3]	25	13	101.9
Investment in nonfinancial businesses[3]	10	3	38.8
Long-term bonds and credits	768	78	11.3
Stocks	201	−22	−9.9
Stocks, "other" developed countries (if acquired after Sept. 30, 1965, in U.S. markets, from U.S. investors)	370	75	25.3
TOTAL holdings not subject to guideline	**12,517**	**632**	**5.3**

[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] Net investment in foreign branches, subsidiaries, or affiliates in which the U.S. institution has an ownership interest of 10 per cent or more.
[4] Less than $500,000.
[5] Dec. 31, 1967, holdings of assets subject to guideline, less carrying value of equities included therein but since sold, plus proceeds of such sales to foreigners.
[6] Not applicable.
[7] Adjusted base-date holdings multiplied by 95 per cent.

hold short-term credits to those countries to the level requested by the 1968 guidelines, that is, 60 per cent of the amount of such credits outstanding on December 31, 1967.

The revised guidelines for nonbank financial institutions were not changed substantively from the 1968 guidelines. □

Operations in Foreign Currencies

The Federal Reserve System's foreign currency operations in 1968, as in earlier years, were designed to moderate and cushion destabilizing fluctuations in the flows of international payments and in monetary reserves, in cooperation with the central banks of other countries and with the U.S. Treasury. The Federal Reserve participated in actions to counteract speculation, including the provision of credit packages to supplement the official reserves of countries whose currencies were under speculative attack.

Potentially disruptive flows of funds were generated in Europe by speculation on changes in gold prices, until the gold pool was terminated in March; by speculation against the French franc after the civil disturbances in that country during May and June; and later in the year by speculation on the possibility that the German mark might be revalued upward. Despite improvement in British exports as a result of the November 1967 devaluation of sterling, confidence in the new sterling parity was not fully established in 1968. And the Canadian dollar was under heavy speculative attack for a short time early in the year, occasioned largely by fears that the U.S. balance of payments program announced on January 1 would adversely affect the Canadian balance of payments.

Despite the strains on the international monetary system, and despite a further deterioration in the U.S. balance on international transactions in goods and services, confidence in the dollar was not seriously affected. Large flows of private capital to the United States had the result of giving this country a balance of payments surplus as measured by official reserve transactions. The claims of foreign monetary authorities on the United States declined on balance; they were reduced by $2.4 billion in the first half of the year and increased by $1.6 billion in the second. (A discussion of the U.S. balance of payments appears on pages 47–56. An account of developments in 1968 related to gold and to SDR's will be found on pages 328–32.)

At the beginning of 1968 the Federal Reserve had outstanding about $1.8 billion of foreign currency commitments arising from drawings it had initiated under reciprocal currency (swap) arrangements with the central banks of Switzerland, Italy, Germany, the Netherlands, and Belgium, and with the Bank for International Settlements. These swap drawings had been made during 1967 to provide cover for large amounts of dollars that accrued to continental European central banks' reserves as the result of speculative flows out of sterling and other balance of payments developments. By mid-July all of the Federal Reserve's outstanding swap drawings had been liquidated. The central banks concerned were adding to their reserve positions in the IMF (to finance drawings by Britain, France, Canada, and others), but they were experiencing substantial declines in their total claims on the United States, and in order to replenish working balances they reduced their holdings of dollars under the reciprocal currency arrangements. Liquidation of the swap drawings was also facilitated by sales of foreign-currency-denominated securities by the U.S. Treasury.

During the summer and autumn, and particularly in November, there were large speculative flows of funds into German marks and to a lesser extent into Swiss francs, chiefly out of French francs and sterling and also out of Euro-dollars. To cover the Swiss central bank's increased holdings of dollars in its reserves, the Federal Reserve drew on the reciprocal currency arrangement with that central bank. The System also made relatively small swap drawings of German marks in November, in connection with forward market operations. To offset speculative inflows, the German central bank had in various ways been encouraging outflows of short-term investment funds from Germany. For several days following the reopening of exchange markets after the Bonn meeting of finance ministers and central bankers of the Group of Ten, the German central bank made outright forward sales of marks in the market at a rate designed to make covered outflows of funds from Germany attractive; the

Federal Reserve participated in this operation. At the end of 1968 the Federal Reserve's outstanding commitments on its swap drawings in Swiss francs and marks were somewhat over $400 million.

In April the Federal Reserve terminated its $500 million participation with the U.S. Treasury in giving technical commitments in forward lire, related to the dollar/lira swaps transacted by the Italian authorities with the Italian commercial banks. In October the Federal Reserve reciprocal currency arrangement with the Bank of Italy was increased from $750 million to $1 billion.

During 1968 several foreign central banks made use of Federal Reserve swap facilities. These included the Bank of Canada, the Bank of England, and the Bank of France, and also the central banks of the Netherlands, Belgium, and Denmark.

To help cope with the speculative attack on the Canadian dollar, early in March the United States granted Canada complete exemption from the restraints on U.S. capital outflows as outlined in the President's January 1 balance of payments program. To support the Canadian dollar, a $900 million international credit package was arranged, including a commitment by the U.S. Export-Import Bank. Earlier the Canadian authorities had made a drawing from the IMF and also a $250 million drawing under the reciprocal currency arrangement with the Federal Reserve; $500 million was still available under the latter facility. Following the meeting on March 16 and 17 of the Governors of central banks then active in the gold pool, increases were announced in several Federal Reserve swap arrangements, and these included a $250 million increase in the arrangement with Canada. All of these actions contributed to a turnabout in speculative flows of funds, and in June and July the Bank of Canada repaid its drawing from the Federal Reserve.

From time to time during 1968 the pound sterling was subject to severe selling pressure in the exchange markets. The rush to gold in the early months of the year involved sales of sterling assets by some speculators. The maturing of forward sales of dollars made by the Bank of England before the November 1967 devaluation of sterling, the shifting out of sterling of some parts of the official reserves of several sterling-area countries, and other withdrawals of funds from London—stimulated by disappointment at the slowness of improvement in the British trade position, and accentuated later in the year by nervousness generated by speculation on French franc devaluation and German mark revaluation—all put pressure on the United Kingdom's reserve position.

At the March 17 meeting in Washington, the central bank Governors announced that the total of credits immediately available to the United Kingdom (including the IMF standby) would be raised to $4 billion. As part of this package the Federal Reserve swap arrangement with the Bank of England—previously for $1.5 billion, much of which had already been drawn—was increased by $500 million. In September the BIS announced that a group of 12 central banks (acting where appropriate on behalf of their governments) would participate with it in a $2 billion medium-term credit facility to the Bank of England, to offset conversions of sterling balances by sterling-area countries. Such conversions, it was expected, would be limited as a result of agreements that had been reached between the British authorities and the sterling-area countries. To facilitate participation by the U.S. Treasury in this arrangement—by permitting, from time to time as might be necessary, warehousing by the Federal Reserve of sterling acquired by the Treasury—the Federal Open Market Committee authorized an increase of $650 million in the amount of foreign currencies the Federal Reserve might hold under commitments to deliver to the Treasury's Stabilization Fund.

Under the Federal Reserve reciprocal currency arrangement with the Bank of England, the latter drew substantial sums in the spring and summer. A considerable part of the United Kingdom's IMF drawing in June was used to reduce outstanding drawings under the Federal Reserve arrangement. At the end of the year, after large additional drawings during the November crisis, the Bank of England's commitments amounted to $1,150 million. In addition, Federal Reserve holdings of sterling included nearly $300 million under arrangements separate from the reciprocal currency arrangement. The Bank of England also had substantial commitments outstanding to the U.S. Treasury under special credit arrangements.

To help relieve pressures on the pound sterling stemming from strains in the Euro-dollar market, the Federal Reserve, through its arrangement with the BIS, supplied some dollars to the Euro-dollar market in June and again in December, for short periods. The BIS drew dollars from the Federal Reserve under the reciprocal currency arrangement and made the placements.

Faced with massive speculative outflows from the franc from May until near the end of November, the Bank of France made substantial use of its swap line with the Federal Reserve, in addition to selling gold, drawing on the IMF, and using other international credits—while taking actions to resist inflationary pressures and to improve the underlying French balance of payments position. The Federal Reserve reciprocal currency arrangement with the Bank of France was increased early in July from $100 million to $700 million. It was again increased, to $1 billion, at the time of the Bonn meeting in November. Of the $2 billion package of new international credits for France announced in November, the United States made available a total of $500 million—$300 million through the increase in the Federal Reserve swap line and $200 million in a facility extended to the Bank of France by the U.S. Treasury. Drawings by the Bank of France under the Federal Reserve arrangement reached a peak of over $600 million in November, but by the end of the year had been reduced to $430 million.

Drawings on their Federal Reserve swap lines by the central banks of the Netherlands and Denmark in June were liquidated within a few months, and drawings by the Belgian central bank in July and October were almost entirely liquidated by the end of the year.

At the end of 1968 the Federal Reserve's reciprocal currency arrangements with 14 central banks and the BIS totaled $10,505 million—having been increased at four times during the year, in March, July, October, and November.

A detailed review of Federal Reserve operations in foreign currencies during 1968 is given on pages 275–323. □

Part 2
Records, Operations, and Organization

Record of Policy Actions of the Board of Governors

JANUARY 18, 1968

AMENDMENT TO REGULATION Q, PAYMENT OF INTEREST ON DEPOSITS.

Effective January 18, 1968, Regulation Q was amended to alleviate a problem bearing on the exemption of time deposits of certain foreign official depositors from the maximum rate limitations contained in that regulation.

> Votes for this action: Messrs. Robertson, Mitchell, Maisel, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Messrs. Martin and Daane.

Under legislation enacted in 1962 and subsequently renewed, but due to expire on October 15, 1968, in the absence of further congressional action, the time deposits of foreign governments, of the monetary and financial authorities of foreign governments when acting as such, and of international financial institutions of which the United States is a member had been exempted from interest rate ceilings established under Regulation Q. It was not known whether this legislation would again be extended, but the efforts of commercial banks to attract or to renew official time deposits had been increasingly impeded by the banks' inability to guarantee payment of interest in excess of the regulatory ceilings beyond the October expiration date of the statute.

In order to alleviate this problem, the Board amended Regulation Q so as to exempt such foreign official time deposits with specified maturities up to 2 years from the interest rate ceilings of the regulation. The Board derived its authority for this action from legislation enacted in 1966 and renewed in 1967. That legislation placed the regulation of interest rates on a discretionary rather than a mandatory basis and authorized the Board to set different limits according to the nature or location of the depositor or according to such other reasonable bases deemed by the Board to be in the public interest. The legislation was itself scheduled to expire on September 21, 1968. But even if the legislation were not renewed, the present amendment to Regulation Q would allow banks to issue certificates of deposit until September 21, 1968, with maturities of up to 2 years to qualifying foreign official depositors at interest rates in excess of the Regulation Q ceilings.

(Note: The legislation was subsequently extended for a period of 1 year from September 21, 1968, and in light of that extension the exemption under this regulation was also continued. See the Board policy record entry for October 7, 1968, on page 92 of this ANNUAL REPORT.)

FEBRUARY 1, 1968

ADOPTION OF NEW REGULATION G, CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED EQUITY SECURITIES. AMENDMENTS TO REGULATION T, CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES, AND REGULATION U, CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED STOCKS.

Effective March 11, 1968, the Board adopted a number of changes to broaden the coverage of, and in most respects to tighten, its regulations governing the use of credit in stock market transactions.

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

The effect of adoption of the new regulation (designated Regulation G) was to extend to other lenders margin requirements corresponding to those that had long been applicable to brokers, dealers, and banks on credit extended for the purpose of purchasing or carrying registered equity securities. As a result of the adoption of Regulation G and of the continuation of applicable provisions of Regulations T and U (relating to loans by brokers and dealers and by banks, respectively), the margin required on virtually all registered stock transactions was 70 per cent, effective March 11, 1968.

Also under the provisions of Regulation G—and in this case with concurrent changes in Regulations T and U—the margin required on all loans for the purpose of purchasing or carrying securities convertible into registered stock was established at 50 per cent, effective March 11. This requirement, set independently of the margin requirement on stock transactions, was fixed initially at 50 per cent in recognition of the fact that convertible securities combine characteristics of both stocks and bonds.

The revised regulatory requirements were applicable to all new loans made on or after March 11, 1968, for the purpose of purchasing or carrying registered equity securities. The treatment of such loans made prior to that date varied, depending upon the category of lender. The adoption of margin requirements on loans made on convertible securities by brokers or dealers had no effect on loans made before March 11. For loans on convertible securities made by banks between October 20, 1967—the date the original proposals had been published for comment—and March 11, 1968, a fully margined status had to be achieved by April 10; bank loans made before October 20, 1967, were not affected unless there had been subsequent substitutions of collateral or conversion into stock. On all loans for purchasing or carrying registered equity securities made by Regulation G lenders between February 1 and March 11, 1968, a fully margined status had to be achieved by April 10. Loans by such lenders made prior to February 1 were not affected.

Also included in the Board's action was a requirement, applicable to all lenders, that loans on convertible securities having a margin status below the prescribed 50 per cent be subject to a 70 per cent "retention requirement": That is, 70 per cent of the proceeds from a sale of these securities would have to be retained to improve the status of the loan until it was margined at the full 50 per cent.

The regulations, as adopted by the Board, required that all lenders performing certain services "as agent" for foreign and other stock market lenders obtain a statement from their principals to the effect that the activities of the principals conformed to the applicable margin regulations. However, this provision never became effective. (See the entry for May 7 on page 83 of this ANNUAL REPORT.) Also, banks and Regulation G lenders were forbidden—as brokers and dealers long had been—to arrange for credit on lower margin than they could extend themselves.

Among the other provisions of the regulations was a requirement that banks and Regulation G lenders obtain from the borrower a signed statement providing for, among other things, an indication of the purpose of any stock-secured loan; determine in good faith that the statement was correct; and sign it as so accepted. (Since loans by brokers or dealers are generally for the purpose of purchasing or carrying securities, no statement of purpose would ordinarily be required in connection with such loans.)

FEBRUARY 1, 1968

AMENDMENT TO REGULATION T, CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES.

Effective February 5, 1968, Regulation T was amended to extend by one day, to five full business days after the transaction, the period in which a broker or dealer must obtain the customer's margin deposit on a margin transaction.

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

The purpose of this liberalizing change in Regulation T, which applied to all loans by brokers or dealers subject to margin requirements, was to reduce current pressures on the bookkeeping departments of brokerage firms by insuring that a weekend would always be included in the period of time within which the deposit must be obtained.

FEBRUARY 5, 1968

AMENDMENT TO REGULATION O, LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS.

Effective March 15, 1968, Regulation O was amended chiefly to bring the regulation into conformity with recent legislation.

> Votes for this action: Messrs. Martin, Robertson, Mitchell, Daane, Maisel, and Brimmer. Votes against this action: None. Absent and not voting: Mr. Sherrill.

Public Law 90-44, enacted on July 3, 1967, liberalized the rules governing loans by member banks to their own executive officers. Under the new provisions of Regulation O, amended to conform with this law and effective March 15, 1968, executive officers could borrow from their own banks up to $30,000 for a home mortgage, $10,000 for the education of children, and $5,000 for any unspecified purpose. Previously, an executive officer could not borrow more than $2,500 from his bank.

The amendment to Regulation O also redefined the term "executive officer," limiting its applicability to persons participating in the determination of major policies of a member bank. As a result, many bank officers with lesser responsibilities were granted a freer access to the credit facilities of their own institutions.

FEBRUARY 7, 1968

AMENDMENT TO REGULATION K, CORPORATIONS ENGAGED IN FOREIGN BANKING AND FINANCING UNDER THE FEDERAL RESERVE ACT.

Effective February 8, 1968, Regulation K was amended to require the Board's specific approval before corporations that were engaged in foreign banking and financing under the Federal Reserve Act could make any equity investment in a foreign business.

> Votes for this action: Messrs. Martin, Robertson, Mitchell, Maisel, and Brimmer. Votes against this action: None. Absent and not voting: Messrs. Daane and Sherrill.

This amendment to Regulation K, intended to be of temporary duration, was adopted in furtherance of the purposes of the Government's balance of payments program announced by the President on January 1, 1968. The amendment revoked the "general consent" provision of Regulation K, which had permitted so-called "Edge Act" and "Agreement" corporations to make certain investments without application to the Board for its specific approval. As a result, all equity investments abroad by member banks or such corporations, as well as the holding by them of shares of a subsidiary that made any equity investment abroad, were subject to the specific approval of the Board.

The Board indicated that, in line with the objectives of the balance of payments program, equity investments in developed countries of continental Western Europe would not be approved unless circumstances clearly demonstrated that the transaction would not be detrimental to the U.S. balance of payments. Applications to make investments elsewhere would be considered on their merits, provided the investments could be made within the ceiling established for the applicant under the voluntary foreign credit restraint program and provided the priorities established in that program were being followed.

The Board stressed that all equity investments abroad by member banks and by Edge Act and Agreement corporations would continue to be regarded as extensions of credit to foreigners for purposes of the foreign credit restraint program.

FEBRUARY 8, 1968

AMENDMENTS TO REGULATION Y, BANK HOLDING COMPANIES.

Effective March 15, 1968, Regulation Y was revised primarily to make the regulation conform to the provisions of governing legislation.

> Votes for this action: Messrs. Martin, Robertson, Mitchell, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Messrs. Daane and Maisel.

The principal purpose of this action was to incorporate into

Regulation Y certain technical changes and other revisions conforming to the new provisions that became effective under the Bank Holding Company Act amendments of 1966.

MARCH 8, 1968

AMENDMENTS TO REGULATION G, CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED EQUITY SECURITIES; REGULATION T, CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES; AND REGULATION U, CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED STOCKS.

Effective March 11, 1968, the Board adopted technical amendments to Regulations G, T, and U designed to clarify certain provisions of the margin regulations announced on February 1, 1968.

Votes for this action: Messrs. Robertson, Mitchell, Maisel, and Brimmer. Votes against this action: None. Absent and not voting: Messrs. Martin, Daane, and Sherrill.

On February 1, 1968, the Board had adopted, effective March 11, 1968, a number of changes to broaden the coverage of, and in most respects to tighten, its regulations governing the use of credit in stock market transactions. Since that time a need for several technical improvements in the regulations had come to light, and the amendments now adopted were designed for that purpose.

The amendments clarified that the 50 per cent margin requirement applicable to convertible debt securities was not applicable to preferred stocks, the latter being subject to the same margin requirements as other registered equity securities. The amendments also sharpened the definition of the term "indirectly secured" as used in Regulations G and U. The amendments eliminated the requirement that banks obtain "purpose statements" in connection with certain routine transactions. And, finally, they clarified the method by which short sales of convertible bonds were to be carried out under Regulation T.

MARCH 12, 1968

REVISION OF FOREIGN CREDIT RESTRAINT PROGRAM GUIDELINES.

The Board adopted revisions in the guidelines for restraint of foreign credits by banks and other financial institutions.

> Votes for this action: Messrs. Martin, Robertson, Mitchell, Daane, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Mr. Maisel.

Since the announcement on January 1, 1968, of revised guidelines for the use of banks and other financial institutions in limiting foreign credits, an agreement had been reached between the Governments of Canada and the United States under which such institutions would be permitted to increase claims on residents of Canada without reference to the guideline ceilings. The current revisions were in conformity with that agreement.

MARCH 14, 1968

INCREASE IN RATES ON DISCOUNTS AND ADVANCES BY FEDERAL RESERVE BANKS.

Effective March 15, 1968, the Board approved actions taken by the boards of directors of the Federal Reserve Banks of Boston, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas establishing a rate of 5 per cent (an increase 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, 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 remaining Federal Reserve Banks effective on the following dates:

San Francisco	March 15, 1968
Philadelphia	March 18, 1968
New York	March 22, 1968

Effective the same dates the Board approved for the respective Federal Reserve Banks a rate of 5½ per cent (an increase from 5 per cent) on advances to member banks under Section 10(b) of the Federal Reserve Act. In addition, the Board approved increases 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 the 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 to submit such rates to the Board for review and determination. Prior to this date the most recent rate changes were made in November 1967, as described on pages 79 and 80 of the Board's ANNUAL REPORT for 1967.)

Note: The directors of five Federal Reserve Banks had voted initially to establish rates other than 5 per cent under Sections 13 and 13a of the Federal Reserve Act, subject to the approval of the Board of Governors. These rates were 4¾ per cent voted by the directors of the Federal Reserve Bank of Chicago, 5½ per cent by the directors of the Federal Reserve Banks of Philadelphia, St. Louis, and Dallas, and 6 per cent by the directors of the Federal Reserve Bank of New York. Upon being advised that the Board was prepared to approve a rate increase of ½ percentage point, the Federal Reserve Banks in question voted to establish a rate of 5 per cent. In taking action to establish a rate of 6 per cent, the directors of the Federal Reserve Bank of New York had also voted to establish an alternative rate of 5½ per cent, if the former rate was not acceptable to the Board of Governors. The Board did not approve either alternative, and consequently the Reserve Bank's existing rate of 4½ per cent continued in force until the directors voted to establish, with the Board's approval, a rate of 5 per cent.

The action to increase the discount rate was taken at a time of strong inflationary pressures in the domestic economy and of massive speculation in world gold markets based on expectations of an increase in the price of gold. Such speculation had resulted in substantial sales of gold from the official stocks of the United States and other countries actively participating in the London gold pool in order to maintain the market price of gold at a level close to the official price of $35 per ounce. Expectations of continuing inflation in the United States and speculative attitudes in world markets had been influenced by the recent rapid expansion in U.S. economic activity, strong upward pressures on

U.S. prices and costs, and consequent deterioration in the U.S. balance of trade, and also by the uncertain prospects for enactment of proposed fiscal restraint legislation.

Growth in bank reserves, bank credit, and the money supply had slowed on the average since late November 1967, when the discount rate had been raised from 4 to 4½ per cent. In the intervening period the System had implemented a policy of increased monetary restraint by raising reserve requirements against most demand deposits and by pursuing more restrictive open market operations. (The policy record entries of the Board and the Federal Open Market Committee that describe the firming actions noted above and furnish details on attendant economic and financial circumstances may be found in the ANNUAL REPORT for 1967 and in this ANNUAL REPORT beginning on page 122.)

The rates of expansion in bank reserves and in bank credit were believed to be moderating further in March, but growth in the money stock was expected to accelerate somewhat from its minimal February pace. In an atmosphere of unsettled foreign exchange markets and strong inflationary pressures in the domestic economy, market interest rates had risen considerably during the first half of March. The 3-month Treasury bill rate had advanced from around 5 per cent early in the month to nearly 5½ per cent on the day this action was taken; most yields in capital markets had moved to new highs, exceeding their peaks of late 1967.

In this situation the increase of ½ percentage point in the discount rate was designed to supplement actions already undertaken through other policy instruments. The increase was in accord with a policy of curbing inflationary pressures in the domestic economy and fostering progress toward attainment of reasonable equilibrium in the country's balance of payments, thereby strengthening confidence in the international position of the dollar.

In its review of actions by some Reserve Banks initially calling for larger increases in the discount rate, the Board concluded that such increases were not warranted in the present situation and ran the risk of engendering unduly large market reactions. The Board recognized, however, that domestic or international developments might make a further increase in the discount rate desirable at a later date.

APRIL 18, 1968

1. INCREASE IN RATES ON DISCOUNTS AND ADVANCES BY FEDERAL RESERVE BANKS.

Effective April 19, 1968, the Board approved actions taken by the boards of directors of the Federal Reserve Banks of New York, Philadelphia, and Minneapolis establishing a rate of 5½ per cent (an increase from 5 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, and Brimmer. Votes against this action: None. Absent and not voting: Messrs. Maisel and Sherrill.

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

San Francisco	April 19, 1968
Atlanta	April 22, 1968
Boston	April 23, 1968
St. Louis	April 23, 1968
Cleveland	April 26, 1968
Richmond	April 26, 1968
Chicago	April 26, 1968
Kansas City	April 26, 1968
Dallas	April 26, 1968

Effective the same dates the Board approved for the respective Federal Reserve Banks a rate of 6 per cent (an increase from 5½ per cent) on advances to member banks under Section 10(b) of the Federal Reserve Act. In addition, the Board approved increases 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.

2. AMENDMENT TO REGULATION Q, PAYMENT OF INTEREST ON DEPOSITS.

Effective April 19, 1968, the Board approved an amendment of the Supplement to Regulation Q to increase the maximum rates of interest permitted to be paid by member banks on certain single-maturity time deposits, including certificates of deposit (CD's), of $100,000 or more. The following schedule of maximum rates was adopted:

Maturity (days)	Maximum rate (per cent)
30- 59	5½
60- 89	5¾
90-179	6
180 and over	6¼

Votes for this action: Messrs. Martin, Robertson, Mitchell, Daane, and Brimmer. Votes against this action: None. Absent and not voting: Messrs. Maisel and Sherrill.

Since December 6, 1965, the maximum rate payable on such large-denomination time deposits, apart from those of certain foreign official depositors, had been 5½ per cent for all maturities. No changes were made in the maximum rates of interest payable on other classifications of time and savings deposits, and time deposits of qualifying foreign official institutions remained exempt from the limitations of this regulation (see Regulation Q entries for January 18 and October 7 on pages 69 and 92 of this ANNUAL REPORT).

These actions were taken to supplement policy measures of monetary restraint adopted earlier, including successive firming actions through open market operations and an increase in the discount rate to 5 per cent in mid-March. (Policy record entries describing these actions may be found in this ANNUAL REPORT, beginning on pages 122, 136, and 76, respectively.) The more restrictive stance of monetary policy had been reflected in firmer money market conditions and higher short-term interest rates, with the 3-month Treasury bill rate rising recently to a range around 5.35 per cent. Growth in total member bank reserves had slowed sharply since February, and bank credit, as measured by the bank credit proxy—daily-average member bank deposits—had expanded at an appreciably reduced pace in March and was expected to show no further growth in April. Banks had met increasing loan demands in recent weeks through sizable reductions in their holdings of U.S. Government securities. Growth in the money stock had accelerated in recent weeks, however, reflecting in part sizable declines in U.S. Government deposits.

Despite the increased monetary restraint, expansion in domestic economic activity was continuing at an excessive pace and was being accompanied by substantial upward pressures on prices and costs. Against this background an overt move toward increased monetary restraint was deemed desirable to reaffirm the System's determination to help resist inflationary pressures at a time when enactment of proposed fiscal restraint legislation remained uncertain.

Rising interest rates in short-term debt markets had significantly reduced the ability of banks to compete for time and savings deposits under existing Regulation Q ceilings, with the result that the outstanding volume of large-denomination CD's had contracted substantially in recent weeks and growth in consumer-type time and savings deposits at banks and in savings accounts at nonbank thrift institutions had remained at a reduced pace. The further increase of ½ percentage point in the discount rate was expected to exert additional upward pressure on short-term market interest rates and to make it even more difficult for banks to replace maturing CD's. In these circumstances the Board concluded that ceiling rates under Regulation Q should be raised on large-denomination CD's in order to give banks some leeway to compete for interest-sensitive funds. It was believed desirable to set the new graduated scale of ceiling rates at levels that would enable banks to resist further large reductions in such deposits, but not so high as to permit a significant expansion in the outstanding volume of CD's and thus in bank credit.

APRIL 23, 1968

AMENDMENTS TO REGULATION D, RESERVES OF MEMBER BANKS.

Effective September 12, 1968, Regulation D was amended to effect several changes in the method of computation of reserve requirements by member banks.

> Votes for this action: Messrs. Martin, Robertson, Mitchell, Maisel, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Mr. Daane.

The amendments were designed to facilitate more efficient functioning of the reserve mechanism. They did not represent any change in Federal Reserve monetary policy, but were expected to reduce uncertainties, for both member banks and the Federal Reserve, as to the amount of reserves required to be maintained during the course of any reserve-computation period. Adoption of the amendments was therefore expected to moderate some of the pressures for reserve adjustments within the banking system that occasionally develop near the close of a reserve period and produce sharp fluctuations in the availability of day-to-day funds.

The major changes in the rules by which member banks would compute and comply with System reserve requirements, which were substantively the same as those published for comment on January 29, 1968, were as follows:

(1) establishment of a 1-week reserve period for the so-called "country banks" instead of the former 2-week period, thus putting such banks on the same basis as reserve city banks;

(2) use of average deposits 2 weeks earlier in calculating the weekly average required reserves for the present period;

(3) use of vault cash held 2 weeks earlier, together with average balances at the Federal Reserve Bank for the current week, in the computation of weekly average reserves held in satisfaction of the requirements; and

(4) provision that either excesses or deficiencies averag-

ing up to 2 per cent of required reserves might be carried forward to the next reserve week.

MAY 7, 1968

AMENDMENTS TO REGULATION G, CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED EQUITY SECURITIES; REGULATION T, CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES; AND REGULATION U, CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED STOCKS.

The Board amended Regulations G, T, and U to revoke certain provisions that would have applied to banks, brokers, and other lenders when they acted as agents for others who were in the business of lending against registered equity securities.

> Votes for this action: Messrs. Martin, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Messrs. Robertson and Mitchell.

On February 1, 1968, the Board, in adopting Regulation G and amending Regulations T and U, included a requirement that all lenders performing certain services "as agent" for foreign and other stock market lenders obtain a signed statement from their principals to the effect that the activities of the principals conformed to the applicable margin regulations. This requirement was originally scheduled to take effect on March 11, 1968. However, on February 29 the Board deferred the effective date until April 10, 1968. The purpose of the delay was to mitigate the administrative burden connected with handling a substantial volume of ministerial agency transactions involved in effectuating the requirement.

Subsequently, on March 27, 1968, the Board amended the pertinent provisions of the regulations to provide that the requirement apply only where the bank, broker, or other lender knew or should know that the services it performed as agent were connected with a loan secured in such a way that the agent would have had to observe the requirement of the regulations if it had itself made the loan. This change was scheduled to go into effect on April 17, 1968.

On April 12, 1968, the Board deferred the effective date to May 17 and on May 7 it revoked these provisions, which were thus never actually in effect. The Board deleted the requirement because of the possibility that it might give rise to disproportionate operational problems, particularly with regard to transactions involving foreign principals. The Board noted, however, that a potential for evasion of the regulations through agency activities did exist and that it planned to keep this area under surveillance.

MAY 9, 1968

PROPOSED AMENDMENT TO REGULATION U, CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED STOCKS.

On May 9, 1968, the Board voted not to adopt a proposed amendment to Regulation U that would have exempted from margin requirements loans made by banks to dealers to finance their market-making activities in convertible bonds.

> Votes for this action: Messrs. Martin, Robertson, Maisel, and Sherrill. Votes against this action: None. Absent and not voting: Messrs. Mitchell, Daane, and Brimmer.

In conjunction with the changes announced February 1, 1968, in its regulations governing the use of credit in stock market transactions, the Board had published for comment a proposal to exempt from margin requirements loans made by banks to dealers to finance their market-making activities in convertible securities. It was originally proposed that this exemption, if adopted, would become effective not later than March 11, 1968. To aid it in reaching a decision, the Board requested that dealers who wished to be eligible for the exemption begin to file certain reports.

The Board, after twice deferring action because of difficulties encountered in collecting and analyzing sufficient data, decided not to grant the exemption. Analysis of the reports filed by dealer firms engaged in market-making activities had not revealed a clear need for extending credit on a more favorable basis to such firms, and it appeared that the exemption would lead to severe administrative difficulties. It was therefore required that bank loans on convertible securities made between October 20, 1967, and March 11, 1968, to those dealer firms that had filed reports to establish eligibility for possible exemption be brought up to 50 per cent margin status by May 10. Such loans had been granted temporary exemption pending final Board action.

JUNE 7, 1968

AMENDMENTS TO REGULATION G, CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED EQUITY SECURITIES; REGULATION T, CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES; AND REGULATION U, CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED STOCKS.

Effective June 8, 1968, the Supplements to Regulations G, T, and U were amended to increase margin requirements from 70 to 80 per cent on loans made on stocks and from 50 to 60 per cent on loans made on convertible bonds.

Votes for this action: Messrs. Martin, Robertson, Daane, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Messrs. Mitchell and Maisel.

During the month of April margin credit of brokerage customers had increased by $200 million, bringing the total of margin credit outstanding at brokerage houses to $6.4 billion, and preliminary indications were that a further rise had occurred in May. The recent increases in stock market credit marked a resumption of the upward trend observed during 1967, when such credit rose 29 per cent at brokerage houses and 19 per cent at commercial banks.

In view of these developments, the Board acted to increase margin requirements under the authority granted in the Securities Exchange Act of 1934 to prevent excessive use of credit to finance transactions in securities. The margin requirement on loans for the purpose of purchasing or carrying registered stocks was increased from 70 to 80 per cent; that on loans for the purpose of purchasing or carrying securities convertible into registered stock was raised from 50 to 60 per cent. These higher requirements were applicable to all new extensions of credit on or after June 8, 1968, for these purposes by brokers, banks, and other lenders. No change was made in the 70 per cent retention requirement applicable to undermargined accounts.

AUGUST 5, 1968

AMENDMENTS TO REGULATION F, SECURITIES OF MEMBER STATE BANKS.

Effective August 5, 1968, Regulation F was amended to implement recent statutory amendments to the Securities Exchange Act of 1934.

> Votes for this action: Messrs. Robertson, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Messrs. Martin and Mitchell.

The amendments to Regulation F implemented provisions of Public Law 90-439, effective July 29, 1968, insofar as they applied to State member banks. Those provisions required disclosure of certain information with respect to: (1) acquisition of more than 10 per cent of a class of equity securities registered pursuant to the Securities Exchange Act; (2) making of so-called "tender offers" (or solicitations favoring or opposing such offers); and (3) replacement of a majority of the directors of an issuer in connection with an acquisition, or tender offer, subject to the Act. State member banks engaging in any of the above actions were required to file prescribed information with the Board and, in the case of a tender offer, to include such information in the advertisement thereof.

AUGUST 6, 1968

AMENDMENTS TO REGULATION G, CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED EQUITY SECURITIES.

Effective August 8, 1968, Regulation G was amended to relax some provisions thereof, particularly as they applied to credit unions.

> Votes for this action: Messrs. Robertson, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Messrs. Martin and Mitchell.

Regulation G applied only to lenders with $50,000 in new loans or $100,000 in loans outstanding against registered equity securities in a given quarter. Therefore it affected only a very small minority of the credit unions in the United States. However, several of the provisions of Regulation G were felt to be unduly restrictive on even this small number of credit unions.

The first of the two major amendments included in this action permitted a lender subject to the regulation to extend up to $5,000 in general credit along with credit for purchasing or carrying registered securities. As originally adopted, the regulation forbade a lender subject to its provisions to extend both types of credit to the same borrower at the same time.

The second major amendment permitted credit unions whose membership was limited to employees and former employees of a corporation to make loans for the purchase of stock in the corporation under an employee stock-purchase plan without regard to initial margin requirements. It was required that the loans be made under a plan that embodied safeguards to discourage repayment with proceeds from the sale of the purchased stock. Such loans were already exempt if made by the corporation itself under similar safeguards.

AUGUST 13, 1968

OPERATIONS SUBSIDIARIES AND LOAN PRODUCTION OFFICES.

The Board reinterpreted provisions of the Federal banking laws relating to operations subsidiaries and loan production offices.

Votes for this action: Messrs. Martin, Mitchell, Daane, Maisel, and Sherrill. Votes against this action: Messrs. Robertson and Brimmer.

These interpretations, which reversed positions taken in 1966 and 1967, were as follows:

1. As tar as Federal banking law is concerned, a member bank of the Federal Reserve System may purchase for its own account shares of corporations to perform, at domestic locations where the bank is authorized to engage in business, functions that the bank is empowered to perform directly.

2. As far as Federal banking law is concerned, a member bank of the Federal Reserve System may establish and operate, at any location in the United States, "loan production offices" that perform only servicing activities. Such offices may be established and operated by a bank either directly or indirectly through wholly owned subsidiaries.

In adopting these interpretations, the Board reexamined its position concerning the so-called "stock purchase prohibition" of Section 5136 of the Revised Statutes (12 U.S. Code Section 24), which forbids the purchase by a member bank for its own account of any shares of stock of any corporation, except as permitted by provisions of Federal law or as comprised within the concept of "such incidental powers as shall be necessary to carry on the business of banking." The Board concluded that the incidental powers clause permits a bank to organize its operations in the manner that it believes will best facilitate the performance thereof, and that a wholly-owned subsidiary corporation engaged in activities that the bank itself may perform is simply a convenient alternative organizational arrangement and is permissible unless use of such a subsidiary is inconsistent with other Federal law, either statutory or judicial.

In view of the relationship between the operation of certain subsidiaries and the branch banking laws, the Board also reexamined its rulings on what constitutes "money lent" for the purpose of Section 5155 of the Revised Statutes (12 U.S. Code Section 36), which provides that "The term 'branch' . . . shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business . . . at which deposits are received, or checks paid, or money lent." The Board concluded that a test similar to that adopted with respect to the servicing exemption under the Bank Holding Company Act is appropriate for use in determining whether or not "money [is] lent" at a particular office, for the purpose of the Federal branch banking laws.

Accordingly, the Board listed activities that it considered did not, individually or collectively, constitute the lending of money within the meaning of Section 5155 and concluded that when loans are approved and funds disbursed solely at the main office or branch of the bank, an office at which only preliminary and servicing steps are taken is not a place where "money [is] lent" and therefore is not a branch.

In stating the reasons for their dissent Messrs. Robertson and Brimmer said that, while they believed it would be in the public interest to amend the governing statutes to give national banks and State member banks greater latitude to conduct some of their business through subsidiary corporations, they also believed the problem should have been resolved through legislation rather than by changing the Board's interpretation of the law. They also stated that to go even further and adopt the position that State member banks may (through these subsidiaries) establish loan production offices anywhere in the United States was to take such a long step toward a fundamental change in our banking structure as to call for legislative consideration even if the legality of that position were unquestionable, which in their view was not the case.

AUGUST 15, 1968

DECREASE IN RATES ON DISCOUNTS AND ADVANCES BY FEDERAL RESERVE BANKS.

Effective August 16, 1968, the Board approved the action taken by the board of directors of the Federal Reserve Bank of Minneapolis establishing a rate of 5¼ per cent (a decrease from 5½ 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, Maisel, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Messrs. Mitchell and Daane.

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

Richmond	August 19, 1968
Philadelphia	August 23, 1968
Cleveland	August 23, 1968
Chicago	August 23, 1968
Kansas City	August 23, 1968
Boston	August 27, 1968
Dallas	August 28, 1968
New York	August 30, 1968
Atlanta	August 30, 1968
St. Louis	August 30, 1968
San Francisco	August 30, 1968

Effective the same dates the Board approved for the respective Federal Reserve Banks a rate of 5¾ per cent (a decrease from 6 per cent) on advances to member banks under Section 10(b) of the Federal Reserve Act. In addition, the Board approved decreases 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.

Market interest rates had fallen considerably on balance in connection with enactment of fiscal restraint measures in late June, as a result of widespread expectations that these measures would be followed by moderation in the pace of economic expansion and reduction of inflationary pressures, some easing of monetary policy, and smaller Treasury financing requirements. In short-term debt markets rates on 3-month Treasury bills had declined by more than ½ percentage point to about 4.90 per cent by early August but since that time had climbed back up to about 5.15 per cent. Member bank borrowings had been reduced over this interval, but day-to-day rates in the money market, including rates on Federal funds, had remained at high levels and appeared increasingly to be exerting some upward pressure on the short-term yield structure.

The decline that had taken place in short-term market interest rates to levels well below Regulation Q ceilings on large-denomination CD's had enabled banks since early summer to replace the CD's they had lost earlier in the year. Growth in private demand deposits and in the money supply had leveled off since early July, but U.S. Government deposits had risen fairly rapidly. Bank earning assets had grown sharply in recent weeks, as banks had invested heavily in the U.S. Government securities offered in recent Treasury cash financings and had increased their acquisitions of State and local government obligations and their loans on securities.

The action to decrease the discount rate by ¼ percentage point moved the rate into closer alignment with the reduced level of short-term market interest rates. The Board believed that such a reduction would tend to moderate the tendency for short-term rates to move up from their summer lows and thereby help to forestall developments that might otherwise call for an enlarged provision of reserves.

OCTOBER 7, 1968

AMENDMENT TO REGULATION Q, PAYMENT OF INTEREST ON DEPOSITS.

Effective October 15, 1968, Regulation Q was amended with respect to the payment of interest by member banks on certain time deposits of qualifying foreign official depositors.

> Votes for this action: Messrs. Robertson, Mitchell, Daane, Maisel, and Brimmer. Votes against this action: None. Absent and not voting: Messrs. Martin and Sherrill.

Pursuant to the enactment of Public Law 90-505, which became effective September 21, 1968, this amendment to Regulation Q clarified the authority of member banks to pay interest without regard to Regulation Q ceilings on time deposits of foreign governments, of the monetary and financial authorities of foreign governments when acting as such, and of international financial institutions of which the United States is a member. In this respect the amendment, which applied to time deposits with maturities of not more than 2 years, was essentially a restatement and extension of an earlier amendment, effective January 18, 1968 (see page 69 of this ANNUAL REPORT), which had been issued in light of the possible expiration of the Board's authority to regulate interest rates on a discretionary basis, an authority extended by Public Law 90-505.

The current amendment also modified an earlier position of the Board with respect to the payment of interest on deposits in the form of negotiable certificates of deposit (CD's) transferred by a so-called "exempt" organization, as defined above. Formerly, a member bank had been prohibited from paying interest at a rate exceeding the generally applicable maximum rate permitted by Regulation Q at the date of issue if a CD issued to an exempt organization had been transferred to a nonexempt holder at any time before maturity. Under the amendment a member bank could pay the contract rate on a CD issued to an exempt organization throughout the time it was held by such an organization even though the holder at maturity was not an exempt organization, provided that (1) in the event of a transfer, the date of transfer, attested to in writing by the transferor, appeared on the CD, and (2) the maximum rate limitations of Regulation Q in effect at the date of issuance of the certificate applied during such time as the CD was held by any person other than an exempt organization.

The Board indicated that, in keeping with the intent of the authorizing legislation, the current amendment was designed to encourage, to a greater extent than before, foreign monetary authorities to deposit funds in U.S. commercial banks and thus be of assistance in solving the nation's balance of payments problem.

NOVEMBER 13, 1968

AMENDMENT TO REGULATION A, ADVANCES AND DISCOUNTS BY FEDERAL RESERVE BANKS.

Effective November 13, 1968, Regulation A was amended with regard to the kinds of assets eligible as collateral for advances, thus bringing the regulation into conformity with recent legislation.

> Votes for this action: Messrs. Robertson, Mitchell, Daane, and Maisel. Votes against this action: None. Absent and not voting: Messrs. Martin, Brimmer, and Sherrill.

Public Law 90-505, which became effective September 21, 1968, and the conforming changes in Regulation A now adopted by the Board broadened the definition of obligations eligible as collateral for advances to member banks to include all "such obligations as are eligible for purchase under Section 14(b) of the (Federal Reserve) Act." Previously, the reference had been to "notes . . . eligible for . . . purchase," which the Board had construed as not including obligations generally regarded as securities.

Obligations thus made eligible as collateral for advances included "direct obligations of, and obligations fully guaranteed as to principal and interest by, the United States or any agency thereof, and municipal obligations, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues, with a maturity from the date of the advance not exceeding six months."

In adopting the amendment, the Board revoked all previous interpretations with respect to the eligibility of specific obligations included in the above categories.

DECEMBER 16, 1968

REVISION OF FOREIGN CREDIT RESTRAINT PROGRAM GUIDELINES.

The Board adopted slightly revised guidelines for restraint of foreign credits by banks and other financial institutions. It was understood that these guidelines would be issued if the administration determined that the over-all U.S. balance of payments program should be continued in 1969 in substantially the same form as in 1968.

> Votes for this action: Messrs. Robertson, Mitchell, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Mr. Martin.

Adoption of the revised guidelines continued an integral part of the President's program, announced on January 1, 1968, to strengthen the U.S. balance of payments. In considering the foreign credit restraint program applicable to banks and other financial institutions, the Board concluded that balance of payments prospects for 1969 did not permit any basic change in the program and that restraint of capital outflows, both public and private, would continue to be required. Thus, the guidelines for 1969—announced on December 23, 1968, following acceptance by the President of a recommendation from the Cabinet Committee on the Balance of Payments regarding the over-all balance of payments program—were substantially the same as those for 1968. However, in view of the importance of increasing U.S. exports, the Board indicated its intention to review the program early in 1969 to determine whether additional flexibility for financing U.S. exports might be provided in the guidelines.

DECEMBER 17, 1968

INCREASE IN RATES ON DISCOUNTS AND ADVANCES BY FEDERAL RESERVE BANKS.

Effective December 18, 1968, the Board approved actions taken by the boards of directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Dallas establishing a rate of 5½ per cent (an increase from 5¼ per cent) on discounts and advances to member banks under Sections 13 and 13a of the Federal Reserve Act.

> Votes for this action: Messrs. Robertson, Mitchell, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Mr. Martin.

Pursuant to the policy established by this action, the Board subsequently approved the same rate for the Federal Reserve Banks of St. Louis, Kansas City, and San Francisco, effective December 20, 1968.

Effective the same dates the Board approved for the respective Federal Reserve Banks a rate of 6 per cent (an increase from 5¾ 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.

Note: The directors of the Federal Reserve Banks of Philadelphia and St. Louis had initially voted to establish, subject to the approval of the Board of Governors, a rate of 5¾ per cent on discounts and advances to member banks under Sections 13 and 13a of the Federal Reserve Act, with corresponding secondary rates. Upon being advised that the Board was not prepared to approve a rate increase of ½ percentage point, the Federal Reserve Banks in question voted to establish a rate of 5½ per cent.

The discount rate increase was approved partly in light of the advances in other market interest rates that had occurred over recent months but also in recognition of the continued excessive strength of the economic expansion, the accompanying resurgence of inflationary expectations, and the adverse impact of rapidly rising domestic prices on the country's balance of payments. In this situation a policy of increased monetary restraint was deemed appropriate and the discount rate action was taken, in conjunction with firming actions through open market operations, in furtherance of such a policy. Details of the attendant economic circumstances and the views of the Federal Open Market Committee, which voted to foster firmer conditions in money and short-term credit markets at its meeting on December 17, 1968, may be found in the entry for that date in the Record of Policy Actions of the Federal Open Market Committee, beginning on page 219 of this ANNUAL REPORT.

Before approving the increase of ¼ percentage point in the discount rate, the Board reviewed the arguments for a ½ point increase which had been voted initially by the directors of the Federal Reserve Banks of Philadelphia and St. Louis. The Board decided that, together with the firmer stance in open market policy, a ¼ point advance in the discount rate would be a sufficient change under current economic circumstances. The Board also recognized that conditions in domestic financial markets and in foreign exchange markets were highly sensitive and might tend to become unsettled if a larger increase were announced at this time.

During the course of the meeting the Board also considered arguments for a ½ point increase in member bank reserve requirements, the action to have an effective date in mid-January 1969 rather than immediately for technical reasons. Board members present were evenly divided in their assessment of the desirability of such an increase. Those in favor (Messrs. Robertson, Mitchell, and Brimmer) believed that this additional action would help reduce the availability of bank reserves without adding as directly to upward pressures on market interest rates as would open market sales of securities designed to absorb the same amount of reserves, and also that the action, in conjunction with the other measures of restraint being adopted, would provide an unmistakable signal of the System's determination to resist inflationary pressures in the economy. Those opposed (Messrs. Daane, Maisel, and Sherrill) thought that considerations similar to those underlying the decision against a ½ point increase in the discount rate militated also against an increase in reserve requirements—namely, that the other actions agreed upon were adequate in the current economic situation and that such further action would risk undesirably large reactions in financial markets. In their judgment consideration of an increase in reserve requirements should await an assessment of the impact of the firming actions being undertaken through open market operations and the ¼ point advance in the discount rate.

The Board agreed that the effectiveness of the more restrictive policy undertaken through open market operations and the increase in the discount rate would be enhanced if the maximum interest rates payable on various categories of member bank time and savings deposits under the Board's Regulation Q were maintained at prevailing levels.

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 1968, 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.

Under the Committee's rules relating to the availability of information to the public, the policy record for each meeting is released approximately 90 days following the date of the meeting and is subsequently 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 1968. No revisions were made in the continuing authority directive during the year; changes in the other instruments are shown in the records for the individual meetings.

CONTINUING AUTHORITY DIRECTIVE WITH RESPECT TO DOMESTIC OPEN MARKET OPERATIONS
(in effect January 1, 1968)

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 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 (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;

(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 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, 1968)

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.

AUTHORIZATION FOR SYSTEM FOREIGN CURRENCY OPERATIONS

(in effect January 1, 1968)

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 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
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	400
Bank for International Settlements:	
System drawings in Swiss francs	400
System drawings in authorized European currencies other than Swiss francs	600

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 arrange-

ments 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 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.

FOREIGN CURRENCY DIRECTIVE

(in effect January 1, 1968)

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. 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.

MEETING HELD ON JANUARY 9, 1968

1. Authority to effect transactions in System Account.

Economic activity was expanding vigorously as 1967 drew to a close, and prospects were for further rapid growth in early 1968. Prices were rising at a substantial rate; and with demands strong and costs increasing, inflationary pressures were expected to persist in the period ahead.

Industrial production was tentatively estimated to have increased sharply further in December to a level above the peak of a year earlier. Nonfarm employment also continued to expand rapidly; in December nearly 1 million more persons were employed than in August, before the strike in the automobile industry. The unemployment rate, which in November had declined to 3.9 per cent, fell in December to 3.7 per cent, the same as a year earlier. Housing starts rose further in November, but part of the increase may have reflected an acceleration of schedules by some builders, in reaction to increasing uncertainties about future mortgage market conditions.

Average prices of industrial commodities continued to rise in December, according to preliminary estimates. Since midyear, such prices had advanced at an annual rate of about 3 per cent. Moreover, wholesale prices of farm products, which had been declining earlier, turned up in December—raising the possibility that advances in retail prices of food might resume. The consumer price index increased considerably further in November despite a slight decline in food prices.

Real gross national product in 1967 as a whole was estimated to have been about 2.5 per cent greater than in 1966. Growth was at a considerably higher rate in the second half of the year, however, and further acceleration appeared likely in early 1968. Recent surveys indicating that consumers were cautious in their attitudes and buying intentions suggested that personal saving would continue in the first quarter at the unusually high rate prevailing throughout 1967. Nevertheless, in view of the prospect for a large rise in incomes, a substantial increase in consumer expenditures was anticipated. Business spending on plant and equipment was expected to expand sharply, and the rate of inventory accumulation—which now appeared to have advanced more in the fourth quarter than had been estimated earlier—was expected to continue rising. Some further increase in outlays for residential construction appeared probable, in light of the upward course of housing starts through November and advances in construction costs. On the other hand, defense outlays—growth in which had slackened in the second half of 1967—were expected to level off.

The U.S. balance of payments worsened sharply in the fourth quarter of 1967. On the "liquidity" basis of calculation the deficit increased markedly from the third quarter, and on the "official reserve transactions" basis the balance shifted to a large deficit from a surplus in the preceding quarter.[1] For the year as a whole, the deficit on the liquidity basis was estimated at about $3.7 billion, compared with $1.4 billion in 1966; and the official settlements balance was in deficit by an estimated $3.4 billion, compared with a small surplus in 1966. Although detailed information on fourth-quarter payments was not yet available, it appeared that much of the deterioration was attributable to a reduction in the surplus on merchandise trade; in the October–November period exports declined and imports rose from their third-quarter rates. Special transactions—including the liquida-

[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 (sometimes referred to as the "official settlements" 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 ordinary capital flows.

tion of official British holdings of U.S. securities—also contributed to the deficit on both bases in the fourth quarter. For 1967 as a whole, the liquidity deficit was substantially reduced by the net effect of special transactions.

On January 1, 1968, the President announced a new program which was, in his words, "designed to bring our balance of payments to—or close to—equilibrium in the year ahead." After stressing the need for a tax increase and other actions to "help stem the inflationary pressures which now threaten our economic prosperity and our trade surplus," the President outlined elements of a program through which an improvement of about $3 billion in the U.S. payments balance would be sought in 1968. The most important of these were a mandatory reduction in the flow of U.S. funds into direct investments abroad, particularly to continental Western Europe, and increased restrictions, under the Federal Reserve's foreign credit restraint program, on lending abroad by U.S. financial institutions. The program also included reduction of expenditures by American citizens for travel outside the Western Hemisphere, curtailment of Government expenditures overseas, and a variety of measures to increase U.S. exports and the trade surplus.

Gold holdings of the U.S. Treasury were reduced in December by the record monthly amount of about $900 million, mainly as a result of settlement of the U.S. share of sales made by the gold pool in London in November and December. Following the President's announcement of the new balance of payments program, foreign purchases of gold slackened abruptly. In foreign exchange markets the dollar strengthened against all continental European currencies, and the position of sterling improved somewhat.

System open market operations since the preceding meeting of the Committee had been directed at fostering slightly firmer conditions in the money market. An announcement by the Board of Governors on December 27 of an increase in reserve requirements against demand deposits, effective in mid-January, reinforced the belief of market participants that the System was moving toward greater monetary restraint.[2] The Federal funds rate, which earlier had fluctuated around the 4½ per cent discount rate established on November 20, increased somewhat to a range around 4⅝ per cent. Average free reserves of member banks were estimated to have declined to about $80 million in the three statement weeks ending January 3, from slightly over $200 million in the first 2 weeks of December.

Most short-term interest rates rose somewhat further in the latter half of December as money market conditions firmed, but longer-term yields remained stable or edged down. Various factors contributed to an improvement in the atmosphere in capital markets in this period; these included a seasonal lull in new private security issues, the absence of Treasury financing activity, and an apparent shift in investor expectations toward the view that longer-term rates were not likely to rise much further.

Both short- and long-term market interest rates declined following the announcement on January 1 of the new balance of payments program—which many investors interpreted as reducing the likelihood of greater monetary restraint in the near term—and the downtrend was reinforced by press reports suggesting that prospects for peace negotiations in Vietnam had improved. As a result, yields on new corporate bonds and on Treasury notes, bonds, and longer-term bills were now considerably below their levels at the time of the Committee's preceding meeting, and yields on municipal bonds were slightly lower. Most short-term yields, however, were higher on balance; the market rate on 3-month Treasury bills, at 5.02 per cent on the day before this meeting, was 12 basis points above its level 4 weeks earlier.

Interest rates on new-home mortgages rose further in Novem-

[2] Reserve requirements against demand deposits in excess of $5 million at each member bank were increased from 16½ to 17 per cent for reserve city banks, effective with the reserve computation period beginning Jan. 11, 1968; and from 12 to 12½ per cent for other member banks, effective with the computation period beginning Jan. 18, 1968.

ber and apparently remained under upward pressure in December. Net inflows of funds to nonbank depositary institutions continued to moderate in late 1967, although the available information did not suggest that depositary institutions in general were facing substantial drains around the year-end interest- and dividend-crediting period. With inflows slackening, and with high yields on marketable bonds offering an attractive alternative form of investment, lenders in the aggregate were expanding their new mortgage commitments at a slower pace than they had earlier.

Growth in time and savings deposits at commercial banks also had continued to moderate recently. Such deposits expanded at an annual rate of 8.5 per cent in December—compared with rates of about 12 per cent in November and about 16 per cent over the year 1967. The moderation of growth was a result of substantial run-offs of large-denomination CD's and further slowing of the rise in other time and savings deposits. Private demand deposits declined slightly on average in December, and the money supply increased relatively little. With Government deposits contracting, the "bank credit proxy"—total member bank deposits [3] —was about unchanged. Banks reduced their borrowings of Euro-dollars through foreign branches in December, with much of the decline apparently seasonal in nature.

Over the year 1967 the money supply and the bank credit

[3] In recent years the Committee had been making 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 available 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.

proxy increased by about 6.5 and 11.5 per cent, respectively. As measured by end-of-month data on loans and investments, bank credit was estimated to have increased by about 11 per cent in 1967.

Business loans at commercial banks, which had been rising at a relatively slow pace in recent months, expanded sharply in December. Part of the acceleration reflected special factors, but part appeared to be related to the increasing pace of economic activity and to the smaller volume of capital market financing. With growth in their deposits limited, banks accommodated the larger demand for loans by selling a substantial volume of Government securities. Banks also reduced the rate at which they acquired State and local government issues.

On the day of this meeting the Treasury was offering $2.5 billion of tax-anticipation bills, for payment on January 15. Banks were expected to be the initial purchasers of practically all of the offering, for which they were permitted to make full payment by crediting Treasury tax and loan accounts. Largely as a consequence of such purchases, bank credit expansion was expected to resume in January; the proxy series was projected to rise at an annual rate in the range of 6 to 10 per cent if prevailing money market conditions were maintained. It appeared likely that growth in business loans would be slower than in December but still fairly rapid, and there was some prospect that in meeting loan demands banks would continue to limit their takings of municipal securities. Growth in time and savings deposits was expected to continue moderating in light of the high yields available to investors on competing market instruments. Little or no increase was anticipated in private demand deposits and the money supply, but Government deposits were projected to rise substantially.

Concern was expressed in the Committee's discussion about the inflationary environment and outlook, on both domestic grounds and in light of the recent contraction in the surplus on

U.S. merchandise trade. The new balance of payments program was expected to result in a substantial reduction in the over-all deficit in 1968. It was observed, however, that the various elements of the program directed at improving the balance on specific types of international flows did not obviate the fundamental need for slowing the rise in domestic prices.

It was noted in the discussion that since mid-November the System had employed all three of the major instruments of monetary policy—discount rates, open market operations, and reserve requirements—in shifting toward a posture of somewhat greater restraint, that the effects of these policy actions were still unfolding, and that growth in bank credit and the money supply had slowed appreciably in recent months. It also was noted that forthcoming Presidential messages and further congressional hearings on an income tax surcharge would soon be providing new information on planned Federal expenditures and the prospects for a tax increase. Accordingly, the Committee decided to make no further change in policy at present. Reinforcing this decision was the possibility that higher interest rates resulting from a further firming of monetary policy at this time might have undesired effects on flows of funds to financial intermediaries.

The Committee agreed that it would be appropriate to maintain the somewhat firmer conditions in the money market that had developed as a result of recent System open market operations and the announced action with respect to reserve requirements. Some members noted in this connection that a slightly lower average level of marginal reserves might be required after the effective dates of the increase in reserve requirements in order to maintain prevailing money market conditions in other respects. The Committee also agreed that operations should be modified as needed to moderate any apparently significant deviations of bank credit from current expectations. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting indicates that over-all economic activity has been expanding vigorously, with both industrial and consumer prices continuing to rise at a substantial rate, and that prospects are for further rapid growth and persisting inflationary pressures in the period ahead. The imbalance in U.S. international transactions worsened further in late 1967, but the new program announced by the President should result in a considerable reduction in the deficit this year. Following announcement of the program, foreign purchases of gold slackened abruptly and the dollar strengthened in foreign exchange markets. Long-term bond yields have declined in recent weeks but some short-term interest rates have risen further. Bank credit has changed little on balance recently as banks have disposed of Government securities to accommodate strengthened loan demands. Growth in the money supply has slackened and flows into time and savings accounts at bank and nonbank financial intermediaries have continued to moderate. 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 maintaining the somewhat firmer conditions that have developed in the money market in recent weeks, partly as a result of the increase in reserve requirements announced to become effective in mid-January; provided, however, that operations shall be modified as needed to moderate any apparently significant deviations of bank credit from current expectations.

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

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

At this meeting the Committee ratified the action taken by members on December 14, 1967, amending paragraph 2 of the authorization for System foreign currency operations 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. As indicated in the policy record for the meeting held on December 12, 1967, these increases supplemented the enlargements of the System's swap network that had been approved on November 27 and November 30.

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

Absent at this point in meeting and not voting: Messrs. Martin, Robertson, and Daane.

MEETING HELD ON FEBRUARY 6, 1968

Authority to effect transactions in System Account.

According to reports at this meeting, prospects were for continued rapid growth in over-all economic activity and for persistent inflationary pressures in the period ahead. Preliminary estimates of the Department of Commerce indicated that real GNP had increased at an annual rate of 4.4 per cent in the fourth quarter of 1967, the same as in the preceding quarter, and that average prices, as measured by the GNP "deflator," had advanced considerably. In his January budget message the President had again proposed a 10 per cent surcharge on corporate and personal income taxes, now to be effective on January 1 and April 1, 1968, respectively. The budget estimates indicated that even if the tax surcharge were enacted as proposed the Government would incur a sizable deficit in the calendar year 1968.

Average prices of industrial commodities continued to increase at a substantial rate in January, according to preliminary estimates. Prices of farm products, which had turned up sharply in December, rose somewhat further. The consumer price index again advanced considerably in December, partly because retail prices of food rose after having declined moderately for 3 months.

Growth in real GNP was expected to accelerate in the first quarter of 1968. Prospects favored substantial increases in consumer incomes and spending, a sharp rise in business outlays on plant and equipment, a small increase in residential construction outlays, and—contrary to earlier expectations—some further growth in defense expenditures. The rate of business inventory accumulation, which now appeared to have increased considerably in the fourth quarter of 1967, was expected to rise only moderately further in the first quarter of 1968.

The worsening of the U.S. payments balance in the fourth quarter, according to newly available information, was due in large part to a marked decline in the surplus on merchandise trade. With imports rising sharply and exports edging down, the trade surplus in the fourth quarter was at a rate only about one-third that in the two preceding quarters and the lowest since the fourth quarter of 1959.

The gold stock of the U.S. Treasury was reduced by $100 million in early February, mainly to cover the U.S. share of sales made by the London gold pool in January. Although the overall atmosphere in foreign exchange markets had tended to improve in recent weeks, the Canadian dollar had come under heavy pressure. On January 22 the Bank of Canada raised its discount rate for the third time in 5 months, bringing the rate to 7 per cent. Interest rates in the Euro-dollar market had declined further from the unusually high levels they had reached in late November and December, following the devaluation of sterling.

System open market operations since the preceding meeting of the Committee had been directed at maintaining the somewhat firmer conditions in the money market that had developed earlier, although operations were complicated by large changes in the excess reserves of country banks as reserves first flowed out of money centers and then back again. In adapting operations to these changes in reserve distribution, the net reserve position of member banks was permitted to fluctuate over an unusually wide range—from free reserves of $405 million in the statement week ending January 10 to net borrowed reserves of $70 million in the following week.

The Federal funds rate continued to fluctuate around 4⅝ per cent, and late in the period interest rates on loans by money center banks to Government securities dealers edged up to a range of 5 to 5¼ per cent. On the other hand, interest rates on short-term market securities—including Treasury bills, large-denomination CD's, bankers' acceptances, and commercial and finance company paper—declined on balance during the period, in part perhaps because pressures in credit markets proved to be less intense than many participants had expected. Offering rates on large-denomination CD's maturing in less than 6 months moved down from the 5½ per cent ceiling established under Regulation Q; around the turn of the year banks had been offering the ceiling rate on CD's of all maturities. Although the market rate on 3-month Treasury bills had been rising recently, its level on the day before this meeting—4.91 per cent—was about 10 basis points below that of 4 weeks earlier.

Conditions in markets for longer-term securities had been generally buoyant in recent weeks, despite deferral of congressional action on the President's proposed income tax surcharge and new tensions in the Far East. Yields on long-term Treasury and corporate bonds fluctuated irregularly below the peaks they had reached in late 1967, and yields on State and local government issues declined. On January 31 the Treasury announced that it would offer a new 7-year, 5¾ per cent note in exchange for Treasury notes and bonds maturing in February, August, and November 1968, with settlement on February 15. Initial market reactions to the offering were favorable. The Treasury also announced that $4 billion of a 15-month note would be offered for cash subscription later in the month.

In mortgage markets yields rose further in December—reattaining the highs they had reached in November 1966—and growth in mortgage commitments outstanding continued to moderate. Preliminary data suggested that net inflows of funds to nonbank depositary institutions slackened further in December and January, but that withdrawals of savings around the year-end interest- and dividend-crediting period were not as large as many in the industry had feared.

Commercial bank credit expanded at a relatively fast pace in January after slowing markedly in late 1967. Contributing to the expansion were rapid growth in business loans early in the month and bank acquisitions of tax-anticipation bills sold by the Treasury at midmonth. The bank credit proxy—daily-average member bank deposits—rose from December to January at an annual rate of about 9 per cent, near the upper end of the range that had been projected earlier. Private demand deposits and the money supply increased sharply before turning down after mid-January; on the average the money supply rose at an annual rate of 8 per cent, in contrast to the expectation of little or no change. However, Government deposits rose less than had been anticipated, and total time and savings deposits—instead of growing relatively slowly on the average—declined slightly. Despite the reductions in offering rates on large-denomination CD's of shorter maturity, the volume of CD's outstanding increased over the course of January by nearly as much as it had declined in December.

Business loans at banks were expected to grow moderately in February—at a rate that was below the rapid pace of December and early January but that, as a result of enlarged business needs for inventory financing, was above the slow rate of the preceding autumn. Mainly because of Treasury financing operations, however, it appeared likely that total bank credit would continue to expand at roughly the January pace; growth in the bank credit proxy was projected at an annual rate in the 7 to 10 per cent range if prevailing money market conditions were maintained. It was expected that the money supply would change little, and might possibly decline somewhat, but that growth in time and savings deposits would resume. A rather sharp expansion was anticipated in Government deposits as a result of the Treasury's forthcoming cash financing.

Considerable concern was expressed in the course of the Committee's discussion about recent and prospective inflationary pressures in the domestic economy and about the sharp decline in the nation's foreign trade surplus. Against this background, a number of members indicated that they had been disturbed by various financial developments in January—including the unexpectedly sharp growth in the money supply and the general decline in short-term interest rates other than day-to-day money market rates—which suggested that monetary conditions had become less restrictive. There also was widespread sentiment to the effect that the growth in bank credit projected for February on the assumption of unchanged money market conditions was larger than desirable in the current environment. At the same time, it was recognized that the forthcoming Treasury financing operations imposed an important constraint on monetary policy at present.

The Committee concluded that it would be desirable to maintain firm money market conditions at this time and to seek firmer conditions, to the extent permitted by Treasury financing, if bank credit appeared to be expanding as rapidly as projected. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting indicates that over-all economic activity has been expanding rapidly, with both industrial and consumer prices rising at a substantial rate, and that prospects are for continuing rapid growth and persisting inflationary pressures in the period ahead. The imbalance in U.S. international transactions worsened further in late 1967, primarily because of a sharp reduction in the surplus on merchandise trade. Although day-to-day money market rates have remained firm, rates on other short-term instruments have declined recently; meanwhile, long-term bond yields have fluctuated irregularly below the peaks reached late last year. Growth in bank credit resumed in January, reflecting both loan expansion around the year-end and Treasury financing. The money supply expanded sharply following earlier slackening, but flows into time and savings accounts at bank and nonbank financial intermediaries have continued to moderate. 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, while taking account of Treasury financing activity, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining firm conditions in the money market, and operations shall be modified to the extent permitted by Treasury financing if bank credit appears to be expanding as rapidly as is currently projected.

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

MEETING HELD ON MARCH 5, 1968

1. Authority to effect transactions in System Account.

Reports at this meeting indicated that over-all economic activity was expanding rapidly and that prices were rising at a substantial rate. The outlook was for faster expansion in real GNP in the first two quarters of 1968 than in the latter half of 1967, and for persisting inflationary pressures.

Consumers were expected to provide the major stimulus to economic activity in the current half-year. It appeared likely that disposable incomes would advance rapidly—particularly if a tax increase were not enacted—as a result of continuing rises in employment and wage rates and of higher social security benefits. Thus, even if personal saving remained at the unusually high rate of 1967, marked increases in consumer spending were in prospect.

In addition, it was anticipated that business fixed investment would rise sharply in the first quarter and moderately in the second and that defense spending would increase at a faster rate than previously estimated. On the other hand, in light of conditions in mortgage markets little or no further increase was foreseen in residential construction outlays. Growth in the rate of business inventory accumulation, which had contributed importantly to the expansion in the latter half of 1967, was expected to slow in the first quarter and taper off in the second.

Retail sales rose substantially in the first 2 months of 1968, according to incomplete information. Industrial production, however, declined somewhat in January and was expected to change little in February. The unemployment rate moved down in January for the third successive month—to 3.5 per cent, from 3.7 per cent in December—although growth in nonfarm employment slowed from its earlier rapid pace, apparently in large part because of the effect of bad weather on employment in the construction industry.

Average wholesale prices of both industrial commodities and farm products rose considerably further in February, according to preliminary estimates. Consumer prices continued to advance at a substantial rate in January and were 3.4 per cent higher than a year earlier. The recent pattern of settlements in wage negotiations and the increase on February 1 in Federal minimum wage rates suggested that unit labor costs would remain under upward pressure.

Both exports and imports of the United States rose sharply in January, but the surplus on merchandise trade fell somewhat below the markedly reduced fourth-quarter 1967 rate. With respect to the capital account, outstanding U.S. bank credit to foreigners declined more than seasonally and direct investment outflows apparently were reduced by the mandatory restrictions under the President's new balance of payments program. On balance, the deficit in U.S. international payments on the liquidity basis of calculation remained sizable in January, and also in the first 3 weeks of February according to tentative figures. The deficit on the official reserve transactions basis was considerably smaller, primarily as a result of large Euro-dollar borrowings by U.S. banks through foreign branches.

Heavy speculative demands for gold reemerged in the London market at the end of February and in early March, when fears of a change in U.S. gold policy became widespread. In foreign exchange markets, the generally improved atmosphere that had developed in January persisted for most of February. Late in the month, however, sterling and the Canadian dollar again came under pressure.

The Treasury completed two major financing operations in February. In a financing conducted during the first half of the month, $3.8 billion of publicly held securities maturing in February, August, and November 1968 were exchanged for new 7-

year, 5¾ per cent notes. Also, the Treasury sold about $4.1 billion of new 15-month, 5⅝ per cent notes to the public for cash payment on February 21; commercial banks, which were permitted to make payment in full for these notes through credits to Treasury tax-and-loan accounts, initially subscribed for the bulk of the issue. Government securities dealers made good progress in distributing the 7-year notes they had acquired, while bank selling of the new 15-month issue appeared to be relatively light and was readily absorbed by the market. In February the Treasury also announced that it was resuming the $100 million addition to each weekly offering of 3-month bills.

Growth in bank credit and the money supply had moderated on balance since November 1967, when the System had begun to shift monetary policy toward a posture of somewhat greater restraint. In the 3 months through February the bank credit proxy—daily-average member bank deposits—had expanded at an annual rate of 6 per cent, compared with a rate of nearly 11.5 per cent over the preceding 7 months; and the money supply had grown at an annual rate of 4 per cent, about half that of the earlier period. For February, however, the bank credit proxy was estimated to have increased at an annual rate of 10 per cent. Both loans and investments of banks declined in the first part of February, but bank credit expanded sharply later in the month as a result of bank acquisitions of the new 15-month notes offered by the Treasury. The February advance in bank credit was at the upper end of the range projected at the time of the Committee's previous meeting and slightly faster than the pace in January, when growth was also stimulated by a large Treasury cash financing. Private demand deposits and the money supply, which had not been expected to grow in February, increased somewhat but substantially less than in January.

Time and savings deposits of commercial banks, after declining slightly in January, expanded in February at a rate below that of the summer and early fall of 1967. Most of the rise was in consumer-type deposits; with business loan demands not particularly strong, banks were not aggressive in seeking to expand their outstanding large-denomination CD's. Some banks were now offering the 5½ per cent ceiling rate on certificates with maturities as short as 4 months—in contrast to a 6-month minimum 4 weeks earlier—but rates on shorter-maturity CD's remained below the ceiling.

With no major Treasury financings in prospect for March, growth in the bank credit proxy was projected to moderate in that month to an annual rate in the range of 5 to 7 per cent, assuming no change in prevailing money market conditions. It was thought likely that somewhat firmer money market conditions would have relatively little effect on bank credit expansion in March. Projections for April suggested some further moderation in bank credit growth if money market conditions were unchanged and a quite low growth rate if such conditions were somewhat firmer, unless demands for business loans strengthened considerably or the Treasury decided to undertake a major financing. Time and savings deposits were projected to expand in March at about the February pace, and private demand deposits and the money supply were expected to grow somewhat more rapidly than in the preceding month.

System open market operations had been directed at maintaining stable conditions in the money market during the first part of February. The Treasury's financing operations were under way in that period and staff estimates of bank credit growth for the month were near the lower end of the range that had been projected at the previous meeting. Subsequently, after estimates of bank credit growth had been revised upward, operations were modified to achieve somewhat firmer conditions in the money market. The net reserve position of member banks shifted to average net borrowed reserves of about $95 million in the last two statement weeks of February from average free reserves of $120 million in the first 2 weeks, and average member bank borrowings rose by about $110 million, to about $425 million. The Federal funds rate, which initially had fluctuated for the most part in a range of 4⅝ to 4¾ per cent, later was predominantly in a range of 4¾ to 4⅞ per cent and at times was as high as 5 per cent.

Market rates on Treasury bills had risen since the preceding meeting of the Committee, but the advance was moderated by sustained nonbank demand for bills and, late in the period, by sizable purchases by foreign central banks. The 3-month bill rate, at 4.99 per cent on the day before this meeting, was up 8 basis points over the interval. Rates on most other short-term market instruments also had edged higher.

In longer-term debt markets the generally buoyant conditions of January had been succeeded by a more cautious atmosphere. Conditions in these markets were affected by a variety of conflicting factors—including expectations of further tightening of monetary policy, the belief that prospects for fiscal restraint had been somewhat enhanced recently, and continuing uncertainties relating to developments in Vietnam. Yields on Treasury notes and bonds had changed little on balance in the last 4 weeks, but advances in yields on corporate and State and local government bonds, particularly the latter, had resumed. While the calendar of new publicly offered corporate bonds remained relatively light, continuing additions were being made to an already large volume of prospective offerings of municipal securities.

Conditions in markets for residential mortgages appeared to have changed little in January, after tightening for some time. Primary market yields on conventional new-home mortgages rose slightly, but secondary market yields on FHA-insured home mortgages remained unchanged at the record level reattained a month earlier. The deposit experience of savings and loan associations and of mutual savings banks was mixed in January, but in general it apparently was better than many observers had anticipated.

The Committee decided that greater monetary restraint was desirable at this time in light of the current and prospective pace of economic expansion, persisting inflationary pressures, and the sharply reduced surplus on U.S. merchandise trade. Specifically, the members agreed that it would be appropriate to seek somewhat firmer conditions in the money market than had been attained in recent weeks, and to seek still firmer conditions if bank credit appeared to be expanding more rapidly than projected.

In the course of the discussion a number of members expressed the view that a discount rate increase should be considered by the System soon. At the same time, it was noted that action under the Board's Regulation Q to increase the ceiling rate on large-denomination CD's might be needed at some point to avoid an undesirably large reduction in the outstanding volume of such CD's.

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

The information reviewed at this meeting indicates that over-all economic activity has been expanding rapidly, with both industrial and consumer prices rising at a substantial rate, and that prospects are for continuing rapid growth and persisting inflationary pressures in the period ahead. The foreign trade surplus has been at a sharply reduced level in recent months and the imbalance in U.S. international payments remains serious. Interest rates on most types of market instruments have edged up recently, following earlier declines. While growth in bank credit has moderated on balance during the past 3 months, bank credit expansion has been substantial in February, mainly reflecting Treasury financings. Growth in the money supply slowed in February, while flows into bank time and savings accounts expanded moderately. 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 attaining somewhat firmer conditions in the money market; provided, however, that operations shall be further modified if bank credit appears to be expanding more rapidly than is currently projected.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against this action: None.

Absent and not voting: Mr. Daane.

2. Amendment of authorization for System foreign currency operations.

The Committee amended paragraph 3 of the authorization for System foreign currency operations in two respects. The phrase "Unless otherwise expressly authorized by the Committee" was added at the beginning of the first sentence of the paragraph, before language specifying that all foreign currency transactions should be at prevailing market rates. Such a qualification had been included at the corresponding point in the Committee's original authorization regarding foreign currency transactions adopted in February 1962, and had been inadvertently omitted when the previous instruments governing foreign currency operations were reformulated in June 1966. The effect of restoring the qualification was to simplify procedures in the event the Committee concluded that because of special circumstances a particular transaction should be undertaken at a rate different from that prevailing in the market.

At the same time, the second sentence of the paragraph, which had read as follows, was deleted:

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.

Restrictions on spot sales of foreign currencies at prices below par and on spot purchases at prices above par had been included in the Committee's foreign currency instruments since their original adoption in February 1962. The Committee now concluded that such restrictions were unnecessary, in light of the limitations on the purposes for which foreign currency operations could be undertaken given in paragraph 2 of the Committee's foreign currency directive. The restrictions also were considered undesirable on the grounds that spot sales of foreign currencies at prices below par and spot purchases at prices above par might be useful, on occasion, in furthering the purposes specified in the directive.

As amended, paragraph 3 of the authorization for System foreign currency operations read as follows:

> Unless otherwise expressly authorized by the Committee, 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.

Except for the changes resulting from these amendments, the Committee renewed the authorization in its existing form.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against this action: None.

Absent and not voting: Mr. Daane.

3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1968, 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 authorization for System foreign currency operations has been described in the preceding portion of the record for this date.

The Committee reaffirmed its continuing authority directive for domestic open market operations and its foreign currency directive in the forms in which both were outstanding at the beginning of the year 1968.

> Votes for these actions: Messrs. Martin, Hayes, Brimmer, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against these actions: None.
>
> Absent and not voting: Mr. Daane.

MEETING HELD ON MARCH 14, 1968

1. Authority to effect transactions in System Account.

In the period since the preceding meeting of the Committee speculative demands for gold in London and other foreign markets had swelled to massive proportions. On the day of this meeting, the British authorities had temporarily closed the London gold market and had declared a Bank Holiday for the following day; the Board of Governors had approved an increase in Federal Reserve Bank discount rates from 4½ to 5 per cent, effective March 15; and arrangements were made for central bank governors of countries that had been actively participating in the London gold pool to meet in Washington on Saturday and Sunday, March 16 and 17, to consider their future policy with respect to gold. The purpose of this meeting of the Committee, which was held by telephone, was to review recent developments and make such changes in the Committee's policy instruments as appeared to be needed in light of those developments.

The Committee agreed that its current policy directive should be modified to permit adaptation of open market operations to the changed circumstances brought about by recent events, including the discount rate action. After discussion, the following current economic policy directive was issued to the Federal Reserve Bank of New York:

In light of recent international financial developments, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining firm but orderly conditions in the money market, taking into account the effects of increases in Federal Reserve discount rates.

> Votes for this action: Messrs. Martin, Brimmer, Daane, Ellis, Hickman, Maisel, Mitchell, Robertson, Sherrill, Clay, Coldwell, and Treiber. Votes against this action: None.

Absent and not voting: Messrs. Hayes, Galusha, and Kimbrel. (Messrs. Treiber, Clay, and Coldwell, respectively, voted as their alternates.)

2. Amendment to authorization for System foreign currency operations.

At this meeting the Committee authorized the Special Manager to undertake negotiations looking toward increases, up to specified limits, in a number of the System's reciprocal currency arrangements, on the understanding that any such enlargements —and the corresponding amendments to paragraph 2 of the authorization for System foreign currency operations—would become effective upon a determination by Chairman Martin that they were in the national interest. Specifically, negotiations were authorized for increases up to varying maximum amounts, ranging from $100 million to $400 million equivalent, in the System's two swap arrangements with the Bank for International Settlements and in the arrangements with the central banks of Belgium, Canada, Italy, Japan, the Netherlands, Sweden, and Switzerland.

Votes for this action: Messrs. Martin, Brimmer, Daane, Ellis, Hickman, Sherrill, Clay, Coldwell, and Treiber. Votes against this action: Messrs. Maisel, Mitchell, and Robertson.

Absent and not voting: Messrs. Hayes, Galusha, and Kimbrel. (Messrs. Treiber, Clay, and Coldwell, respectively, voted as their alternates.)

This action was taken on the ground that enlargements of the swap arrangements should prove helpful in coping with flows of short-term funds in foreign exchange markets if such flows became heavy in the current highly uncertain environment. The Committee concurred in the view of the Special Manager that under existing conditions it would be desirable if negotiated enlargements were to become effective immediately upon a determination by the Chairman that they were in the national interest, thus obviating the need for further Committee action.

Messrs. Maisel, Mitchell, and Robertson dissented from this action because of reservations about the desirability, under current circumstances, of authorizing a substantial enlargement of the swap network before discussions were held with monetary authorities of other countries on means for coordinating international financial policies. They favored postponing consideration of increases in the swap arrangements until after the forthcoming week-end meeting of central bank governors.

Subsequent to this meeting, on March 16, available members of the Committee (Messrs. Martin, Brimmer, Daane, Maisel, Mitchell, Robertson, and Treiber, the last voting as alternate for Mr. Hayes) voted unanimously to authorize the Special Manager to undertake negotiations looking toward an increase of $250 million equivalent in the System's swap arrangement with the German Federal Bank, on the understanding that any such increase, and the corresponding amendment to the authorization for System foreign currency operations, would become effective upon a determination by Chairman Martin that it was in the national interest. Messrs. Maisel and Robertson indicated that they continued to hold the general reservations concerning swap line increases that they had expressed on March 14, but that they had voted favorably on this action because—inasmuch as the Committee had taken the action it did on that date—they thought it appropriate to include the swap line with the German Federal Bank in an enlargement of the swap network.

On March 17, available members of the Committee (Messrs. Martin, Brimmer, Daane, Ellis, Galusha, Maisel, Mitchell, Robertson, Sherrill, and Treiber, the last voting as alternate for Mr. Hayes) voted unanimously to authorize the Special Manager to undertake negotiations looking toward an increase of $500 million equivalent in the System's swap arrangement with the Bank of England, subject to the same understanding as in the actions taken on March 14 and 16.

On March 17 Chairman Martin determined that increases in the System's swap arrangements with the foreign banks listed below, in the indicated amounts (millions of dollars equivalent), were in the national interest:

Bank of Canada	250
Bank of England	500
German Federal Bank	250
Bank of Japan	250
Netherlands Bank	175
Bank of Sweden	50
Swiss National Bank	200
Bank for International Settlements:	
System drawings in Swiss francs	200
System drawings in other authorized European currencies	400

Accordingly, effective March 17, 1968, paragraph 2 of the authorization for System foreign currency operations was amended to read as follows:

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	1,000
National Bank of Denmark	100
Bank of England	2,000
Bank of France	100
German Federal Bank	1,000
Bank of Italy	750
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	400
Bank of Norway	100
Bank of Sweden	250
Swiss National Bank	600
Bank for International Settlements:	
System drawings in Swiss francs	600
System drawings in authorized European currencies other than Swiss francs	1,000

MEETING HELD ON APRIL 2, 1968

1. Authority to effect transactions in System Account.

The domestic economic situation continued to be characterized by substantial increases in over-all activity and prices. Real GNP was estimated to have grown rapidly in the first quarter and another large rise appeared in prospect for the second quarter. From the preceding autumn, average prices of industrial commodities had advanced through March at an annual rate of about 4.5 per cent, and average consumer prices had risen through February at a rate of nearly 4 per cent. The outlook was for persisting inflationary pressures in the period ahead.

Industrial production was little changed in February; but according to tentative estimates, it had increased moderately in March. Nonfarm employment rose sharply in February, but the labor force also expanded markedly and the unemployment rate increased to 3.7 per cent from 3.5 per cent in January. Weekly retail sales figures for early March suggested that the sharp resurgence of consumer expenditures, under way since the beginning of the year, was continuing.

Consumer spending was expected to increase considerably further in the second quarter, even if a tax increase were enacted, because of the prospective rapid gains in income. In addition, defense outlays were running substantially above the levels that had been anticipated earlier, as had been noted by the President in the March 31 address in which he announced the de-escalation of bombing in North Vietnam. The President also indicated that estimates of defense expenditures in the fiscal year 1969 had been revised upward.

Apart from the consumer and defense categories, changes in activity in broad economic sectors were expected to be relatively moderate in the second quarter. It appeared likely that residential construction activity, which had risen slightly in the first quarter, would change little further. Some increase in the rate of business inventory investment was anticipated, following an apparent slowing in accumulation in the first quarter. On the other hand, growth in fixed investment was expected to level off after a substantial rise in the early months of the year. For 1968 as a whole businesses planned to increase their spending on new plant and equipment by 6 per cent, according to a recent Commerce–SEC survey, compared with a rise in actual outlays of 2 per cent in 1967. The survey indicated that capital spending would increase moderately from the first to the second half of 1968.

Uncertainties continued in the markets for gold and foreign exchange, but the heavy speculative activity of early March abated following the agreement on gold policy reached at the midmonth meeting of gold pool members in Washington. Speculation slackened further after the March 19 announcement by the British Government of a broad program designed to restrict growth of consumer incomes and spending, and after agreement was reached regarding special drawing rights (SDR's) in the International Monetary Fund at the month-end meeting in Stockholm of major industrial countries comprising the "Group of Ten." On March 21 the Bank of England lowered its discount rate from 8 to 7½ per cent. Gold holdings of the U.S. Treasury were reduced in March by $1.4 billion, largely as a result of settlement of the U.S. share of sales by the gold pool before operations of the pool were discontinued at midmonth and of sales to foreign central banks.

Incomplete data on the U.S. balance of payments in the first quarter suggested that the deficit was large on both the liquidity and official settlements bases of calculation, although not so large on either basis as in the fourth quarter of 1967. There had been improvement in flows in some important elements of the capital account, but the surplus on merchandise trade apparently had remained near the low level to which it had fallen in the preceding quarter.

System open market operations in early March—between the meetings of the Committee held on March 5 and March 14—had been directed at achieving somewhat firmer conditions in the money market. Subsequently, operations were directed at confirming the still more restrictive monetary policy signaled by the midmonth increase in the discount rate from 4½ to 5 per cent, while maintaining orderly market conditions. In the last two statement weeks of March net borrowed reserves averaged about $370 million, compared with averages of about $240 million in the first half of the month and of about $90 million in the last half of February. The Federal funds rate moved up to a range around 5 per cent before mid-March and then advanced to a range around 5¼ per cent.

Interest rates on most types of market securities fluctuated widely during March but rose on balance. These rate developments reflected events relating to gold, shifts in sentiment regarding prospects for Vietnam peace negotiations and for domestic fiscal action, and the firming of monetary policy. Yields on Treasury securities of all maturities rose sharply until midmonth, when uncertainties in international financial markets were most intense, and subsequently declined somewhat. The swing in the market rate on 3-month Treasury bills was particularly marked; from an early-March level of close to 5 per cent, the rate rose to a peak of 5.45 per cent on March 14 and then fell irregularly to 5.13 per cent on April 1, the day before this meeting. Most other short-term market interest rates were considerably higher on April 1 than they had been 4 weeks earlier, and there had been sizable net increases in yields on long-term corporate and municipal securities.

Growth in bank credit slowed considerably in March, a month in which the Treasury undertook no major financing operations. The bank credit proxy—daily-average member bank deposits—was estimated to have expanded at an annual rate of about 4 per cent, compared with 10 per cent in February. Outstanding business loans at banks increased somewhat, but security loans and holdings of Government securities declined substantially.

With short-term interest rates rising on balance, by mid-March banks were generally offering the ceiling rate of 5½ per cent on large-denomination CD's of all maturities; earlier, the offering rate for shorter-term certificates had been below the ceiling. Nevertheless, banks experienced a substantial decline in outstanding CD's during March. The pace of growth in consumer-type time and savings deposits increased somewhat, however, and total time and savings deposits rose slightly more in March than in the preceding month. Government deposits declined, and private demand deposits increased by a relatively small amount. The money supply grew at a faster rate than in February, with more than half of the expansion reflecting an increase in currency holdings of the public.

In the 4 months through March, time and savings deposits and the money supply had grown at annual rates of about 6.5 and 3.5 per cent, respectively, and the bank credit proxy at a rate of about 5.5 per cent—in each case less than half the rate of the preceding 7 months. Inflows of funds to savings and loan associations and mutual savings banks also had been substantially curtailed in recent months.

Bank credit was projected to change little in April and to expand moderately in May—on the assumptions that the Treasury would raise a substantial volume of new cash in connection with its May refunding but would not undertake a major financing earlier, and that money market conditions would remain unchanged. In an alternative projection, in which a slight firming of money market conditions was assumed, the annual rate of change in the bank credit proxy in April was estimated in a range of +1 to −3 per cent.

It was expected that at the currently higher levels of market interest rates banks would find it more difficult in April to attract consumer-type time and savings deposits and that the banks would experience a further run-off of CD's of greater than seasonal dimensions. As a result, total time and savings deposits were projected to expand at a relatively low rate in April. On the other hand, growth in the money supply was expected to be more rapid than in March, largely as a consequence of a sizable decline anticipated in Government deposits.

The Committee agreed that continued firming of monetary policy was desirable in light of present and prospective inflationary pressures, the highly unfavorable developments of recent months in U.S. foreign trade, the persisting uncertainties in international financial markets, and the still uncertain outlook for fiscal action. Some members expressed the view that circumstances might soon require consideration by the System of a further increase in the discount rate.

At the same time, various reasons were advanced for moving cautiously in firming further through open market operations at present. These included some improvement in prospects for restrictive fiscal action by Congress; it appeared likely that the Senate would take affirmative action shortly on a measure providing for an increase in taxes and a reduction in budgeted Federal expenditures. In addition, it was noted that a considerable degree of monetary restraint had already been achieved, the effects of which were still unfolding, and that there had been insufficient time as yet to determine the economic implications of various recent events, including the de-escalation of bombing in North Vietnam. It also was noted that a marked further firming of monetary policy at this time might have undesirably large adverse effects on flows of funds to financial intermediaries. In this connection, some members foresaw a possible need at a later point for the Board to raise ceiling rates on large-denomination CD's, although none indicated that he thought such action was desirable immediately.

At the conclusion of the discussion the Committee agreed that slightly firmer money market conditions should be sought, but that operations should be modified if unusual liquidity pressures developed or if the change in bank credit appeared to be deviating significantly in either direction from the projection. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting indicates that over-all economic activity has expanded at a very rapid pace in early 1968, with prices rising substantially, and that prospects are for a continuing rapid advance in activity and persisting inflationary pressures in the period ahead. Since late fall, growth rates of bank credit, the money supply, and time and savings accounts at financial institutions have moderated considerably. Speculative activity in gold and foreign exchange markets, which was intense in early March, abated after the midmonth agreement on gold policy by gold pool members and appears to have slackened further following the Stockholm agreement regarding Special Drawing Rights. The foreign trade surplus, however, has remained at a sharply reduced level in recent months and the imbalance in U.S. international payments continues to be a matter of serious concern. Most market interest rates have fluctuated widely, although rising on balance, in reaction to international financial developments, the firming of monetary policy, and uncertainties regarding military and fiscal prospects. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resistance of inflationary pressures and attainment of 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 slightly firmer conditions in the money market; provided, however, that operations shall be modified if bank credit appears to be deviating significantly from current projections or if unusual liquidity pressures should develop.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against this action: None.

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

At this meeting the Committee ratified the actions taken by members on March 16 and 17, relating to the System's swap arrangements with the German Federal Bank and the Bank of England. As indicated in the policy record for March 14, 1968, the members authorized the Special Manager to undertake negotiations looking toward increases of $250 million equivalent and $500 million equivalent, respectively, in the two arrangements, on the understanding that any such increases and the corresponding amendments to paragraph 2 of the authorization for System foreign currency operations would become effective upon a determination by Chairman Martin that they were in the national interest. The Chairman made such a determination on March 17, 1968.

> Votes for ratification of these actions: Messrs. Martin, Hayes, Brimmer, Daane, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against ratification of these actions: None.

MEETING HELD ON APRIL 19, 1968

Authority to effect transactions in System Account.

On the day before this meeting, the Board of Governors of the Federal Reserve System had approved an increase in Federal Reserve Bank discount rates from 5 to 5½ per cent and had raised the maximum rates payable by member banks on new large-denomination CD's having maturities of 60 days or more.[1] Both actions were effective on the day of this meeting. Following the announcement of these actions, interest rates advanced in domestic financial markets—with the market rate on 3-month Treasury bills rising about 20 basis points to around 5.55 per cent—and in foreign exchange markets the dollar strengthened against most currencies. The purpose of today's meeting, which was held by telephone, was to consider the need for revision of the Committee's current economic policy directive in light of yesterday's actions.

The Committee agreed that open market operations in the interval until its next scheduled meeting should be directed at achieving firmer money market conditions in keeping with the higher discount rate, while facilitating orderly market adjustments to the increase in that rate. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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[1] By amendment to Regulation Q the following schedule of maximum rates payable by member banks on CD's of $100,000 or more was adopted:

Maturity (days)	Maximum rate (per cent)
30- 59	5½
60- 89	5¾
90-179	6
180 and over	6¼

The maximum rate payable previously had been 5½ per cent for all maturities.

System open market operations until the next meeting of the Committee shall be conducted with a view to achieving firmer but maintaining orderly conditions in the money market, while facilitating market adjustments to the increase in Federal Reserve discount rates.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, and Robertson. Votes against this action: None.

Absent and not voting: Mr. Sherrill.

MEETING HELD ON APRIL 30, 1968

1. Authority to effect transactions in System Account.

Over-all economic activity had expanded at a very rapid pace thus far in 1968 and prices had risen substantially. The outlook was for continued rapid expansion in activity and persisting inflationary pressures.

In the first quarter, according to preliminary Department of Commerce estimates, real GNP advanced at a 6 per cent annual rate and average prices—as measured by the GNP deflator—at a 4 per cent annual rate. Defense spending and business capital outlays expanded considerably, and outlays on residential construction increased moderately. Most of the advance in GNP, however, reflected a sharp rise in consumer expenditures; personal income increased at an unusually rapid rate in the quarter, and the percentage of income saved fell below the unusually high figure of the preceding quarter. Partly because of the large increase in consumer expenditures, the rate of business inventory accumulation declined markedly.

In March nonfarm employment rose substantially further, and the unemployment rate edged down to 3.6 per cent from 3.7 per cent in February. Industrial production increased moderately, and retail sales continued to advance rapidly. In early April, however, retail sales apparently were adversely affected by civil disorders in many cities.

The consumer price index rose considerably further in March to a level about 4 per cent above a year earlier. With the cost of living advancing at a rapid pace, settlements in recent wage negotiations had provided for increases in wages and fringe benefits of 6 per cent or more per year. The rise in average prices of industrial commodities moderated in both March and April, mainly because of large declines for a few major industrial materials. Average prices of farm products changed relatively little in the 2 months.

It appeared likely that in the second quarter real GNP would advance as fast as or faster than in the first quarter and that average prices would continue upward at about the first-quarter pace. In prospect were further large rises in consumer income and spending and another substantial increase in defense outlays. It was expected that business capital spending and outlays on residential construction would level off, but that business inventory accumulation would rebound from its low first-quarter rate.

Since the establishment of the two-market system for gold on March 17, the price of gold in the private market had for the most part ranged between $37 and $40 per ounce. The volume of foreign official gold purchases from the U.S. Treasury had increased considerably in recent weeks.

The deficit in the U.S. balance of payments in the first quarter now appeared to have been smaller than estimated earlier and considerably smaller than in the fourth quarter of 1967. The surplus on merchandise trade was reduced further in the first quarter from the low level to which it had fallen in late 1967; in March, when exports declined largely because of a longshoremen's strike in New York, U.S. foreign trade was in deficit. The deterioration in the trade account, however, was more than offset by a marked improvement in capital transactions, reflecting in part a net reflow of U.S. bank credits during the quarter that was about as large as the foreign credit restraint program was intended to achieve over the full year. The outlook was for some recovery in the trade account but for substantial deterioration in the capital account—especially in view of the likelihood that the reflow of bank credit and certain other favorable first-quarter capital movements would not be sustained.

System open market operations had been directed toward achieving slightly firmer conditions in the money market following the meeting of the Committee on April 2. After the increase in Federal Reserve Bank discount rates from 5 to 5½ per cent effective April 19 and the meeting of the Committee on that day, operations had been directed at achieving still firmer money market conditions while facilitating orderly market adjustments to the higher discount rate. In the first part of April the effective rate on Federal funds moved up to a range of 5½ to 5⅞ per cent, and subsequently it rose to a range around 6 per cent. Net borrowed reserves of member banks averaged $335 million in the 4 weeks ending April 24, compared with an average of about $310 million in March; and average borrowings of member banks increased to about $690 million in the latest 4 weeks from about $650 million in the earlier period.

Interest rates on most types of short- and intermediate-term market securities rose substantially over the course of April, in part as a result of the increase in discount rates and the firming of money market conditions. The market rate on 3-month Treasury bills, at 5.48 per cent on the day before this meeting, was 14 basis points above its level on April 18 and 35 basis points higher than on April 1. Yield changes were more irregular in capital markets, where investor sentiment was influenced by fluctuating prospects for fiscal action and for Vietnam peace negotiations, but since mid-April long-term yields in general had also been rising. Several large additions to the April and May calendar of public offerings of corporate bonds and the continuation of a relatively large volume of new issues of municipal bonds contributed to upward pressures on yields of such securities.

The Treasury was expected, on the day following this meeting, to announce the terms on which it would refund securities maturing in mid-May, of which about $4 billion were held by the public. Estimates suggested that the Treasury would have to raise a substantial amount of new cash before the end of the fiscal year. It was thought likely that some of this would be raised in connection with the May refunding, although the amount was uncertain, and that further cash financing would be undertaken in June.

Interest rates on new-home mortgages, which had changed little in February, edged up in March to postwar highs. Net inflows of funds to nonbank depositary institutions had improved somewhat in February and March, but in the 4 months through March they were at an annual rate about one-third less than in the preceding 7 months. Although withdrawals during the interest- and dividend-crediting period in late March and early April were smaller than many observers had anticipated, net inflows in the period shortly thereafter apparently were not as large as usual.

Commercial bank credit, as measured by the bank credit proxy —daily-average member bank deposits—was estimated to have declined at an annual rate of 3.5 per cent in April. Business loans outstanding, which had begun to expand more rapidly after mid-March, increased substantially in April. However, banks continued to liquidate their holdings of U.S. Government securities. They also reduced the pace at which they acquired other securities, notably municipal obligations. Following the April 19 increase in the discount rate, commercial banks raised their prime lending rate from 6 to 6½ per cent.

The money supply increased in April at a pace considerably above that of earlier months of the year. Private demand deposits rose sharply as U.S. Government deposits declined, and currency holdings of the public continued to expand at a higher-than-normal rate. Total time and savings deposits of banks were estimated to have increased relatively little in April; with short-term interest rates rising, inflows of consumer-type time and savings deposits slackened and the volume of large-denomination CD's outstanding contracted substantially. The CD run-off was concentrated in the first half of the month, before offering rates were increased under the higher ceilings that became effective on April 19. By the month-end offering rates were at the new maximum levels for shorter-term CD's but were somewhat below the ceilings for longer-term certificates.

In the 5 months through April the bank credit proxy had grown at an annual rate of 3.7 per cent, about one-third of the rate for the preceding 7 months. In the same period commercial bank time and savings deposits had expanded at a rate of 5.5 per cent, less than two-fifths of the earlier pace; and the money supply had grown at a 5.6 per cent rate, about two-thirds of that prevailing earlier.

Changes in bank credit in May and June were expected to depend in part on the pattern of Treasury financing operations. On the assumptions that prevailing money market conditions would be maintained and that the Treasury would raise only a moderate amount of new cash in connection with the May refunding—meeting the bulk of its residual needs for the fiscal year 1968 in June—the annual rate of change in the bank credit proxy was projected in a range of -2 to $+2$ per cent in May and in a range of $+4$ to $+6$ per cent in June. On the same assumptions, U.S. Government deposits were projected to decline substantially further in May and private demand deposits and the money supply to increase rapidly, although not so rapidly as in April. It was expected that banks would expand their outstanding CD's somewhat, but that consumer-type time and savings deposits would continue to grow at a relatively slow pace.

The Committee agreed that the Treasury's forthcoming refunding operation precluded a change in monetary policy at this time. Although members expressed concern about persisting inflationary pressures and the recent worsening in the U.S. foreign trade balance, a number indicated that they would have favored no change in policy at present even if Treasury financing were not in prospect. Among the reasons they advanced were the considerable degree of restraint already achieved by recent monetary policy actions, the effects of which were still in train; and the view that prospects for restrictive fiscal action had improved. At the same time, the desirability was noted of avoiding any tendency toward relaxation in the degree of money market firmness.

The Committee concluded that the firmer conditions now prevailing in the money market should be maintained, with the proviso that operations should be modified, insofar as permitted by the Treasury financing, if bank credit appeared to be deviating significantly from the projection. It was understood that allowance would be made in interpreting this proviso for any substantial difference between the amount of new cash the Treasury actually raised in connection with the May refunding and the amount assumed in the projection.

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

The information reviewed at this meeting indicates that over-all economic activity has expanded at a very rapid pace thus far in 1968, with prices rising substantially, and that prospects are for a continuing rapid advance in activity and persisting inflationary pressures in the period ahead. Since late fall, growth rates of bank credit, the money supply, and time and savings accounts at financial institutions have on balance moderated considerably. Market interest rates have risen in recent weeks, partly in reaction to the firming of monetary policy including the further increase in Federal Reserve discount rates. The U.S. foreign trade balance has worsened further, and the international payments position of the United States continues to be a matter of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resistance of inflationary pressures and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of Treasury financing activity, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining the firmer conditions prevailing in the money market; provided, however, that operations shall be modified, to the extent permitted by Treasury financing, if bank credit appears to be deviating significantly from current projections.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Ellis, Galusha, Kimbrel, Maisel, Robertson, and Sherrill. Vote against this action: Mr. Hickman.

Absent and not voting: Mr. Mitchell.

In dissenting from this action, Mr. Hickman expressed the view that the recent upward adjustment of interest rates had been less than contemplated under the policy directive the Committee had issued at its April 19 meeting, and less than was desirable in view of the inflationary pressures in the economy. He agreed that the prospective Treasury financing precluded substantial firming of money market conditions before the Committee's next meeting. Nevertheless, he thought that firmer conditions should be sought, if and when feasible after the Treasury financing had been completed, on the understanding that the stance of monetary policy would be reexamined should fiscal action be taken.

2. Amendment to authorization for System foreign currency operations.

The Committee amended paragraph 1B(3) of the authorization for System foreign currency operations to increase, from $200 million to $250 million, the limit on authorized System Account holdings of sterling purchased on a covered or guaranteed basis. With this amendment, the first paragraph of the authorization 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 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 $250 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.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Ellis, Galusha, Hickman, Kimbrel, Maisel, Robertson, and Sherrill. Votes against this action: None.

Absent and not voting: Mr. Mitchell.

This action was taken on grounds that it would be helpful in connection with discussions of specific arrangements, including a drawing by Britain on its $1.4 billion standby facility with the International Monetary Fund, for repayment by the Bank of England of outstanding drawings under its swap line with the Federal Reserve. It was understood that initial use of the enlarged authority would be subject to the approval of Chairman Martin in light of developments in those discussions.

MEETING HELD ON MAY 28, 1968

1. Authority to effect transactions in System Account.

Reports at this meeting indicated that over-all economic activity was continuing to advance rapidly and that inflationary pressures were persisting. It appeared likely that growth in real GNP in the second quarter would again be large. Beyond midyear, economic prospects depended in large part on the outcome of pending fiscal legislation, which provided for a 10 per cent surtax on individual and corporate incomes and for a $6 billion reduction from the Budget estimate in Federal expenditures for the fiscal year 1969. Such legislation, if enacted, was expected to contribute to a marked slowing of the pace of expansion in aggregate output and to a gradual lessening of inflationary pressures.

Estimates for the second quarter included a further sizable rise in consumer spending, although not so large as the extraordinary advance of the first quarter. Defense expenditures were expected to continue to increase at a substantial rate. A sharp rise in housing starts in April, although it reflected temporary influences in large part, now suggested a moderate increase in outlays for residential construction in the second quarter. It appeared that business outlays for fixed capital would change relatively little; but inventory accumulation, which had been at a very low rate in the first quarter, was expected to increase considerably.

In April nonfarm employment rose moderately further, and the unemployment rate again edged down, to 3.5 per cent from 3.6 per cent in March. The industrial production index was unchanged from a March level that had been revised upward. Retail sales were advancing in early May, following a decline in April that was attributable largely to widespread civil disorders.

Gold and foreign exchange markets had been unsettled in recent weeks; important contributing influences included shifts in prospects for fiscal action in the United States and political uncertainties in France. The price of gold in the private London market had risen sharply after mid-May from around $39.50 per ounce to a new high of $42.60 on May 21, but subsequently declined somewhat. The Treasury gold stock recently had been reduced further, as a number of small central banks had purchased gold from the United States. Sterling was under renewed pressure in foreign exchange markets, and quotations for the French franc were nominal in most markets as a result of the general strike and the closing of French banks.

With respect to the U.S. balance of payments, the deficit on the official settlements basis was reduced in April and May by an accelerated rise in liabilities of domestic banks to their branches abroad. Movements out of sterling and French francs had contributed significantly to the availability of funds in the Euro-dollar market. U.S. exports of goods expanded sharply in April from the substantially reduced March level while imports increased slightly. For March and April together, however, the merchandise trade surplus was quite small.

In early May the Treasury marketed two new 6 per cent notes having maturities of 15 months and of 7 years for payment on May 15. The shorter-term note was offered for cash and attracted subscriptions mainly from commercial banks, which were allowed to make payment by credit to Treasury tax and loan accounts. The 7-year note was offered in exchange for securities maturing in mid-May, of which $3.9 billion were held by the public. After allowing for attrition of $1.3 billion in the exchange offering, the Treasury raised about $2.1 billion of new cash in these financings.

Interest rates had risen substantially on balance in all maturity areas since the preceding meeting of the Committee. Yield increases were especially pronounced after the mid-May announcement that there would be a further delay in congressional consideration of the pending fiscal legislation. Other influences included the tightening of monetary policy associated with the mid-April increase in the discount rate and the continuing large volume of new offerings in the corporate and municipal bond markets. During the week immediately preceding this meeting, some short-term market rates, particularly on Treasury bills, had declined from their peaks as renewed optimism concerning prospects for enactment of fiscal legislation emerged. The market rate on 3-month Treasury bills, at 5.67 per cent on the day before this meeting, was down 25 basis points from its May 21 high but was still 19 basis points above its level of 4 weeks earlier.

During April interest rates on residential mortgages had risen substantially and yields on both conventional new-home mortgages and on FHA-insured mortgages trading in the secondary market were at postwar highs. Early in May, as permitted by new legislation, maximum contract interest rates on Federally underwritten home mortgages were increased to 6¾ per cent. Net inflows of funds to nonbank depositary institutions had weakened considerably further in April from the reduced inflow of the first quarter.

System open market operations since the preceding meeting of the Committee had been directed at maintaining firm conditions in the money market while countering persistent tendencies toward excessive tightness. In view of the advanced level of market rates, System repurchase agreements were made at an interest rate of 5¾ per cent, one-quarter of a percentage point above the discount rate. The effective rate on Federal funds moved up further to a range around 6⅛ to 6⅜ per cent, compared with a range around 6 per cent in the latter part of April. Bank rates on new loans to Government securities dealers also advanced sharply. Member bank borrowings averaged $720 million and net borrowed reserves $380 million in the 4 weeks ending May 22, compared with averages of $690 million and $340 million, respectively, in April.

Commercial bank credit, as measured by the bank credit proxy—daily-average member bank deposits—was estimated to have increased only a little in May following a small decline in April. Business loans, after a sharp rise in early April, had changed relatively little through early May while banks had continued to reduce their holdings of U.S. Government securities. The further advance in market interest rates acted to limit growth in commercial bank time and savings deposits, and in May, as in April, such deposits increased very little. Rates on large-denomination CD's generally moved up to the new Regulation Q ceilings, but the volume of outstanding CD's was little changed over the month. Rates on Euro-dollar deposits rose sharply as U.S. banks built up their Euro-dollar liabilities. The money supply continued to grow rapidly in May; private demand deposits expanded substantially as U.S. Government deposits declined.

The bank credit proxy was now projected to decline in June at an annual rate in the range of 1 to 4 per cent if prevailing money market conditions were maintained. Business demand for bank loans was expected to be strong in June, partly to finance tax payments. The money supply and private demand deposits were projected to increase at about the rapid April–May rate, and U.S. Government deposits were projected to decline sharply, assuming no large cash financing. Total time and savings deposits were anticipated to show virtually no growth and possibly to decline, as relatively high market interest rates were expected to continue to curtail growth in consumer-type time and savings deposits and to result in a sizable decline in outstanding CD's for which scheduled maturities were large in June.

The Committee agreed that a restrictive monetary policy was appropriate in view of the strength of domestic demands and persisting inflationary pressures, as well as of the deterioration in the U.S. foreign trade balance that was contributing to continuation of an unsatisfactory over-all payments position. At the same time, however, there was general agreement that a number of considerations militated against any additional tightening at present. An important consideration was the possibility that in the near future Congress would enact the pending fiscal-restraint legislation. Furthermore, a considerable degree of monetary restraint had already been achieved; the banking system was being subjected to increasing liquidity pressures; over-all expansion of bank credit appeared to have halted in April and May; and market rates of interest had advanced sharply to levels that could give rise to a substantial amount of disintermediation.

The Committee concluded that open market operations should be directed at maintaining about the prevailing firm conditions in the money market, but that operations should be modified if bank credit appeared to be deviating significantly from current projections or if unusual pressures should develop in financial markets. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting indicates that the very rapid increase in over-all economic activity is being accompanied by persisting inflationary pressures. There has been little or no growth on average in bank credit and time and savings deposits over the past 2 months, although the money supply has expanded considerably as U.S. Government deposits have declined. In recent weeks both short- and long-term interest rates have risen sharply on balance from their earlier advanced levels, partly in reaction to shifting expectations with regard to the likelihood of fiscal restraint. There has been some revival of speculative activity in the private gold market and in foreign exchange markets. The U.S. foreign trade balance and over-all payments position continue to be a matter of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resistance of inflationary pressures and attainment of reasonable equilibrium in the country's balance of payments, while taking account of the potential for severe pressures in financial markets if fiscal restraint is not forthcoming.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining firm conditions in the money market; provided, however, that operations shall be modified if bank credit appears to be deviating significantly from current projections or if unusual pressures should develop in financial markets.

> Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

The Committee amended paragraph 1B(3) of the authorization for System foreign currency operations to increase, from $250 million to $300 million, the limit on authorized System Account holdings of sterling purchased on a covered or guaranteed basis.

> Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against this action: None.

At its previous meeting the Committee had increased the limit in question from $200 million to $250 million. That action had been taken on grounds that it would be helpful in connection with discussions of specific arrangements, including a drawing by Britain on its $1.4 billion standby facility with the International Monetary Fund, for repayment by the Bank of England of outstanding drawings under its swap line with the Federal Reserve; and it had been understood that initial use of the enlarged authority would be subject to the approval of Chairman Martin in light of developments in those discussions. Today's action was taken on similar grounds and subject to the same understanding.

The Committee also amended paragraph 4 of the foreign currency directive, by adding the words "and to facilitate operations of the Stabilization Fund" to clause (iv). With this amendment, paragraph 4 of the directive read as follows:

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, and to facilitate operations of the Stabilization Fund; (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.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Ellis, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, and Sherrill. Votes against this action: None.

On November 14, 1967, at a time when an increase in System Account and Stabilization Fund holdings of sterling was under consideration, the Committee had amended paragraph 1C(1) of the authorization for System foreign currency operations to enable the System Account to "warehouse" part of the Stabilization Fund's holdings of sterling if the Fund's resources should prove inadequate to meet all demands upon them from time to time in the future. Since such "warehousing" operations—none of which had been undertaken to date—would involve forward transactions, the Committee concluded that it was desirable to make a conforming change in the list of purposes, given in paragraph 4 of the foreign currency directive, for which forward transactions were authorized.

MEETING HELD ON JUNE 18, 1968

Authority to effect transactions in System Account.

Reports at this meeting indicated that the continued rapid advance in over-all economic activity was being accompanied by persisting inflationary pressures. It appeared likely that Congress would act favorably within a few days on legislation providing for a 10 per cent income tax surcharge and a $6 billion reduction in expenditures from Budget estimates for the coming fiscal year. Such legislation was expected to contribute to a considerable moderation of the rate of advance in aggregate demands.

Staff estimates suggested that both real GNP and average prices—as measured by the "GNP deflator"—were continuing to increase at rapid rates in the second quarter. According to the estimates, however, business inventory accumulation would be considerably larger than in the first quarter and growth in final sales would be smaller. In particular, consumer expenditures were expected to rise substantially but at a pace well below the extraordinary advance of the first quarter; and according to a recent Commerce-SEC survey of business spending plans, outlays on new plant and equipment would change little in the second quarter after increasing sharply in the first. It also appeared that outlays for residential construction would rise moderately further and that defense spending would advance at about the rapid first-quarter rate.

Staff estimates for the third quarter suggested that growth in real GNP would slow sharply if the pending fiscal legislation were enacted. The rate of increase in disposable income was expected to slacken considerably—as a result of both the income tax surcharge and slow growth in employment—and a further slowing of growth in consumer expenditures appeared likely, despite an anticipated decline in the rate of personal saving. Prospects for the third quarter also included a moderate decline in residential construction outlays, a leveling off of the advance in defense expenditures, and little further change in the rate of inventory accumulation after a large second-quarter rise. However, the Commerce-SEC survey suggested that outlays on plant and equipment would increase somewhat in the third quarter. The lower over-all rate of economic growth in prospect seemed unlikely to have an appreciable effect immediately on advances in wage and other costs, and average prices in the private economy were expected to rise almost as rapidly in the third quarter as in the first half of the year.

In May the unemployment rate remained at 3.5 per cent. Nonfarm employment was unchanged from April, as an increase in the number of workers on strike offset employment gains elsewhere. Average hourly earnings continued to rise rapidly. Industrial production was estimated to have increased to a new high, and according to the advance report, retail sales rose moderately from an April level that had been held down by civil disorders in many cities.

Preliminary estimates indicated that average wholesale prices of industrial goods declined somewhat in May, primarily because of further sharp reductions for copper and related products following settlement of the copper strike; average prices of other industrial commodities continued to rise. Prices of foods and foodstuffs increased considerably, and the total wholesale price index edged up further. In April the consumer price index continued upward at about the average rate of other recent months and was 4 per cent above a year ealier.

With respect to the U.S. balance of payments, preliminary data for May suggested that the deficit on the liquidity basis diminished sharply from its high April level, in part because of the favorable effects of various special official transactions. The merchandise trade surplus was expected to increase in coming months from its recent low level, but net outflows of U.S. capital also were expected to rise. Such outflows had been unusually small in the early months of the year, following the introduction of the new restaint program on January 1.

On the official settlements basis, a payments surplus was now indicated for May and possibly for the second quarter as a whole, primarily as a result of an exceptionally large rise in the liabilities of U.S. banks to their branches abroad. The recent massive inflow of foreign liquid funds apparently reflected both increased demands for funds by domestic banks and large additions to the supply of Euro-dollars as a result of movements out of sterling and French francs. It was thought likely that the inflow would subside soon.

In foreign exchange markets, the position of sterling had improved somewhat in recent weeks, but the French franc had remained under severe pressure. The price of gold in the private London market had continued to fluctuate in a range of about $41 to $42 per ounce.

System open market operations since the preceding meeting of the Committee had been directed at maintaining firm conditions in the money market. Early in the period reserves were absorbed temporarily, by means of matched sale-purchase agreements, in order to counter easing tendencies. Late in the period, however, when tendencies toward undue tightness emerged, reserves were supplied by purchases of Treasury bills from foreign accounts and through repurchase agreements with nonbank dealers at a 5¾ per cent interest rate. For the period as a whole, effective rates on Federal funds were usually in a range of 6 to 6¼ per cent but occasionally were below 6 per cent. Member bank borrowings averaged about $730 million in the 3 weeks ending June 12, little changed from the preceding 4 weeks, but average net borrowed reserves increased to about $445 million from $375 million in the earlier period.

Interest rates on most types of market securities had declined substantially on balance since the preceding meeting of the Committee, primarily because of growing expectations that fiscal restraint legislation would be enacted soon. Yield reductions were more marked on Treasury bonds than on corporate and municipal bonds, for which the calendar of new offerings continued heavy. The market rate on 3-month Treasury bills, at 5.58 per cent on the day before this meeting, was 9 basis points below its level 3 weeks earlier, and rates on longer-term bills were down by 20 to 30 basis points.

Preliminary data for May suggested an increase in net inflows of savings funds to mutual savings banks and savings and loan associations. But with demands for mortgage funds continuing strong, and with uncertainties increasing about prospects for savings flows at thrift institutions around the midyear interest-and-dividend-crediting period, conditions in mortgage markets remained fairly tight. Contract interest rates on conventional new-home mortgages, which had been at a postwar high in April, rose sharply further in May.

At commercial banks, demands for business loans strengthened after a mid-April to mid-May lull. There was some improvement in net flows of time and savings deposits in the latter part of May, but for the month as a whole such deposits grew at an annual rate of only about 3 per cent, roughly the same as in April and less than half the first-quarter pace. With U.S. Government deposits declining further, private demand deposits and the money supply expanded considerably; growth in the money supply was now estimated at an annual rate of 11 per cent in May, compared with 6.5 per cent in April. Bank credit, as measured by the bank credit proxy—daily-average member bank deposits—expanded at an annual rate of 1.5 per cent in May, after declining at a 4.5 per cent rate in April. Allowance for changes in the daily average of U.S. bank liabilities to foreign branches, which are among the nondeposit liabilities of banks omitted in calculating the credit proxy, would have served to reduce the decline in April by about 1 percentage point and to have increased the rise in May by about 3.5 percentage points.

New projections suggested that if prevailing money market conditions were maintained the bank credit proxy would rise at an annual rate of 3 to 6 per cent in June and somewhat more slowly in July; and that if money market conditions were less firm, growth in July would continue at about the rate projected for June. Allowance for a further increase in average liabilities to foreign branches, expected to occur in June, would have added about 3 percentage points to the limits of the range of growth projected for that month. The projections for July assumed that the Treasury would raise a substantial amount of new cash—about $4 billion—early in the month through a sale of tax-anticipation bills. Further declines in the average level of Government deposits were anticipated in both June and July, and were expected to contribute to continued vigorous expansion of the money supply.

The Committee's policy discussion at this meeting was conducted against the background of the widespread expectation that Congress probably would act affirmatively within a few days on the pending fiscal legislation. It was thought likely that such action would be followed by further declines in Treasury bill rates and other short-term market interest rates. The possibility was recognized, however, that short-term rates might subsequently come under renewed upward pressure, partly as a consequence of the sizable cash financing the Treasury was expected to undertake in early July.

The Committee agreed that open market operations should be directed at maintaining firm conditions in the money market in the period before Congress acted on the pending legislation, and at countering any tendencies toward disorder that might result if such action were negative or delayed. As to the appropriate course if fiscal legislation were enacted soon, there was some sentiment for seeking less firm money market conditions on the grounds that over-all economic restraint otherwise was likely to prove excessive. At the same time, however, concern was expressed in the course of the discussion about the risk that premature monetary easing would offset the effects of fiscal restraint.

The Committee concluded that if Congress acted affirmatively on the pending fiscal legislation open market operations should seek to accommodate any resulting declines in short-term interest rates and to cushion any upward pressures on such rates that might emerge subsequently. The proviso was added that this course should be followed only so long as bank credit growth in June, and also in July, did not appear to be developing at a rate above the range projected for June.

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

The information reviewed at this meeting indicates that the very rapid increase in over-all economic activity is being accompanied by persisting inflationary pressures. Enactment of fiscal restraint measures now under consideration in Congress, however, would be expected to contribute to a considerable moderation of the rate of advance in aggregate demands. Growth in bank credit and time and savings deposits has been relatively small on average in recent months, although the money supply has expanded considerably as U.S. Government deposits have declined. Both short- and long-term interest rates have receded from the advanced levels reached in May, mainly in reaction to enhanced expectations of fiscal restraint. The U.S. foreign trade balance and over-all payments position continue to be a matter of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resistance of inflationary pressures and attainment of reasonable equilibrium in the country's balance of payments, while taking account of the potential impact of developments with respect to fiscal legislation.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining generally firm but orderly conditions in the money market; provided, however, that if the proposed fiscal legislation is enacted operations shall accommodate tendencies for short-term interest rates to decline in connection with such affirmative congressional action on the pending fiscal legislation so long as bank credit expansion does not exceed current projections.

Votes for this action: Messrs. Martin, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, Sherrill, Bopp, and Treiber. Votes against this action: None.

Absent and not voting: Messrs. Hayes and Ellis. (Messrs. Treiber and Bopp voted as their alternates.)

MEETING HELD ON JULY 16, 1968

1. Authority to effect transactions in System Account.

Staff estimates for the second quarter continued to indicate sharp further advances in real GNP and in average prices as measured by the "GNP deflator." It now appeared, however, that growth in consumer expenditures had been smaller than expected earlier and that business fixed investment had declined somewhat. Much of the increase in real GNP was a consequence of a marked rise in the rate of inventory accumulation, reflecting in part a build-up of stocks of steel as a precaution against a possible strike when current wage contracts expired on July 31.

Industrial production was estimated to have increased somewhat further in June and retail sales, according to the advance estimate, were unchanged. Although the labor market remained generally firm, growth of nonfarm employment had slowed in recent months. The unemployment rate rose from 3.5 per cent in May to 3.8 per cent in June, when young workers entered the labor force in larger numbers than usual.

The consumer price index advanced again in May and was about 4 per cent above a year earlier. Average hourly earnings had continued to rise at a substantial rate in recent months, but increases in consumer prices had held down gains in real earnings and had contributed to demands for higher wages. At the wholesale level, average prices of industrial goods rose again in June after declining in May. Although increases had become less widespread recently, it appeared likely that industrial prices would remain under upward pressure in coming months.

In late June legislation was enacted that provided for a 10 per cent surcharge on income taxes, retroactive to April 1, 1968, for individuals and to January 1, 1968, for corporations. The legislation also provided for a $6 billion reduction from the January Budget estimate for Federal expenditures in the fiscal year 1969. However, the exemption from cuts of certain categories of expenditures together with upward revisions in estimates of defense spending suggested that the net reduction was likely to be less than $6 billion.

Staff projections suggested that the pace of advance in aggregate demands would moderate considerably in the third quarter, partly as a result of this legislation. It was expected that consumer expenditures would advance at only about the moderate pace of the second quarter—with a decline in the rate of personal saving roughly offsetting the combined effects on disposable income of the income tax surcharge and smaller employment gains; that the rise in Federal spending would slow; and that residential construction outlays would turn down. On the other hand, some increase in business fixed investment outlays appeared likely. A significant reduction was now anticipated in the rate of inventory accumulation; businesses were expected to shift from accumulation to decumulation of steel stocks after the strike deadline and to adjust stocks of consumer goods in line with the recently smaller gains in sales.

In foreign exchange markets, the French franc continued under heavy pressure in late June and early July. The Bank of France increased its discount rate from 3½ to 5 per cent effective July 3, and on July 10 announced that it had arranged for $1.3 billion in new international credit facilities. The exchange rate for sterling reached a new low in late June, but subsequently strengthened markedly as a result of two developments: (1) an announcement on July 8 that 12 central banks and the Bank for International Settlements had given firm assurances of their willingness to participate in new arrangements to offset fluctuations in the sterling balances of countries in the sterling area; and (2) the publication on July 11 of figures indicating that British imports had declined significantly in June for the first time since devaluation of the pound. The price of gold in the private London market recently had fallen from around $41 to around $39 per ounce on rumors of an arrangement designed to encourage sales of gold in the market by South Africa.

Tentative estimates suggested that the deficit in the U.S. balance of payments on the liquidity basis had declined markedly in the second quarter. All of the improvement, however, appeared to reflect special official transactions; except for these transactions, the deficit would have been large. The merchandise trade account was in deficit in May for the second time in 3 months. On the official settlements basis the payments balance was estimated to have been in substantial surplus in the second quarter, as a result of a record increase in liabilities of U.S. banks to foreign branches.

On July 2 the Treasury auctioned $4 billion of tax-anticipation bills maturing in March and April 1969, for which commercial banks were permitted to make payment in full by credits to tax and loan accounts. The Treasury was expected to announce at the end of July the terms on which it would refund the $8.6 billion of securities maturing in mid-August, of which $3.6 billion were held by the public. Current estimates suggested that the Treasury also would have to raise a substantial amount of new cash in August.

Conditions in securities markets had eased somewhat in reaction to the enactment of fiscal-restraint legislation, and yields on Government securities of all maturities had declined moderately on balance in the period since the preceding meeting of the Committee. The market rate on 3-month Treasury bills initially fell sharply—from 5.60 per cent on June 18 to 5.20 per cent on June 21. The abruptness of this decline was related to heavy reinvestment demands by holders of maturing tax-anticipation bills and to substantial purchase of bills by the System on June 19 to offset the effects on bank reserves of large-scale international transactions. Subsequently the 3-month bill rate came under upward pressure partly as a result of the Treasury's offering of tax bills in early July, and on the day before this meeting it was 5.42 per cent, 18 basis points below its level 4 weeks earlier. Rates on other short-term instruments showed smaller net declines over the interval, and some—such as those on commercial paper—remained at their mid-June levels.

Yields on long-term corporate and municipal bonds, for which the volume of new issues continued sizable in June and July, were little changed over most of the period since the preceding meeting of the Committee. Conditions in private bond markets had become more buoyant in recent days, however, following the good reception accorded a large corporate issue. Expectations of a near-term relaxation in monetary conditions contributed to the improvement in bond markets, as did the announcements of new international support for sterling and the French franc.

System open market operations since the preceding meeting of the Committee had been directed at maintaining firm conditions in the money market, while accommodating tendencies for short-term interest rates to decline following congressional action on fiscal legislation. The interest rate on System repurchase agreements with nonbank dealers was reduced to 5⅝ per cent on July 5 from the level of 5¾ per cent that had been employed since late April. The effective rate on Federal funds, which was mainly in a 6¼ to 6½ per cent range early in the interval, subsequently fluctuated primarily in a 6 to 6⅛ per cent range. Member bank borrowings averaged $595 million and net borrowed reserves $260 million in the 4 weeks ending July 10, compared with averages of $720 million and $410 million, respectively, in the preceding 4 weeks.

Conditions in markets for residential mortgages continued to tighten through mid-June but appeared to have stabilized thereafter. Preliminary indications suggested that the savings flow experience of nonbank depositary institutions during the interest-and-dividend-crediting period around the end of June was better than many industry observers had expected.

Growth in time and saving deposits at commercial banks in June remained at the low annual rate of about 3 per cent that had prevailed in the two preceding months. However, the net reduction during the course of the month in the volume of large-denomination CD's outstanding was considerably less than normal for the season, and in late June and early July the outstanding volume was increasing. By the time of this meeting most banks issuing such CD's had reduced their offering rates for certificates of longer maturity to levels below the Regulation Q ceilings. Private demand deposits and the money supply continued to expand rapidly in June, although not so rapidly as in May, and U.S. Government deposits increased slightly after declining steadily since February. In the second quarter as a whole, during which Government deposits fell substantially on balance, the money supply grew at an annual rate of about 8.5 per cent, compared with about 4.5 per cent in the first quarter.

Commercial bank credit, as measured by the bank credit proxy —daily-average member bank deposits—increased at an annual rate of 6 per cent in June after rising relatively little in May and declining in April. For the 3 months together, the proxy series increased at an annual rate of 1 per cent, compared with a rate of about 7 per cent in the first quarter. Allowance for changes in the daily average of U.S. bank liabilities to foreign branches, which are among the nondeposit liabilities omitted in calculating the credit proxy, would have served to increase the growth rates by about 2.5 percentage points in the second quarter and 0.5 of a percentage point in the first.

It was expected that the pattern of bank credit growth in July and August would be strongly influenced by Treasury financing operations and by business borrowing to finance additional tax payments required under the terms of the new legislation. Staff projections suggested that if prevailing money market conditions were maintained the bank credit proxy would grow at annual rates in the ranges of 1 to 4 per cent in July, 10 to 12 per cent in August, and 6 to 8 per cent in the 2 months taken together. In an alternative projection, in which somewhat easier money market conditions were assumed, the annual rate of increase in the bank credit proxy in July and August together was estimated in a range of 7 to 9 per cent. These projections assumed that the Treasury would raise a total of about $7.5 billion of new cash in the 2 months, including the $4 billion already raised in July through the sale of tax-anticipation bills. Allowance for a further increase in average liabilities to foreign branches, expected to occur in July, would have added about 1 percentage point to the limits of the ranges of growth projected for July and August together.

It appeared likely that private demand deposits and the money supply would continue to expand at a substantial rate on average in July, but to slow sharply in the latter part of the month and to change little on average in August, a period in which Government deposits were expected to rise substantially on balance. The outlook also favored further rapid growth in large-denomination CD's outstanding, at least in July.

In the course of the Committee's discussion a number of members indicated that they were inclined to maintain prevailing money market conditions for the time being, while awaiting evidence of the probable effectiveness of the recently enacted fiscal restraint measures in containing inflationary pressures and improving the underlying position of the balance of payments. Other members, while not advocating a substantially easier monetary policy at present, thought that the prospective effects of the new fiscal legislation warranted seeking somewhat less firm money market conditions to the extent such a course was consistent with the forthcoming Treasury financing.

After considering these alternatives, the Committee agreed upon an intermediate course. Specifically, it was decided that open market operations should be directed at accommodating easing tendencies in money market conditions in the period ahead if such tendencies arose from market forces; and at cushioning upward pressures on interest rates if they should develop. It also was agreed that operations should be modified, to the extent permitted by the Treasury financing, if bank credit appeared to be deviating significantly from current projections.

The Committee also discussed the appropriate interest rate for System repurchase agreements (RP's) with nonbank dealers. The members noted that market participants had attached some degree of policy significance to recent changes in the RP rate and to the fact that the rate employed most lately was still ⅛ of a percentage point above the discount rate. While the views of members differed regarding the desirability of regular use of a flexible RP rate as an instrument for influencing money market conditions, the Committee thought that under existing circumstances it would be appropriate to employ a 5½ per cent rate beginning with the next occasion on which the Account Management made repurchase agreements.

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

The information reviewed at this meeting indicates that over-all economic activity continued to expand rapidly in the second quarter, with inventory accumulation accelerating while the rise in capital outlays and in consumer spending slowed. The new fiscal restraint measures are expected to contribute to a considerable moderation of the rate of advance in aggregate demands. Industrial prices have been increasing less rapidly than earlier but consumer prices have continued to rise substantially and wage pressures remain strong. Growth in bank credit and time and savings deposits has been moderate on average in recent months; growth in the money supply has been larger as U.S. Government deposits have been reduced. Conditions in money and capital markets have eased somewhat, mainly in response to the increase in fiscal restraint. Although there recently have been large inflows of foreign capital, the U.S. foreign trade balance and underlying payments position continue to be matters of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable economic growth, continued resistance to inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

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 accommodating the tendency toward somewhat less firm conditions in the money market that has developed since the preceding meeting of the Committee; provided, however, that operations shall be modified, to the extent permitted by Treasury financing, if bank credit appears to be deviating significantly from current projections.

Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, Sherrill, and Bopp. Votes against this action: None.

(Mr. Bopp voted as an alternate member in place of Mr. Ellis, whose membership on the Committee had terminated on June 30, 1968, the effective date of his resignation as President of the Federal Reserve Bank of Boston.)

2. Amendments to authorization for System foreign currency operations.

The Committee ratified an action taken by members on July 2, 1968, effective on that date, to increase the System's swap arrangement with the Bank of France from $100 million to $700 million equivalent, and to make the corresponding amendment to paragraph 2 of the authorization for System foreign currency operations. As a result of this action, paragraph 2 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	225
Bank of Canada	1,000
National Bank of Denmark	100
Bank of England	2,000
Bank of France	700
German Federal Bank	1,000
Bank of Italy	750
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	400
Bank of Norway	100

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Bank of Sweden	250
Swiss National Bank	600
Bank for International Settlements:	
System drawings in Swiss francs	600
System drawings in authorized European currencies other than Swiss francs	1,000

Votes for ratification of this action: Messrs. Martin, Hayes, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, Sherrill, and Bopp. Votes against ratification of this action: None.

(Mr. Bopp voted as an alternate member in place of Mr. Ellis, whose membership on the Committee had terminated on June 30, 1968.)

Although the arrangement between the Bank of France and the Federal Reserve had been the first negotiated when the System's swap network was established in 1962, it had remained at $100 million since early 1963 while various other lines in the network had been enlarged from time to time. The increase in this arrangement served to bring the relative sizes of the arrangements in the System's swap network into better balance. It formed part of a package of credit facilities provided to the Bank of France at this time by a number of central banks to help deal with destabilizing exchange market pressures.

The Committee also amended the foreign currency authorization in another respect at this meeting. Under paragraph 1C(1) of the authorization, as it had been amended on November 14, 1967, the Federal Reserve Bank of New York was authorized to have outstanding forward commitments to deliver foreign currencies to the Stabilization Fund of up to $350 million equivalent. The limit had been increased to that level (from a previous figure of $200 million) in November to facilitate the "warehousing" by the System Account of Stabilization Fund holdings of sterling if the resources of the Stabilization Fund proved inadequate to meet all the demands upon them from time to time in the future.

At this meeting the Committee approved an increase in the limit in question up to an amount not exceeding $1,050 million equivalent, on the understandings that (1) the specific amount would be determined by Chairman Martin (or in his absence, Mr. Robertson, Vice Chairman of the Board of Governors) and (2) that the action would become effective upon a determination by Chairman Martin (or in his absence, Mr. Robertson) that it was in the national interest.

> Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, Sherrill, and Bopp. Votes against this action: None.
>
> (Mr. Bopp voted as an alternate member in place of Mr. Ellis, whose membership on the Committee had terminated on June 30, 1968.)

This action was taken against the background of discussions at meetings in Basle, Switzerland, on July 6–8, 1968, and prior discussions between representatives of the U.S. Treasury and the Federal Reserve. At the Basle meetings agreement in principle had been reached among representatives of the Bank for International Settlements, the Bank of England, and 12 other central banks including the Federal Reserve regarding new arrangements for offsetting fluctuations in sterling balances held by countries in the overseas sterling area (OSA). In general, the agreement provided for the extension of a medium-term facility of $2 billion equivalent to the Bank of England by the BIS, with backing provided by the participating central banks, acting where appropriate on behalf of their Governments. It was understood that the agreement was contingent on the satisfactory completion of negotiations by the British authorities with the OSA countries concerning the management by the latter of their sterling reserves.

In the System's preliminary discussions with the U.S. Treasury it had been agreed that the Treasury should participate as principal in the arrangement, with the dollars to be made available on a swap basis against sterling by the Stabilization Fund. It was also agreed that if the resources of the Stabilization Fund should prove insufficient from time to time to meet these and other commitments, the Federal Reserve would undertake to warehouse temporarily for the Stabilization Fund necessary portions of the sterling acquired by the latter.

It was reported at this meeting of the Committee that the U.S. share in the arrangement would be in the neighborhood of $600 million to $700 million. After approving System participation in the arrangement in the manner described, the Committee noted that the agreement was contingent on certain negotiations by the British authorities and that the specific size of the U.S. share had not yet been determined. Accordingly, it was decided that both the effective date of the amendment to paragraph 1C(1) of the authorization and the new figure for maximum forward commitments to the Stabilization Fund to be established by that amendment (within the limit set by today's action) should be subject to determination by Chairman Martin, or in his absence, Mr. Robertson.

Subsequently, agreement was reached on the new arrangement at a meeting in Basle on September 9, 1968, with the U.S. share established at $650 million, and the arrangement went into force on September 23, 1968. On September 24, Chairman Martin determined that an increase in the limit on forward commitments to deliver foreign currencies to the Stabilization Fund of $650 million equivalent, to $1 billion, was in the national interest. Accordingly, effective September 24, 1968, paragraph 1C(1) of the authorization for System foreign currency operations was amended to 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:

* * *

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 $1 billion equivalent;

* * *

MEETING HELD ON AUGUST 13, 1968

Authority to effect transactions in System Account.

Reports at this meeting indicated that some elements of economic activity had expanded vigorously in early summer. Staff projections suggested, however, that expansion in over-all activity would slow considerably in the months ahead as a result of the new fiscal restraint measures and a marked reduction in inventory accumulation.

Retail sales rose sharply in July, according to the advance report. Industrial production increased moderately, and nonfarm employment continued upward at the reduced pace of recent months. The unemployment rate edged down to 3.7 per cent from 3.8 per cent in June, but remained above the low of 3.5 per cent recorded in the two preceding months.

Average prices of industrial commodities advanced only slightly further in July, but increases in steel prices were announced following the wage settlement in the steel industry at the end of the month. Because of a marked, although largely seasonal, increase in prices of farm products and foods, the wholesale price index rose considerably in July. In June the consumer price index rose more than it had in other recent months. About one-half of the advance reflected higher costs of consumer services, including mortgage interest charges.

The staff projections suggested that inventory accumulation, which had contributed significantly to the rapid growth of real GNP in the second quarter, would slow in the third and fourth quarters. A sharp curtailment of steel production had already begun, and it was expected that liquidation of the stocks of steel that had been built up as a precaution against a strike would continue throughout the rest of the year and perhaps into early 1969. Growth in final sales was projected to remain at about the reduced second-quarter rate, in the expectation that the rise in Federal spending would taper off and that the income tax surcharge would damp increases in consumer expenditures.

In foreign exchange markets the French franc had remained under pressure in recent weeks. The position of sterling had improved earlier, following the announcement that 12 central banks had expressed willingness to participate in new arrangements to offset fluctuations in overseas sterling balances and a report indicating that the British foreign trade deficit had narrowed in June. The sterling exchange rate moved lower on the day of this meeting, however, after publication of figures indicating that the British trade deficit had widened again in July. The price of gold in the private London market recently had continued to fluctuate in a narrow range around $39 per ounce.

In the second quarter the U.S. foreign trade balance had deteriorated further. Nevertheless, the over-all payments balance on the liquidity basis, although still in deficit, had improved substantially, partly as a result of various special official transactions. Even apart from such transactions, however, the balance had improved markedly in May and June, when there were sizable net inflows of private capital; and it appeared that the improvement had been maintained in July. A substantial surplus was recorded in the payments balance on the official settlements basis in the second quarter, mainly because of a massive increase in liabilities of U.S. banks to their branches abroad. Such liabilities increased further in early July, but declined in subsequent weeks.

On July 31 the Treasury offered a new 6-year, 5⅝ per cent note priced to yield about 5.70 per cent, for payment on August 15. Commercial banks were permitted to pay for 50 per cent of their allotments by credits to Treasury tax and loan accounts. The issue was very well received, and the Treasury raised about $1.9 billion of new cash in addition to refunding $3.6 billion of publicly held securities maturing in mid-August. This was the largest sale to the public of an intermediate-term issue in more than 20 years.

Most interest rates had declined substantially on balance since the previous meeting of the Committee. The declines were largely attributable to market expectations that credit conditions would ease as a result of slower economic growth, smaller prospective Treasury financing needs, and relaxation of monetary restraint following the recent enactment of fiscal legislation. Expectations of a near-term shift in monetary policy, perhaps including a cut in the discount rate, appeared to have been encouraged by a reduction in the interest rate on System repurchase agreements from 5⅝ to 5½ per cent on the day after the Committee's preceding meeting.

Contributing to the rate declines were increases in bank purchases of Treasury and municipal securities and a large build-up of dealer inventories of Treasury securities, as well as prospects for a substantial reduction in the volume of new corporate bond issues. The fact that only an intermediate-term obligation was offered in the Treasury's August financing—in contrast to the customary practice of including a short-term "anchor" issue—added to downward pressures on rates in short-term markets, where the declines were most pronounced.

Most recently, however, continued firmness in day-to-day money market rates had raised doubts about prospects for an immediate substantial easing of monetary policy. Both short- and long-term interest rates had turned up and had erased part of their earlier declines. On the day before this meeting the market rate on 3-month Treasury bills was 5.05 per cent, 16 basis points above the low reached in the preceding week but still 37 basis points below its mid-July level.

Net inflows of funds to mutual savings banks and savings and loan associations slowed in July. There were signs, however, that conditions in primary and secondary mortgage markets were beginning to ease, after tightening gradually but steadily for more than a year.

With interest rates on competing market instruments declining on balance in July, the volume of large-denomination CD's outstanding at commercial banks increased by an unusually large amount. Banks recently had reduced their offering rates on all

CD's except those with short maturities, and by the time of this meeting such rates were still at the Regulation Q ceilings only for CD's maturing within 2 months. Growth in consumer-type time and savings deposits continued in July at about the moderate pace of previous months. Government deposits declined on average, and growth in private demand deposits and the money supply accelerated—the latter to an annual rate of about 13 per cent, from 8.5 per cent in the second quarter and 4.5 per cent in the first.

Business loans outstanding at banks increased more than seasonally in July, although the rise was somewhat less than might have been expected in view of the additional corporate tax payments required under the new fiscal legislation. Bank investments expanded sharply, however, as did loans to finance securities holdings. Total bank credit, as measured by the bank credit proxy—daily-average member bank deposits—grew at an annual rate of 9 per cent, compared with rates of 1 per cent in the second quarter and 7 per cent in the first. Allowance for changes in the daily average of U.S. bank liabilities to foreign branches would have served to increase the growth rate by 2 percentage points in July and slightly more in the second quarter.

System open market operations in the early part of the interval following the preceding meeting of the Committee had been directed at accommodating the tendencies for short-term interest rates to decline. Later in the period, however, when it became apparent that bank credit was increasing at a rate significantly above that projected at the time of the previous meeting, operations were modified to the extent permitted by the Treasury financing. Member bank borrowings, which had averaged \$555 million in the 2 weeks ending July 24, rose to an average of \$670 million in the following 2 weeks; and average net borrowed reserves increased from \$215 million to \$320 million. Since the preceding meeting of the Committee, the effective rate on Federal funds had fluctuated mostly in a 6 to 6¼ per cent range and bank rates on loans to dealers in U.S. Government securities, whose financing needs were heavy, also had remained high.

New staff projections suggested that the bank credit proxy would increase from July to August at an annual rate of 16 to 18 per cent if the prevailing stance of monetary policy were maintained. About three-fourths of the estimated growth reflected an expected increase in average Government deposits from July to August as a result of Treasury cash borrowing. Much slower growth—at an annual rate of 5 to 7 per cent—was anticipated for September, when the Treasury was not expected to engage in new borrowing except in connection with its regular bill offerings. The money supply was projected to remain about unchanged in August and to grow moderately in September when a decline in Government deposits was anticipated. Expansion in time and savings deposits was expected to moderate somewhat in August and September.

The Committee agreed that the rate of economic growth was likely to slow during the second half of the year. Several members noted, however, that some moderation in the recent rapid pace of expansion would be desirable in light of prevailing inflationary pressures, and that the evidence available to date was not sufficient to indicate the amount of slowing in prospect. Considerable concern was expressed about the rapid rates of increase in bank credit experienced in July and projected for August, even though it was noted that the spurt was projected to be temporary. At the same time, it was thought generally that it would be undesirable for short-term interest rates, which had been advancing in recent days, to rise substantially further.

The Committee concluded that it would be appropriate at this time to maintain, on balance, about the prevailing conditions in money and short-term credit markets, with some easing in day-to-day money market rates to be permitted if Treasury bill and other short-term rates remained under marked upward pressure. It was also agreed, however, that operations should be modified if bank credit growth in August and September appeared to be significantly exceeding current projections.

Several members expressed the view that in light of the marked net decline in short-term interest rates since the enactment of fiscal legislation, a near-term reduction in the discount rate would be appropriate to bring it into better alignment with current market rates. These members noted that a cut in the discount rate might have the effect of moderating further upward pressures on short-term rates without requiring reserve injections of the size that might otherwise be needed for that purpose.

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 some elements of economic activity continued to expand vigorously in early summer. Expansion in over-all activity, however, is projected to slow considerably in coming months as a result of the new fiscal restraint measures and a marked reduction in inventory accumulation. Industrial prices have been increasing less rapidly in recent months, but consumer prices have continued to rise substantially. Wage pressures remain strong, and the recent wage settlement in the steel industry was followed by announcements of steel price increases. Both short- and long-term interest rates have declined considerably, in large part as a result of expectations of easier credit conditions. Bank time and savings deposits, particularly large-denomination CD's, have expanded sharply in early summer; growth in the money supply has continued large as U.S. Government deposits have been drawn down further on average; and growth in total bank credit has been unusually rapid. Although the U.S. balance of payments has recently shown a marked improvement, the foreign trade balance and underlying payments position continue to be matters of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable economic growth, continued resistance to inflationary pressures, and attainment of 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, on balance, about the prevailing conditions in money and short-term credit markets; provided, however, that operations shall be modified if bank credit appears to be significantly exceeding current projections.

Votes for this action: Messrs. Martin, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Robertson, Sherrill, Bopp, and Treiber. Votes against this action: None.

Absent and not voting: Mr. Hayes. (Mr. Treiber voted as his alternate. Also, Mr. Bopp voted as an alternate member in place of Mr. Ellis, whose membership on the Committee had terminated on June 30, 1968, the effective date of his resignation as President of the Federal Reserve Bank of Boston.)

MEETING HELD ON AUGUST 19, 1968

Authority to effect transactions in System Account.

On Thursday, August 15, the Board of Governors of the Federal Reserve System approved a reduction from 5½ to 5¼ per cent in the discount rate of the Federal Reserve Bank of Minneapolis.[1] In its announcement the Board stated that the change was primarily technical, to align the discount rate with the change in money market conditions that had occurred chiefly as a result of the enactment of the Federal tax increase and its related expenditure cuts. The purpose of today's meeting, which was held by telephone, was to consider the need for a revision of the Committee's current economic policy directive in light of the discount rate action.

Reports at this meeting indicated that the reaction in financial markets to the Board's discount rate announcement had been quite mild. Prices of Treasury notes and bonds had edged up slightly on Friday, August 16. The market rate on 3-month Treasury bills—which had advanced from 5.05 per cent on August 12, the day before the Committee's previous meeting, to 5.17 per cent on August 15—declined the next day to 5.11 per cent. There had been no significant change in the effective rate on Federal funds, which had been fluctuating in a 6 to 6¼ per cent range in recent weeks. Staff projections still suggested that the bank credit proxy—daily-average member bank deposits—would increase at annual rates of 16 to 18 per cent in August and 5 to 7 per cent in September, even if there were some easing of day-to-day money market rates in the wake of discount rate reductions.

The Committee agreed that open market operations should be directed at facilitating orderly money market adjustments to re-

[1] The reduction was effective August 16. Discount rates of the other Federal Reserve Banks were subsequently reduced to 5¼ per cent, with effective dates as follows: Richmond, August 19; Chicago, Cleveland, Kansas City, and Philadelphia, August 23; Boston, August 27; Dallas, August 28; and Atlanta, New York, St. Louis, and San Francisco, August 30.

ductions in Federal Reserve Bank discount rates. As at the preceding meeting, the desirability was noted of cushioning upward pressures on short-term interest rates if they should develop.

The Committee also agreed that operations should be modified if bank credit appeared to be deviating significantly from current projections, on the understanding that this proviso was to be implemented as a result of any downward deviations only if such deviations were of considerable magnitude.

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 adjustments in money market conditions to reductions in Federal Reserve Bank discount rates; provided, however, that operations shall be modified if bank credit appears to be deviating significantly from current projections.

Votes for this action: Messrs. Hayes, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Robertson, Sherrill, and Bopp. Votes against this action: None.

Absent and not voting: Messrs. Martin, Mitchell, and Morris. (Mr. Bopp voted as alternate for Mr. Morris.)

MEETING HELD ON SEPTEMBER 10, 1968

Authority to effect transactions in System Account.

Consumer expenditures had been expanding vigorously this summer, according to reports at this meeting. Staff projections suggested, however, that the rate of business inventory accumulation was declining markedly in the third quarter—largely because of a shift from accumulation to liquidation of steel stocks—and that growth in over-all activity was slowing as a consequence.

Steel production had been cut back sharply following the wage settlement in the steel industry at the end of July, and as a result the industrial production index was tentatively estimated to have declined in August. Although nonfarm payroll employment increased fairly sharply in August, manufacturing employment was unchanged for the second consecutive month. Total civilian employment declined in August, but the labor force declined somewhat more and the unemployment rate fell to 3.5 per cent from 3.7 per cent in July.

Growth in Federal outlays appeared to be slowing in the third quarter, but total final sales were now estimated to be rising at a rapid rate. Retail sales, which had increased sharply in July, remained at a high level in August according to available weekly figures. The sizable advance in consumer spending apparently was associated with a decline in the saving rate; the new income tax surcharge affected paychecks beginning in mid-July, and disposable income was estimated to be advancing less rapidly in the third quarter than earlier in the year. Housing starts also rose considerably in July, and it appeared that residential construction outlays would be somewhat higher in the third quarter than in the second. A new Commerce—SEC survey, taken in August, indicated that business outlays on plant and equipment would be somewhat lower in 1968 as a whole than estimated earlier, but that businesses planned to increase their outlays moderately from the second quarter to the third.

Staff projections for the fourth quarter suggested that the rate of inventory accumulation would be reduced somewhat further as liquidation of steel stocks continued and that the expansion in final sales would slow. It was expected that the increase in Federal expenditures would be quite small and that the rise in consumer spending would slacken as a result of continuing slow growth of disposable income. Little change was anticipated in residential construction expenditures, and the recent Commerce—SEC survey suggested that business outlays for plant and equipment would be maintained at about the third-quarter rate.

Average prices of industrial commodities, according to preliminary estimates, were unchanged in August after rising only slightly in July. It was expected, however, that the industrial average for September would be affected by advances already announced in prices of steel mill products. Prices of farm products and foods, which had increased considerably in July, declined in August, and the over-all wholesale price index moved down to its June level. The consumer price index rose substantially in July for the second month in a row; as in June, a large part of the advance reflected higher costs of consumer services, including mortgage interest charges.

In foreign exchange markets, rumors in late August that a revaluation of the German mark was imminent led to large-scale inflows of funds into Germany and to sharply increased pressures on the French franc and sterling. On September 4 the French Government unexpectedly removed the foreign exchange controls it had imposed on May 31. Following the announcement of this action and the simultaneous publication of preliminary estimates of the French budget for 1969, the position of the franc improved; but pressures subsequently resumed. The sterling exchange rate strengthened appreciably after the announcement on September 9 that final agreement had been reached by the Bank of England and 12 other central banks on new arrangements to offset fluctuations in overseas sterling balances. The price of gold in the private London market had risen by about $1 per ounce since mid-August and currently was fluctuating narrowly around $40.

U.S. exports increased slightly and imports fell sharply in July —resulting in a small surplus in the foreign trade balance after 2 months of deficit. Despite a foreign trade deficit in the May-July period as a whole, the payments balance on the liquidity basis, apart from special official transactions, had improved considerably. However, tentative estimates for August suggested that a large deficit had re-emerged. The balance on the official settlements basis apparently was in surplus in August, as liabilities of U.S. banks to their foreign branches rose to a new high after declining during the last 3 weeks of July.

In domestic financial markets, prior to the reductions in Federal Reserve Bank discount rates from 5½ to 5¼ per cent—the first of which was announced on August 15—interest rates on various types of market securities had been rising from the lows they had reached early in the month. Market reactions to the discount rate cuts were varied; some observers interpreted the action as a confirmation of earlier expectations of some relaxation in monetary restraint, while others—who had expected more vigorous action—thought it indicated that a marked easing of policy was not likely in the near future.

On balance, interest rates on new corporate bonds and on Treasury securities changed little during the latter half of August. However, yields on municipal bonds remained under upward pressure in the face of continuing heavy flotations of new issues by State and local governments. In early September yields on new corporate bonds and on Treasury securities also advanced, as corporate underwriters released unsold new offerings from syndicate and some Government securities dealers acted to lighten their heavy inventories. The market rate on 3-month Treasury bills was 5.24 per cent on the day before this meeting, 13 basis points above its level following the mid-August announcement of discount rate action. Rates on longer-term Treasury bills had risen only slightly during the interval and currently were close to or below the rate on 3-month bills.

Growth in commercial bank time and savings deposits, which had stepped up sharply in July, accelerated further in August. Expansion in large-denomination CD's outstanding was substantial but less than the very large rise of July, when interest rates on competing market instruments had been declining. The average level of U.S. Government deposits increased considerably in August as a result of Treasury cash financings, and expansion in private demand deposits and the money supply slowed appreciably—the money supply to an annual rate of about 5 per cent from nearly 15 per cent in July.

In August, as in July, banks were heavy buyers in the large offerings of securities undertaken by Federal, State, and local governments. Growth in bank loans to businesses was maintained at about the recent average pace, and loans to brokers and dealers to finance holdings of securities increased moderately further. Total bank credit, as measured by the bank credit proxy—daily-average member bank deposits—expanded at the unusually high annual rate of 21 per cent, after rising at a 9 per cent rate in July. Allowance for changes in the daily average of U.S. bank liabilities to foreign branches would have served to increase the growth rate by about ½ of a percentage point in August and 1½ percentage points in July.

System open market operations in the period since the Committee's August 19 meeting had been directed mainly at facilitating orderly adjustments in money market conditions to the reduction in Federal Reserve Bank discount rates. As the period progressed less emphasis was placed on the supplementary objective of moderating upward pressures on Treasury bill rates, in light of accumulating evidence that bank credit was growing at a higher rate than that projected at the time of the Committee's previous meeting. The effective rate on Federal funds, which had been mostly in a 6 to 6¼ per cent range prior to the discount rate cuts, subsequently fluctuated in a 5¾ to 6 per cent range and was at the upper end of that range at the close of the period. Net borrowed reserves and member bank borrowings averaged about $185 million and $480 million, respectively, in the 3 weeks ending September 4, down from averages of about $290 million and $640 million in the previous 3 weeks.

Growth in bank credit was expected to moderate from the high August rate in September and October. The Treasury was not expected to engage in an another major cash financing until the latter part of October; and prospects favored some reduction from the current high level of outstanding loans to finance holdings of securities and also a slower growth in business loans, particularly after the mid-September tax date. New staff projections suggested that the bank credit proxy would expand at an annual rate of 7 to 10 per cent in September if prevailing conditions in money and short-term credit markets were maintained. Growth in about the same range was foreseen for October, on the assumption that the Treasury would raise about $3 billion of new cash in the latter part of the month. The projections suggested that expansion in time and savings deposits would moderate in September, and that on the average Government deposits would change little over September and October and the money supply would rise only slightly.

The Committee decided that no change in monetary policy was warranted at this time. On the one hand, a relaxation of monetary restraint was not deemed appropriate in light of the current strength of final demands and the persistence of inflationary pressures; on the other hand, greater restraint was not considered desirable in view of the outlook for slowing in overall economic activity, although it was noted that firm evidence was lacking thus far on the amount of slowing in prospect. However, a number of members—while not advocating a firming of policy—expressed concern about the rapid rates of bank credit expansion in recent months, and some thought that expansion in September and October at a rate near the upper end of the projected range would be higher than desirable in the current economic environment.

At the same time, it was noted that Treasury bill rates might well come under temporary upward pressure as a result of credit demands associated with the September tax date and the larger-scale sales of bills by the System that were expected to be required in the next week or so to absorb reserves supplied by market factors. A number of members expressed the view that such pressures should be moderated if they proved to be unduly marked or prolonged, in light of the risk that persistent large increases in bill rates might precipitate a change in market expectations that would result in a new general uptrend in market interest rates.

The Committee concluded that it would be desirable at present for open market operations to be directed at maintaining about the prevailing conditions in the money and short-term credit markets, on the understanding that increases in Treasury bill rates in the near term, if moderate, would not be considered inconsistent with this objective. The proviso was added that operations should be modified if bank credit appeared to be deviating significantly from current projections.

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

The information reviewed at this meeting suggests that, although consumer demands have been strong this summer, reduced rates of inventory accumulation and tapering growth of Government expenditures are being reflected in a slowing of expansion in over-all activity. Industrial prices have been increasing less rapidly in recent months, but consumer prices have continued to rise substantially and wage pressures remain strong. Most market interest rates have changed little on balance following reductions in Federal Reserve Bank discount rates. Growth in bank credit and time and savings deposits has been rapid this summer; growth in the money supply slowed in August as U.S. Government deposits were built up following an extended decline. The earlier improvement in the U.S. balance of payments was not maintained in August, according to preliminary indications, and the foreign trade balance and underlying payments position continue to be matters of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable economic growth, continued resistance to inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the prevailing conditions in money and short-term credit markets; provided, however, that operations shall be modified if bank credit appears to be deviating significantly from current projections.

> Votes for this action: Messrs. Martin, Hayes, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Morris, Robertson, and Sherrill. Votes against this action: None.

MEETING HELD ON OCTOBER 8, 1968

1. Authority to effect transactions in System Account.

Staff estimates of GNP in the third quarter had been revised upward since the preceding meeting of the Committee, mainly because consumer expenditures had proved stronger than expected. The estimates still suggested that expansion in real GNP had moderated from its very rapid pace in the first half of the year, but they indicated that economic growth had slowed by less than earlier projections had implied. Projections for the fourth quarter, which also had been raised, suggested that expansion would continue at about the rate now estimated for the third quarter.

According to retail sales figures for August and the first 3 weeks of September, consumer spending on both durable and nondurable goods was being maintained at the high level to which it had risen in July. Since growth of disposable income in the third quarter had been curtailed by the tax surcharge, it appeared that the rate of personal saving had declined sharply.

Little further change in the saving rate seemed likely in the fourth quarter, and with disposable income expected to continue rising slowly, growth in consumer spending was projected to slacken. The staff projections also suggested that other categories of final demand—including Federal outlays, residential construction expenditures, and business spending on plant and equipment—would provide relatively little stimulus to economic expansion in the fourth quarter. On the other hand, the rate of inventory accumulation, which had declined in the third quarter, was now expected to rise in the fourth quarter.

In September output of steel was curtailed further as users of the metal continued to reduce inventories that had been accumulated prior to the wage settlement in the steel industry. As a consequence, the industrial production index was estimated to have declined again. Employment in manufacturing—even apart from the steel industry—had not increased since June, but labor markets remained generally firm and in recent months average hourly earnings had continued to increase at a rapid pace.

Average prices of industrial commodities rose appreciably in September after having changed little for several months. The rise, which was the largest for any month since late winter, reflected not only the advance in steel prices following the wage settlement but also increases for a broad list of other commodities. With average prices of farm products and foods turning up, the over-all wholesale price index rose in September by about as much as it had declined in August. The consumer price index increased considerably less in August than it had in June and July, partly because of a slowing of the advance in mortgage interest charges.

In foreign exchange markets, pressures on the French franc abated for a time in late September but then increased again. However, speculation on an imminent revaluation of the German mark had subsided in recent weeks, and market conditions in general had improved considerably. The exchange rate for sterling, which had strengthened after the September 9 announcement that final agreement had been reached on the new sterling balances arrangement, advanced further following the publication on September 17 of figures indicating that the British foreign trade deficit had narrowed sharply in August. On September 19 the Bank of England reduced its discount rate to 7 per cent from the 7½ per cent rate that had been in effect since March 21.

In August a large rise in U.S. merchandise exports was exceeded by an even larger rise in imports, and the U.S. trade surplus declined from the low level of July. Part of the increase in both exports and imports was attributable to expectations of a possible strike of longshoremen on October 1. With respect to the over-all payments balance, tentative estimates for the third quarter indicated that the deficit on the liquidity basis was smaller than in the second quarter. All of the improvement, however, apparently had occurred in July; preliminary data suggested that sizable deficits had been incurred in August and September. It appeared that there was a moderate surplus in the third quarter on the official settlements basis, mainly as a result of a further increase in liabilities of U.S. banks to their branches abroad. Such liabilities rose sharply from mid-August to mid-September, but declined subsequently.

The Treasury was expected shortly to announce a cash offering of tax-anticipation bills, perhaps in the amount of $3 billion or $3.5 billion, for which commercial banks would be permitted to make payment by credits to tax and loan accounts. Also, an announcement was expected on October 23 of the terms on which the Treasury would refund notes and bonds maturing in mid-November, of which about $4 billion were held by the public. The possibility was noted that a pre-refunding of bonds maturing in mid-December, of which $1.6 billion were publicly held, might be undertaken along with the refunding of November maturities.

System open market operations since the preceding meeting of the Committee had been directed at maintaining about the prevailing conditions in the money and short-term credit markets. Although the System undertook an unusually large volume of operations for this purpose—absorbing reserves on a massive scale in the first part of the period and supplying substantial amounts of reserves later—money market conditions initially eased somewhat and subsequently firmed again. Thus, the effective rate in Federal funds transactions, which had averaged about 5⅞ per cent in the period before the previous meeting, fluctuated below that level for a time and then moved up to the 6 per cent area. Rates posted by major banks on loans to Government securities dealers followed a similar pattern.

A number of factors combined to complicate operations and to require a large volume of transactions by the System in this period. In addition to normal seasonal fluctuations, these factors included large international transactions affecting reserves; a sharp, although temporary, decline in Treasury balances at Reserve Banks before the September 18 payment date for corporate taxes; and the adoption of new methods for calculating required reserves of member banks under the revision of Regulation D that became effective on September 12.[1]

With respect to the last of these factors, the introduction of a 2-week lag in the deposit balances used for calculating required reserves, at a time when deposits were rising seasonally, had the effect of temporarily reducing required reserves and increasing excess reserves considerably relative to the levels that would have obtained under the prior procedures, thus necessitating offsetting open market operations. In addition, operations were complicated by uncertainties as to how member banks would react—particularly during a transition period—to this and the other changes in procedures, including the new carryover provisions for reserve excesses and deficiencies. The effects of the carryover provisions on reserve-management practices of banks were expected to have the incidental consequence of weakening the short-run relationship between marginal reserves—that is, free or net borrowed reserves—and the other measures used to assess money market conditions. As it turned out, net borrowed reserves increased on the average in the 3 weeks beginning September 12; average borrowings by member banks declined to about $475 million from $520 million in the preceding 4 weeks, but excess reserves declined more.

Yields on both short- and long-term Treasury securities, like day-to-day money market rates, moved down after mid-September and then rose again—changing little on balance during the

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[1] Under Regulation D, as amended effective Sept. 12, 1968, all member banks are required to meet their daily-average reserve requirements on a weekly basis; previously, a biweekly settlement period had been employed for country banks. In addition, required reserves are calculated on the basis of average deposits 2 weeks earlier rather than on the basis of average deposits in the current settlement period. Similarly, the vault cash component of the total reserves maintained by banks is recorded with a 2-week lag. Also, member banks are permitted to carry forward into the next reserve week excesses, as well as deficiencies, in reserve requirements averaging up to 2 per cent of required reserves, except that any portion of such excesses or deficiencies not offset in the next week may not be carried forward into later weeks.

period since the preceding meeting of the Committee. The market rate on 3-month Treasury bills, for example, fell from a high of 5.30 per cent reached before mid-September to 5.09 per cent late in the month and then advanced; on the day before this meeting it was 5.26 per cent, 2 basis points above its level 4 weeks earlier.

The initial downward pressures on Treasury security yields were reinforced by expectations of a reduction in the 6½ per cent prime lending rate of banks that had prevailed since mid-April. The prime rate was reduced in late September, to 6¼ per cent by most banks and to 6 per cent by a few. Among the factors contributing to the subsequent upward pressures on Treasury security yields were the failure of the 6 per cent prime rate to become general, indications that economic conditions were stronger than had been expected, and increasing attention among market participants to forthcoming Treasury financing operations.

In private capital markets yields on new corporate bonds had been relatively stable in recent weeks, but yields on State and local government issues had declined considerably, mainly because of continued heavy acquisitions by commercial banks. At the close of the period, however, both corporate and municipal yields were rising again.

Conditions in markets for residential mortgages appeared to have eased slightly further in September. Net inflows of deposits to nonbank financial intermediaries increased only moderately in August, the latest month for which data were available. However, liquidity ratios at Federal savings and loan associations declined markedly in both July and August after the Federal Home Loan Bank Board reduced minimum liquidity requirements, and this development helped to sustain mortgage lending activity by such associations.

Time and savings deposits at commercial banks, which had grown rapidly in July and August, expanded substantially again in September. Inflows of consumer-type deposits increased further, and the outstanding volume of large-denomination CD's declined less than seasonally despite moderate reductions in offering rates on all CD's except those of short maturity. Private demand deposits and the money supply declined; on balance the money supply had not increased since the first week of July, after rising substantially in preceding months.

Growth of business loans at banks slowed in September. Although banks' holdings of municipal securities expanded considerably further, their holdings of Treasury securities were about unchanged—in contrast to the two preceding months when banks had been heavy buyers of securities offered in Treasury financings. Total bank credit, as measured by the bank credit proxy—daily-average member bank deposits—rose at an annual rate of about 9 per cent in September, compared with a rate of more than 21 per cent in August. Allowance for changes in the daily average of U.S. bank liabilities to foreign branches would have served to increase the growth rate by about 1.5 percentage points in September and 0.5 of a percentage point in August.

Bank credit growth was expected to accelerate somewhat in October as a result of the anticipated cash financing by the Treasury. The latest staff projections suggested that the bank credit proxy would expand at an annual rate of 10 to 13 per cent if the conditions in money and short-term credit markets that had prevailed on the average since the Committee's preceding meeting were maintained. This projection assumed that the Treasury would offer $3.5 billion of tax-anticipation bills for payment in the latter part of the month and that commercial banks initially would acquire the bulk of the offering. Slower growth of bank credit was projected for November, when the Treasury was not expected to raise new cash. The October projection allowed for some moderation in the rate of expansion in time and savings deposits and for little growth in private demand deposits. A small increase in the money supply, reflecting mainly an expansion in currency, was anticipated.

The Committee was divided in its views on the appropriate course for monetary policy under current circumstances, with a majority favoring no change and a minority advocating at least a slight increase in monetary restraint. The majority was opposed to greater restraint at present primarily because it continued to expect the rate of expansion of consumer spending and of economic activity in general to slow down as the effects of the recent fiscal restraint measures were increasingly felt. The fact that the Treasury would be undertaking a major refunding operation before the Committee's next meeting also was cited as a consideration militating against a change in policy at this time.

The Committee concluded that open market operations should be directed at maintaining the conditions in money and short-term credit markets that had prevailed on the average in the period since the preceding meeting, on the understanding that operations would not be undertaken to offset any moderate upward pressures on Treasury bill rates that might develop. The proviso was added that operations should be modified, insofar as the forthcoming Treasury refunding permitted, if the rate of bank credit expansion appeared to be significantly in excess of current projections.

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

The information reviewed at this meeting suggests that over-all economic expansion has moderated, although less than projected, from its very rapid pace earlier in the year, but upward pressures on prices and costs are persisting. Most market interest rates have changed little on balance in recent weeks. Bank credit and time and savings deposits expanded rapidly this summer, but the money supply has shown no net growth since July after rising substantially for several months. The earlier improvement in the U.S. balance of payments was not maintained in August and September, according to preliminary indications, and the foreign trade balance and underlying payments position continue to be matters of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable economic growth, continued resistance to inflationary pressures, and attainment of 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 about the prevailing conditions in money and short-term credit markets; provided, however, that operations shall be modified, to the extent permitted by the forthcoming Treasury refunding operation, if bank credit expansion appears to be significantly exceeding current projections.

> Votes for this action: Messrs. Martin, Brimmer, Daane, Galusha, Maisel, Mitchell, Morris, Robertson, and Sherrill. Votes against this action: Messrs. Hayes, Hickman, and Kimbrel.

Messrs. Hayes, Hickman, and Kimbrel dissented from this action because they thought that the rates of bank credit growth recorded in recent months and the rate projected for October were excessive, particularly in light of the persisting inflationary pressures and the unexpected strength in the economy. Accordingly, they favored seeking money market conditions somewhat firmer than those advocated by the majority, to the extent the Treasury refunding operation permitted.

2. Amendment to authorization for System foreign currency operations.

At its meeting on March 14, 1968, the Committee had authorized the Special Manager to undertake negotiations looking toward increases, up to specified limits, in a number of the System's reciprocal currency arrangements, on the understanding that any such enlargements—and the corresponding amendments to paragraph 2 of the authorization for System foreign currency operations—would become effective upon a determination by Chairman Martin that they were in the national interest. As indicated in the policy record for March 14, the Chairman had made the indicated determination for certain of these arrangements on March 17.

Among the arrangements covered by the Committee's action of March 14 was that with the Bank of Italy, for which negotiations looking toward an increase of up to $250 million equivalent had been authorized. Recently these negotiations had been successfully completed, and on the day of this meeting Chairman Martin determined that an increase in the swap arrangement with the Bank of Italy from $750 million to $1 billion equivalent was in the national interest. Accordingly, the corresponding amendment to paragraph 2 of the authorization for System foreign currency operations became effective on October 8, 1968.

MEETING HELD ON OCTOBER 29, 1968

Authority to effect transactions in System Account.

The expansion in real GNP moderated somewhat in the third quarter, according to preliminary Commerce Department estimates. The amount of slowing—to an annual rate of about 5 per cent, from more than 6 per cent in the first half of the year—was less than had been implied by recent staff projections. New projections presented at this meeting suggested that the expansion would moderate somewhat further in the fourth quarter and would continue to slow in the first half of 1969.

The strong performance of the economy in the third quarter was attributable largely to a substantial increase in consumer spending. Growth in disposable income was sharply curtailed by the tax surcharge, so the rise in consumer spending was associated with a large decline in the rate of personal saving; indeed, the decline in the saving rate was one of the largest in nearly a decade. In addition, business outlays on plant and equipment increased substantially after moving down in the second quarter, and Federal outlays expanded further, although at a considerably slower rate than earlier in the year.

Retail sales in October were remaining close to the advanced level of the summer months, according to available weekly figures. Output of steel, which had been cut back sharply following the late-July wage settlement in that industry, turned up in early October, and the industrial production index for October was tentatively estimated to have risen slightly after declining for 2 months. In September nonfarm employment expanded only moderately, and the unemployment rate edged up to 3.6 per cent from 3.5 per cent in August. Labor markets remained firm, however, and wage rates continued under strong upward pressure.

Average prices of industrial commodities, which had increased appreciably in September following several months of little change, rose substantially further in October. In both months the advance encompassed a broad range of commodities. The over-all wholesale price index was unchanged in October, however, as prices of farm products and foods fell by about as much as they had risen in the preceding month. The consumer price index increased moderately in September.

Conditions in foreign exchange markets had improved in the latter part of September when speculation on an imminent revaluation of the German mark abated, and the markets remained quiet in October. The exchange rate for sterling had been firm in recent weeks. Although the exchange rate for the French franc remained at or close to its lower support limit, selling pressures against the franc appeared to have moderated considerably.

The surplus on U.S. merchandise trade in the third quarter was somewhat above the very low levels of the first two quarters of the year, with part of the improvement reflecting an acceleration of exports in anticipation of a possible strike of longshoremen on October 1. New estimates of over-all payments flows suggested that the balance on the liquidity basis was less unfavorable in September than had been thought earlier and that the deficit was smaller in the third quarter as a whole than previous estimates had indicated. However, fragmentary data for early October suggested renewed deterioration. The latest estimates of the balance on the official settlements basis still indicated a moderate surplus in the third quarter, mainly as a result of a further rise in borrowings of U.S. banks through their foreign branches.

On October 17 the Treasury auctioned $3 billion of tax-anticipation bills due in June 1969. Bidding in the auction was aggressive, in part because the offering coincided with widespread reports that a halt in the bombing of North Vietnam was imminent. On October 23 the Treasury announced that in exchange for securities maturing in mid-November and mid-December, of which about $5.6 billion were held by the public, it would offer 2 notes—a new 18-month, 5⅝ per cent note priced to yield 5.73 per cent, and a reopened 6-year, 5¾ per cent note priced at par. It was expected that the Treasury would auction additional tax-anticipation bills for payment in late November or early December mainly to compensate for cash redemptions in connection with the current refunding.

Interest rates on most types of market securities had risen on balance in recent weeks, although yields had fluctuated in response to shifting prospects for the de-escalation of hostilities in Vietnam. Both short- and long-term markets were influenced by continuing reports indicating that economic expansion was vigorous despite the recent fiscal legislation, and by the associated expectations that a firmer monetary policy might be required to resist inflationary pressures. In short-term markets yields increased on finance company and commercial paper, bankers' acceptances, and Treasury bills; the market rate on 3-month Treasury bills, at 5.46 per cent on the day before this meeting, was 20 basis points above its level of 3 weeks earlier. Contributing to the upward pressures on long-term rates were the large volume of new corporate security offerings and the record amount of State and local government issues in October, as well as the Treasury refunding.

In markets for home mortgages, the gradual easing of conditions that had been under way since mid-June continued in September, although the increase in net deposit inflows to nonbank financial intermediaries was again moderate. After the first week of October, however, there were indications that conditions in the secondary market for mortgages were beginning to tighten again.

Time and savings deposits at commercial banks continued to expand rapidly in October, according to preliminary estimates. It appeared that inflows of consumer-type time and savings deposits had accelerated further. In addition, banks increased their offering rates on large-denomination CD's slightly—by about the amount they had reduced them in September—and the volume of CD's outstanding rose considerably. Private demand deposits and the money supply were estimated to have increased fairly rapidly from September to October—the money supply at an annual rate of about 7 per cent—after changing little on balance since the first week of July.

Business loan demands at commercial banks were relatively strong in October, and banks continued to add to their holdings of municipal securities at a substantial pace. Total bank credit, as measured by the bank credit proxy—daily-average member bank deposits—was estimated to have increased at an annual rate of about 12 per cent in October, compared with 9 per cent in September. Allowance for changes in the daily average of U.S. bank liabilities to their foreign branches would have reduced the October growth rate by about one-half of a percentage point and increased the rate for September by about 1.5 percentage points.

System open market operations in the period since the preceding meeting of the Committee had initially been directed at maintaining about the prevailing conditions in the money and short-term credit markets. Later, however, some slight firming of conditions had been permitted, within the limitations imposed by the current Treasury refunding, because estimates from time to time indicated that bank credit was expanding at a rate at or above the upper end of the projected range (after some downward revision of the projection to allow for a smaller Treasury offering of tax-anticipation bills than had been assumed). The System had carried out relatively large operations, alternately absorbing and supplying reserves, to cope with sizable fluctuations in market factors affecting reserves and with pressures generated by continuing member bank adjustments to the new reserve computation procedures that had become effective on September 12. In recent weeks the effective rate on Federal funds had fluctuated mostly in a range of 5¾ to 6⅛ per cent. Member bank borrowings averaged about $425 million in the 2 weeks ending October 23, down slightly from the average of $455 million in the preceding 4 weeks. Excess reserves declined more on the average, however, and net borrowed reserves increased.

New staff projections suggested that, if prevailing conditions in money and short-term credit markets were maintained, the bank credit proxy would expand at an annual rate of 9 to 12 per cent in November and more slowly in December. The projections, which assumed that the Treasury would offer $2.5 billion of tax-anticipation bills for payment in the last week of November, were subject to revision if the size or timing of the offering were different. It was expected that business loan demand would remain fairly strong in November and that banks would continue to acquire municipal securities at a rapid pace. Prospects favored slower growth in the volume of large-denomination CD's outstanding and in total time and savings deposits at commercial banks, but it appeared likely that the money supply would increase at a rate equal to or slightly above that estimated for October.

The Committee agreed that the current Treasury refunding precluded a change in monetary policy at this time. Some members indicated that in the absence of the Treasury financing they would have favored seeking somewhat firmer money market conditions, on the grounds that recent and prospective rates of bank credit growth were excessive in light of prevailing inflationary pressures. Some other members expressed the view that an increase in monetary restraint was not warranted at present even apart from the financing. While recognizing the uncertainties in the outlook, they believed the most likely prospect at the moment was that the economic advance would slow sufficiently under the current stance of stabilization policies.

The Committee concluded that open market operations should be directed at maintaining about the prevailing conditions in money and short-term credit markets, with the proviso that operations should be modified, insofar as the Treasury financing permitted, if bank credit growth appeared to be in excess of current projections. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that over-all economic expansion has moderated somewhat from its very rapid pace earlier in the year, although less than projected, and that upward pressures on prices and costs are persisting. Market interest rates have risen in recent weeks. Bank credit and time and savings deposits have continued to expand rapidly, but savings inflows to thrift institutions have remained moderate. The money supply, after growing little on balance during the summer, has increased in recent weeks. The U.S. foreign trade balance and underlying payments position continue to be matters of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable economic growth, continued resistance to inflationary pressures, and attainment of 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 about the prevailing conditions in money and short-term credit markets; provided, however, that operations shall be modified, to the extent permitted by the Treasury financing, if bank credit expansion appears to be exceeding current projections.

Votes for this action: Messrs. Martin, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Morris, Robertson, and Sherrill. Vote against this action: Mr. Hayes.

In dissenting from this action, Mr. Hayes said he agreed that the current Treasury refunding precluded any substantial change in monetary policy. He thought, however, that the implications of the prevailing inflationary pressures for the domestic economy and the balance of payments were sufficiently serious to warrant seeking whatever degree of firming in money market conditions would be consistent with the Treasury financing—however slight that might be—in an effort to slow bank credit growth from a rate he considered excessive.

MEETING HELD ON NOVEMBER 26, 1968

1. Authority to effect transactions in System Account.

The information reviewed at this meeting suggested that the expansion in over-all economic activity, while still strong, was moderating somewhat further in the fourth quarter from its very rapid pace earlier in the year. In particular, retail sales in October were no higher than they had been in August—suggesting that the surge in consumer spending was subsiding—and the rise in Federal expenditures was estimated to be slackening further. Staff projections implied that the rate of economic expansion would continue to moderate in the first half of 1969.

Recent data of various kinds indicated that the expansion was still strong. Industrial production, which was now reported to have turned up in September, advanced again in October, and new orders for durable goods increased sharply. Nonfarm payroll employment rose more in October than in other recent months, and the unemployment rate continued at the September level of 3.6 per cent. According to a private survey taken in October, businesses planned to increase their outlays on new plant and equipment in 1969 by about 8 per cent, or more than the rise currently estimated for 1968.

Average prices of industrial commodities increased slightly in November after advancing at a substantial rate in the two preceding months. In contrast, the consumer price index—which had increased only moderately in September—rose sharply in October. With labor markets remaining firm, sizable further advances in average hourly earnings were widespread among industries.

Foreign exchange markets were in turmoil during most of November. Speculative buying of German marks revived on a large scale in early November in response to renewed rumors of an imminent revaluation. Selling pressure on the French franc intensified, and sterling was also subject to pressure, particularly after the publication of figures indicating that the British foreign trade deficit had increased somewhat in October.

On November 19 the German Government announced that the mark would not be revalued, but that in order to reduce the German trade surplus the value-added tax rebate would be decreased by 4 percentage points for merchandise exports and the border tax would be reduced by 4 percentage points for most imports. The Finance Ministers and central bank Governors of the Group of Ten met at Bonn November 20 through 22. New credit facilities totaling $2 billion were made available to France, and the German authorities increased to 100 per cent the reserve requirements on additions to German commercial bank liabilities to foreigners.

On November 23, contrary to the expectations of many observers, the French Government announced that the franc would not be devalued, and on the following day President de Gaulle outlined the policy measures that would be adopted. In addition to the reimposition of exchange controls, these measures included a sizable reduction in French budget expenditures, a more restrictive policy toward wage and price increases, and changes in the tax system to favor exports and deter imports. Earlier, on November 13, the Bank of France had increased its discount rate from 5 to 6 per cent and had announced measures to limit the expansion of bank credit.

The British Government on November 22 announced new actions to restrain domestic demand and to improve the balance of payments. These included a 10 per cent surcharge on existing purchase and excise taxes; requirement of 6-month non-interest-bearing deposits equal to 50 per cent of the value of imports of most manufactured goods; and tighter ceilings on bank loans to the private sector.

Official estimates of the U.S. balance of payments indicated that there had been a small surplus in the third quarter on the liquidity basis of calculation, following a moderate deficit in the second quarter. Special official transactions operating to reduce the deficit remained large, but were not so large as in the second quarter. The trade surplus, although still quite small, was larger than in the first two quarters of the year; this resulted partly from acceleration of shipments in September in anticipation of a possible strike of longshoremen on October 1. Available data for October and the first 2 weeks of November suggested that a sizable deficit on the liquidity basis had again emerged.

Official data confirmed the earlier expectation that a moderate payments surplus had been recorded in the third quarter on the official settlements basis, largely because of a further increase in borrowings of U.S. banks through their branches abroad. The outstanding volume of such borrowings changed little after mid-September, however, and in October the balance on the official settlements basis probably was in deficit.

In its November refunding the Treasury offered 2 notes in exchange for securities maturing in mid-November and mid-December. Of the $5.6 billion of these issues held by the public, $2.5 billion were exchanged for a new 18-month, 5⅝ per cent note (priced to yield 5.73 per cent), and $1.3 billion were exchanged for a reopened 6-year, 5¾ per cent note (priced at par). On November 19 the Treasury announced that it would auction $2 billion of tax-anticipation bills due in June, for payment on December 2, mainly to raise cash to redeem the $1.8 billion of maturing securities not exchanged in the November refunding. This offering was expected to be the Treasury's last financing in the calendar year, and its size was near the lower end of the range that had been anticipated by market participants.

With the Treasury refunding under way, recent System open market operations had been directed at maintaining generally steady conditions in money and short-term credit markets. Operations were complicated, however, by shifts in the distribution of reserves—first away from banks in the money centers and then back again—and by the effects on total reserves of a sharp decline in Treasury balances at the Federal Reserve Banks and of large-scale international transactions. The effective rate on Federal funds was 6 per cent or higher on most days in the first half of November, but it subsequently fluctuated around 5¾ per cent. Member bank borrowings averaged about $520 million in the 4 weeks ending November 20, above the average of about $450 million in the preceding 4 weeks. Excess reserves also increased on the average but less than borrowings, and net borrowed reserves were slightly larger.

Yields on Treasury, corporate, and State and local government bonds had risen further in recent weeks, partly because of continuing heavy demands on the capital markets. The volume of corporate and municipal bond offerings in November, while less than in October, was relatively large. The upward rate pressures also reflected cautious attitudes on the part of investors, against the background of indications of strength in the economy, widespread expectations of inflation, and growing anticipations of a firmer monetary policy. On the other hand, there was relatively little reaction in capital markets to either the late-October announcement of a halt in the bombing of North Vietnam or the recent turbulence in foreign exchange markets.

Interest rates on various types of short-term instruments also had risen recently, in response to some of the same factors affecting longer-term rates as well as to seasonal pressures. However, there was little net change in yields on shorter-term Treasury bills, the market supplies of which had become limited at a time of strong domestic and foreign demands. The market rate on 3-month Treasury bills, at 5.42 per cent on the day before this meeting, was 4 basis points below its level of 4 weeks earlier.

Net inflows of deposits to nonbank financial intermediaries again increased only moderately in October. Yields on home mortgages in the secondary market, which had been declining for several months, edged up in October and apparently also in the first half of November.

Rates paid by banks on large-denomination CD's also had advanced further in recent weeks. Most banks were now paying the Regulation Q ceiling rate of 6 per cent on certificates with maturities of 90 to 179 days, and some reportedly were paying the 6¼ per cent ceiling rate on longer-term certificates. According to tentative estimates, growth from October to November in the volume of outstanding CD's, and of other time and savings deposits as well, was slower than it had been in other recent months. On the other hand, the expansion in private demand deposits and the money supply accelerated—the latter to an estimated annual rate of more than 10 per cent, the highest since July. Bank credit, as measured by the proxy series—daily-average member bank deposits—was tentatively estimated to have increased from October to November at an annual rate of 10.5 per cent, compared with 12.5 per cent from September to October. In mid-November prime lending rates were raised to the generally prevailing level of 6¼ per cent by the few large banks that had reduced such rates from 6½ to 6 per cent in late September.

Staff projections suggested that the bank credit proxy would increase from November to December at an annual rate of 5 to 8 per cent if prevailing conditions were maintained in money and short-term credit markets. The projections assumed that the volume of large-denomination CD's outstanding would decline seasonally and that growth in other time and savings deposits would slow somewhat further. An anticipated reduction in the average level of U.S. Government deposits was expected to contribute to expansion in private demand deposits and the money supply at a rapid rate, although not so rapid as in November.

Committee members differed in their views on the appropriate course for monetary policy under current circumstances, with a minority favoring operations directed at attaining somewhat firmer money market conditions. The majority thought that, although it would be advisable to resist any easing of money market conditions that might be produced by market forces, a shift to a firmer policy stance was not warranted at this time.

Members of the majority shared the concern expressed about the persistence of inflationary pressures, and some indicated that they had found the question of appropriate policy to be close. On balance, however, they believed that domestic economic considerations did not suggest a clear and unequivocal need for a firmer policy at present. In their judgment, despite the unexpected strength of the economy since enactment of fiscal restraint legislation at midyear, evidences of slowing in the rate of expansion were likely to become more pronounced in coming months. Other considerations cited as militating against a policy change at present were the recent turbulence and the continuing uncertainties in foreign exchange markets, and the fact that in financial markets the peak seasonal pressures of the year were to be expected in the period just ahead. Several members expressed the view that a slight firming of policy at this time would not be effectual in combatting the prevailing inflationary psychology, and that a more marked firming would be undesirable on the other grounds cited.

The Committee concluded that open market operations should be directed at maintaining about the prevailing conditions in money and short-term credit markets, with the proviso that operations should be modified if bank credit expansion appeared to be exceeding current projections. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that the expansion in over-all economic activity, while still strong, is moderating somewhat further from its very rapid pace earlier in the year. Upward pressures on prices and costs are persisting. Most market interest rates have risen further in recent weeks. Bank credit has continued to expand rapidly. Growth in the money supply has accelerated from the low average rate of recent months, while expansion in commercial bank time and savings deposits has slowed.

Savings inflows to thrift institutions increased somewhat further in October but remained moderate. Following discussions among leading industrial countries, France, Germany, and Britain have acted to combat the recent speculation in their currencies by taking steps designed to reduce imbalances in their external payments. The U.S. foreign trade balance and over-all balance of payments improved in the third quarter but partial data for recent weeks suggest that the improvement is not being sustained, and the underlying U.S. payments position remains a serious problem. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable economic growth, continued resistance to inflationary pressures, and attainment of 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 about the prevailing conditions in money and short-term credit markets; provided, however, that operations shall be modified if bank credit expansion appears to be exceeding current projections.

> Votes for this action: Messrs. Martin, Brimmer, Daane, Galusha, Maisel, Mitchell, Robertson, and Sherrill. Votes against this action: Messrs. Hayes, Hickman, Kimbrel, and Morris.

In dissenting from this action, Messrs. Hayes, Hickman, Kimbrel, and Morris indicated that they favored seeking somewhat firmer money market conditions in an effort to slow the rate of bank credit growth, which in their view had been excessive for several months. They thought such action was required in light of prevailing inflationary pressures and expectations. In their judgment, the latest information on the domestic economy lent support to the view that the rate of expansion, while perhaps moderating somewhat in coming months, was likely to remain excessive under the current stance of fiscal and monetary policies. The view also was expressed that a firmer monetary policy was desirable to help maintain the strength of the dollar in foreign exchange markets.

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

The Committee ratified an action taken by members on November 22, 1968, effective on that date, to increase the System's swap arrangement with the Bank of France from $700 million to $1 billion, equivalent, and to make the corresponding amendment to paragraph 2 of the authorization for System foreign currency operations. As a result of this action, paragraph 2 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	225
Bank of Canada	1,000
National Bank of Denmark	100
Bank of England	2,000
Bank of France	1,000
German Federal Bank	1,000
Bank of Italy	1,000
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	400
Bank of Norway	100
Bank of Sweden	250
Swiss National Bank	600

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Bank for International Settlements:	
System drawings in Swiss francs	600
System drawings in authorized European currencies other than Swiss francs	1,000

Votes for ratification of this action: Messrs. Martin, Hayes, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Morris, Robertson, and Sherrill. Votes against ratification of this action: None.

This increase in the Federal Reserve swap line with the Bank of France represented part of the U.S. share of the $2 billion in new credit facilities to France that had been announced in Bonn on November 22, following the meeting of the Finance Ministers and central bank Governors. In addition, the U.S. Treasury made a $200 million credit facility available to France, so total U.S. participation in the new facilities was $500 million.

MEETING HELD ON DECEMBER 17, 1968

Authority to effect transactions in System Account.

The current rate of expansion in over-all economic activity was significantly higher than had been projected earlier, according to a broad variety of economic information that had become available since the preceding meeting of the Committee. New staff projections suggested that GNP in current-dollar terms would increase about as rapidly in the fourth quarter as it had in the third. Average prices, as measured by the "GNP deflator," were estimated to be rising at a faster pace again in the fourth quarter, and growth in real GNP was expected to moderate somewhat further from the very high rates recorded in the first two quarters of the year. Expectations of continued inflationary pressures appeared to be widespread.

The staff projections of GNP in both the fourth and first quarters had been revised upward from those of 3 weeks earlier largely because of the indication, from the Commerce–SEC survey of business plans taken in November, that outlays on new plant and equipment were rising sharply. Other evidences of strength in the current business situation were reflected in November data on production, employment, and retail sales. A sizable further advance in industrial production in November brought the index above the previous high recorded in July, when output of steel had been substantially larger. Nonfarm payroll employment again rose sharply, and the unemployment rate declined to 3.3 per cent—its lowest level in 15 years—from 3.6 per cent in October. Average hourly earnings continued to advance at the rapid pace of recent months. Retail sales, according to the advance estimate, rose in November after edging down in September and October. It appeared, however, that consumer expenditures would expand considerably less in the fourth quarter as a whole than they had in the third quarter.

The staff projections still implied that the rate of increase in real GNP would moderate considerably in the first half of 1969, partly because of a marked swing from deficit to surplus that was already under way in the Federal fiscal position. In addition, it was expected that expansion in consumer expenditures would slow further as a result of slackened growth in disposable income and that the increase in residential construction outlays would be limited by tight conditions in mortgage markets. Against the background of prospects in these sectors, the resurgence of business capital outlays and the report that inventories had risen markedly in October suggested that imbalances could be developing in the economy as a result of inflationary expectations.

In foreign exchange markets, earlier speculative movements of funds were partly reversed following the actions taken in late November by Germany, France, and Britain to reduce imbalances in their external payments. The pound was again subject to selling pressure in early December, however, and the market for sterling remained uneasy even after publication of figures indicating that Britain's foreign trade balance had improved sharply in November.

Available information on the U.S. balance of payments in October and November suggested that sizable deficits had again emerged on both the liquidity and official settlements bases of calculation, following the surpluses—small in the case of the liquidity balance—that had been recorded in the third quarter. Since mid-September there had been relatively little net change in borrowings by U.S. banks through their foreign branches; in the spring and summer, increases in such borrowings had resulted in the payments surpluses recorded then on the official settlements basis. U.S. merchandise exports declined sharply in October after rising considerably in September in anticipation of a longshoremen's strike on October 1. Imports also declined in October, but more moderately than exports; for September and October together there was a small surplus in U.S. foreign trade. With the current Taft-Hartley Act injunction against the strike scheduled to expire on December 20, continued marked fluctuations in monthly foreign trade figures appeared likely.

In late November the Treasury auctioned $2 billion of tax-anticipation bills due in June 1969, for payment on December 2. Banks, which were allowed to pay for the bills through credits to Treasury tax and loan accounts, successfully bid for the bulk of the issue. Despite this cash financing, however, Treasury cash balances at banks were drawn down to very low levels prior to the quarterly corporate tax date in mid-December, and the Treasury temporarily replenished its balances in the period December 10–17 by selling special certificates of indebtedness to the Federal Reserve. The volume of such certificates outstanding was $92 million on December 10, none on December 11, $45 million on December 12, $430 million from December 13 through 15, $447 million on December 16, and $596 million on December 17. (Certificates outstanding on December 17 were redeemed the following day.)

Interest rates on market securities of all maturities had risen sharply further in recent weeks as the steady stream of statistics reflecting strength in the economy heightened concern about inflationary pressures and enhanced expectations of a firmer monetary policy. Increases in yields were particularly rapid in early December after commercial banks increased their prime lending rates from 6¼ per cent to the 6½ per cent level that had prevailed before the reductions of late September. Yields on most long-term securities rose to levels above the peaks that had been reached in the spring, and unsettled conditions in the capital markets led to the postponement or cancellation of a number of scheduled corporate and municipal bond offerings. Conditions in the secondary market for home mortgages continued to tighten in early December.

In markets for short-term securities, yield advances were particularly pronounced for Treasury bills; on the day before this meeting the market rate on 3-month bills was 5.94 per cent, 52 basis points above its level of 3 weeks earlier. Upward pressures on bill yields were augmented by seasonal forces, sales of bills by foreign monetary authorities, and sales by domestic commercial banks of tax-anticipation bills they had acquired in the Treasury's recent auction.

Rates paid by commercial banks on large-denomination CD's of longer maturity had increased further in recent weeks, and most large banks were now paying the Regulation Q ceiling rates for all maturities. The volume of CD's outstanding rose substantially in November, particularly after midmonth. Largely as a consequence, the expansion in total time and savings deposits from October to November was more rapid than earlier tentative estimates had indicated, although somewhat less rapid than in other recent months.

Estimates of November growth rates also had been revised upward somewhat for bank credit, as measured by the proxy series—daily-average member bank deposits—and for the money supply; both were now estimated to have increased from October to November at an 11.5 per cent annual rate. Since midyear, bank credit and the money supply had expanded at annual rates of about 13 and 6 per cent, respectively, compared with rates of about 4 and 6.5 per cent in the first half of the year. In November banks increased the volume of business loans outstanding considerably further and continued to acquire municipal securities at a rapid pace, while reducing their holdings of U.S. Government securities. To a large extent, the accelerated growth in the money supply in November reflected a rise in private demand deposits in the last half of the month, when U.S. Government deposits declined markedly.

System open market operations in the first part of the period since the Committee's preceding meeting were directed at maintaining about the prevailing conditions in money and short-term credit markets, and reserves were supplied partly in an effort to cushion the sharp reaction of short-term market interest rates to the rise in the prime rate. Operations subsequently were shifted in the direction of reserve absorption when market factors began to supply a large volume of reserves and when estimates indicated that bank credit was expanding at a rate in excess of the range projected at the time of the previous meeting. These operations were tempered, however, in view of the continuing increases in short-term rates. During the period as a whole, the effective rate on Federal funds fluctuated mostly in a range of 5¾ to 6 per cent. Member bank borrowings averaged $515 million in the 3 weeks ending December 11, little changed from the previous 4 weeks. With excess reserves lower on the average, net borrowed reserves rose in the period.

New staff projections suggested that if prevailing conditions in money and short-term credit markets were maintained, on balance, the bank credit proxy would expand at an annual rate of 8 to 11 per cent from November to December and at a rate of 4 to 7 per cent from December to January. Given the current relationships between short-term interest rates and Regulation Q ceiling rates, it was expected that banks would experience a larger-than-seasonal run-off of CD's in December and a contraseasonal run-off in January, and that inflows of consumer-type time and savings deposits would begin to moderate. Growth in the money supply was expected to slow considerably in December—and perhaps to taper off further in January, particularly if demands for business loans were reduced.

An alternative projection suggested that a firming of money market conditions would have relatively little effect on bank credit growth in December but would result in a slower rate of growth in January—an annual rate of perhaps 2 to 5 per cent—mainly as a result of a larger run-off of CD's. For purposes of the projections it was assumed that the Treasury would not engage in any new cash borrowing through the end of January.

Prior to this meeting the boards of directors of nine Federal

Reserve Banks had acted, subject to the approval of the Board of Governors, to increase discount rates from the present level of 5¼ per cent. It was reported to the Committee that the Board of Governors planned shortly after this meeting to take action with respect to discount rates and also to consider the desirability of a moderate increase in member bank reserve requirements.

The Committee was unanimously of the view that greater monetary restraint was required at this time in light of the unexpected strength of current economic activity, the persistence of inflationary pressures and expectations, and the recent rapid rate of growth in bank credit. The members agreed that one element of the shift to greater monetary restraint should be a firmer open market policy. There also was general sentiment at the meeting that discount rates should be increased, although there were some differences of view with respect to the amount; and divergent opinions were expressed about the desirability of action now to raise reserve requirements.

A number of members expressed the view that the combination of a firmer open market policy and an increase of one-quarter of a percentage point in discount rates would be appropriate to the current economic situation. Some of these members added that, while additional measures could be taken later if deemed necessary, various considerations—including the continuing uncertainties with respect to foreign exchange markets, as well as the sensitive state of conditions in domestic financial markets with the attendant risks of unduly large market reactions—militated against also increasing reserve requirements at this time or raising discount rates by as much as one-half point. The basic argument advanced by those who favored a broader combination of policy actions now was that more limited actions were likely to be inadequate to dampen the prevailing inflationary psychology, particularly since it appeared that an increase of at least one-quarter point in the discount rate was already widely anticipated in financial markets.

At the conclusion of the discussion the Committee agreed that open market operations should be directed at attaining firmer conditions in money and short-term credit markets, while taking account of the effects of any other monetary policy actions that might be taken. The proviso was added that operations should be modified if bank credit expansion appeared to be deviating significantly from current projections. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that over-all economic activity is expanding rapidly and that upward pressures on prices and costs are persisting. Market interest rates have risen considerably further in recent weeks. Bank credit growth has been sustained by continuing strong expansion of time and savings deposits, while growth in the money supply has accelerated and U.S. Government deposits have declined. The U.S. foreign trade surplus remains very small and the over-all balance of payments apparently worsened in October and November. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to the reduction of inflationary pressures, with a view to encouraging a more sustainable rate of economic growth and attaining 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 firmer conditions in money and short-term credit markets, taking account of the effects of other possible monetary policy action; provided, however, that operations shall be modified if bank credit expansion appears to be deviating significantly from current projections.

Votes for this action: Messrs. Hayes, Brimmer, Daane, Galusha, Hickman, Kimbrel, Maisel, Mitchell, Morris, Robertson, and Sherrill. Votes against this action: None.

Absent and not voting: Mr. Martin.

Operations of the System Open Market Account

The following two reports describe the actions taken during 1968 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 275.

REVIEW OF OPEN MARKET OPERATIONS IN DOMESTIC SECURITIES

Open market operations during 1968 were conducted against a backdrop of manifold uncertainties. One of the most vexing was concerned with fiscal restraint—first, as to the likelihood of enactment of fiscal restraint measures, and later, as to the timing and extent of the impact of such measures on the economy. Such uncertainties, together with recurring international financial crises, not only complicated policy decisions but also gave rise to widespread expectational shifts that in turn exerted a strong influence on economic and financial developments.

Monetary policy, as it was carried out through open market operations, passed through four phases during the year. During the first 4 months it became increasingly restrictive as a Federal budget deficit continued to stimulate an already booming economy and as the dollar was under attack from abroad. Then in May and June open market operations maintained strong pressure on the banking system. This policy over the first half of this year served to slow the rate of growth in bank credit after February and contributed to a rise in interest rates to the highest levels reached in many years up to that time. With the passage of revenue and expenditure control legislation in late June, open market operations shifted to accommodating the tendency for short-term interest rates to decline as the prevailing expectation was that the pace of economic advance would slow. Beginning in late summer, however, it appeared that inflationary pressures were not subsiding as had been projected, and with bank credit growing rapidly, the System began to move back toward restraint in its open market operations—thus marking the fourth phase of monetary policy. In December it undertook to increase such restraint significantly in order to deal with the excessive demands and inflationary psychology that still marked the economy. Interest rates, which had already regained their May peaks, rose to new highs during the month.

Open market operations undertook to promote policy objectives by varying the degree of pressure on the banking system. The extent of this pressure was reflected in the rise of daily-average borrowing by member banks at their Reserve Banks from around $250 million in January to about $700 million in May–June, followed by an easing to about $550 million in July–September and then by a gradual rise to $750 million in December. The Federal funds rate traced a similar path, rising from around 4⅝ per cent in January to 6 to 6½ per cent in May–June; it then fell back to 5¾ to 6 per cent in late summer before rising above 6½ per cent in late December. Bank credit growth as measured by daily-average member bank deposits subject to reserve requirements—the bank credit proxy—slowed to a 4 per cent annual rate in the first half of the year but bounced back to a 13 per cent rate in the second half.

Open market operations involved outright purchases, sales, and redemptions of $19 billion of Treasury securities in 1968, not including the purchase and redemption of $775 million of special securities issued directly by the Treasury for brief periods. This represented a gain in dollar volume of 9 per cent over the 1967 total. But a much larger rise took place in the temporary provision and absorption of bank reserves through repurchase agreements and matched sale–purchase transactions. Almost $67.5 billion of such short-dated contracts were written and matured in 1968—a 77 per cent increase from the preceding year. This rise reflected the very extensive use of matched sale–purchase transactions to absorb reserves temporarily in large volume with a minimum impact on the Treasury bill market. The restrictive tenor of monetary policy during 1968 contributed to the more frequent use of this technique, especially in the last 4 months of the year when a move toward policy restraint was carried out alongside the introduction of new reserve-computation procedures, which altered established patterns of bank behavior and often tended to produce a temporary easing of money market conditions.

On balance, the System's holdings of Government securities rose by $3.8 billion in 1968, considerably less than the $4.8 billion increase of 1967. At the end of the year such holdings totaled $52.9 billion.

JANUARY 1-APRIL 30:
IN THE ABSENCE OF FISCAL RESTRAINT, MONETARY POLICY BECOMES INCREASINGLY RESTRICTIVE TO RESIST INFLATION

The economic and financial environment. As 1968 opened, overall economic activity was expanding at a rapid rate, and inflationary pressures were strong and were expected to persist. The President reiterated his call for a 10 per cent income tax surcharge both on January 1—in a message devoted largely to outlining restraints on the flow of U.S. capital abroad—and in the budget message. The proposal for an income tax surcharge ran into considerable opposition in the Congress, and its outcome remained in doubt throughout the period under review. The U.S. balance of payments continued in serious disequilibrium, with the trade balance becoming especially weak, and extraordinary speculation in the gold and foreign exchange markets precipitated an international financial crisis in March. Concerted actions by international monetary authorities—discontinuing operations of the London gold pool and establishing a two-tier gold market—again repelled the threat to the international monetary system. But the episode underscored the need for halting inflation in the United States.

Against this background the Federal Reserve System moved forcefully to resist inflationary pressures and to foster improvement in the Nation's balance of payments position. An increase in reserve requirements announced on December 27, 1967, made very clear to member banks the more restrictive thrust of monetary policy. Open market operations persistently increased the pressure on bank reserve positions over the first 4 months of 1968. Total member bank borrowings from the Federal Reserve rose from a daily average of $237 million in January to $683 million in April, while net reserve availability fell from net free reserves of $144 million to net borrowed reserves of $413 million. On March 15 and again on April 19 Federal Reserve discount rates were increased by ½ of a percentage point—bringing them to 5½ per cent, the highest level since 1929. Also on April 19, the Board of Governors raised ceiling rates under Regulation Q on large-denomination certificates of deposit to 5¾ per cent on those maturing in 60 to 89 days, 6 per cent on those maturing in 90 to 179 days, and 6¼ per cent on longer maturities. The ceiling on certificates maturing in 30 to 59 days remained at 5½ per cent, the rate previously applicable to all maturities. Open market operations both facilitated market adjustments to the higher rate levels and pressed for even firmer money market conditions.

The restraint exerted by monetary policy—interacting with the economy's credit demands—was accompanied by a steep rise in money market rates of interest and a pronounced slowing in the pace of bank credit expansion. The Federal funds rate rose from a range of 4½ to 4¾ per cent in January to 6 per cent, and briefly to 6¼ per cent, by the end of April (Chart 1). Rates posted by the major New York City banks on loans to Government securities dealers ("call loans" in charts) rose from around 4¾ percent in January to 6½ per cent in late April. Given the upward pull of financing costs, the rate on 3-month Treasury bills rose from about 5 per cent to 5½ per cent over this period in spite of the seasonal redemption by the Treasury of $5.5 billion of tax-anticipation bills maturing in March and April. Bank credit growth—as measured by the bank credit proxy—was at a seasonally adjusted annual rate of 4 per cent over the January–April period, compared with an increase of 11.7 per cent during all of 1967.

The slowdown of growth in bank credit over the interval reflected both a more-than-seasonal reduction in average Government deposits in March and April and a marked slowing in time deposit growth. Time deposits rose at an annual rate of only 6 per cent in the first 4 months of 1968, compared with 16 per cent over the year 1967. Higher short-term market interest rates at first reduced the growth in negotiable CD's and by March and April led to a contraction in the volume outstanding; other time and savings deposits also rose at a somewhat slower pace than in 1967. (Savings at other thrift institutions also grew at a more moderate pace.) The money supply—demand deposits adjusted and currency outside banks—increased at an annual rate of 5 per cent, seasonally adjusted, during the first 4 months of 1968, compared with 6.4 per cent for the year 1967.

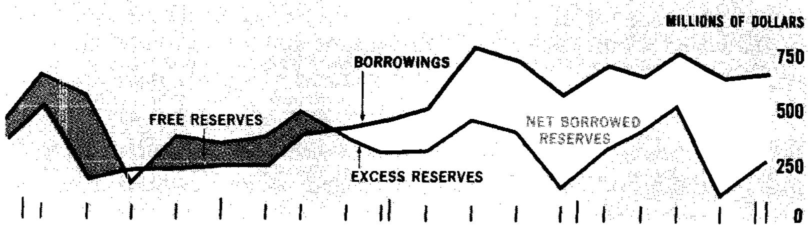
On the whole, bank loans grew at about the same rate during the first 4 months of 1968 as in 1967. Business loan demand was slightly below the 1967 pace, but consumer loans increased sharply. On the other hand, bank investments, in both Government and other securities, increased at a much slower rate than the rapid pace of 1967.

Short-term interest rates rose irregularly over the first 4 months and in fact worked temporarily lower in January. Banks, finding loan demand relatively moderate early in the year, were not aggressive in bidding for funds. However, they were able to extend the maturities on many CD's and to replace borrowings of Euro-dollars at declining rates. As money market rates rose under Federal Reserve pressure in February and March, rates on Treasury bills and CD's began to edge higher. During the mid-March gold crisis most Treasury bill rates advanced by 20 to 50 basis points while the rate on 3-month Euro-dollars rose by more than 1 percentage point to 7⅛ per cent for a few days. The acute tensions in short-term debt markets were relieved by various measures taken to alleviate the gold crisis. In late March the President's announcement of a partial halt of the bombing of North Vietnam also relieved market pressures.

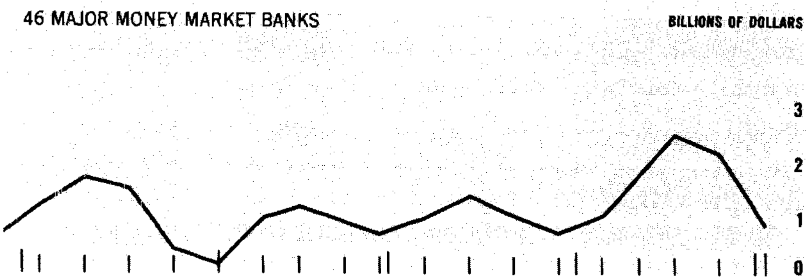
Nevertheless, the strong pressure exerted by increases in day-to-day money market rates and by expectations of a further tightening of monetary policy in the absence of fiscal restraint led to a renewed rise in short-term rates. The banks experienced

1. DECEMBER 27, 1967 - MAY 1, 1968

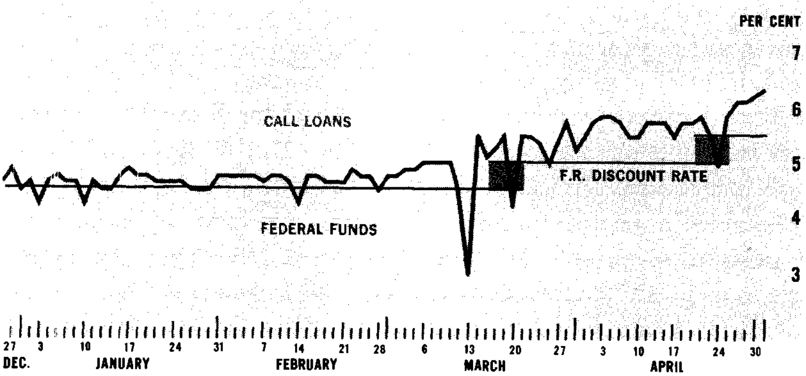
Reserves and borrowings



Basic reserve deficit

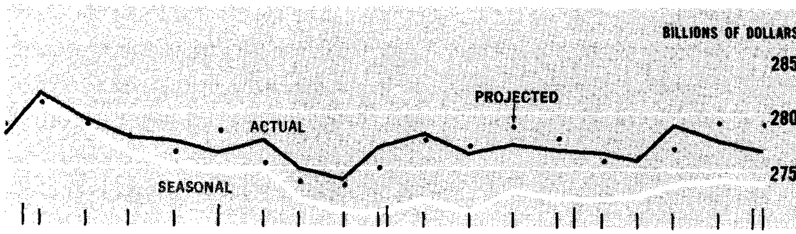


Money market rates

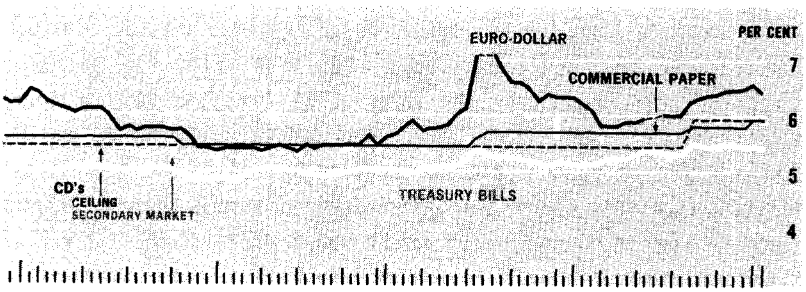


Money market rates: Federal funds, daily effective rate; call loans, daily range on new loans to U.S. Govt. securities dealers posted by New York City banks. *Bank credit proxy:* projection was made 4 weeks earlier. *Short-term rates:* bid rate on 3-month Euro-dollars; secondary market rate and Regulation Q ceiling on 3-month CD's; daily bid rate on 3-

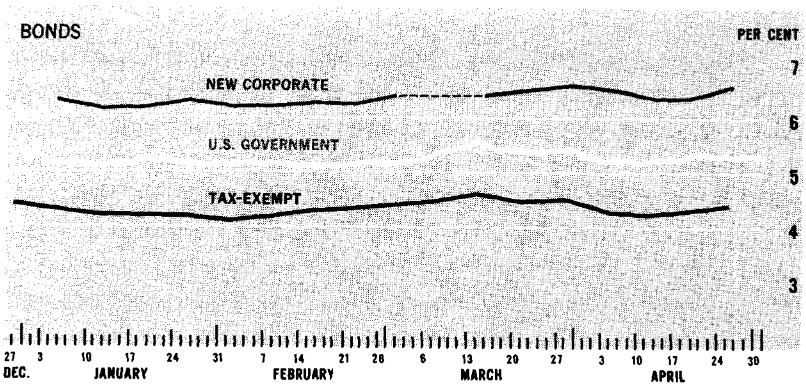
Bank credit proxy



Other short-term rates



Long-term rates



month Treasury bills; and offering rate on 4- to 6-month commercial paper. *Long-term rates:* corporate bonds, weighted averages of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to an Aaa basis; U.S. Govt. bonds, average yield on all bonds due or callable in 10 years or more; tax-exempt bonds, State and local govt. bonds (20 issues, mixed quality), Bond Buyer.

a run-off of $1 billion in CD's over the 3 weeks ended April 17, nearly double the decline in the comparable 3 weeks around the mid-March tax date. The further increase in the Federal Reserve discount rate to 5½ per cent on April 19 confirmed the expectations regarding the intentions of the monetary authorities. After this action commercial banks raised the prime loan rate from 6 to 6½ per cent.

In the capital markets, yields fluctuated widely over the 4-month period in response to the changing supplies of new issues and shifting sentiment concerning the prospects for fiscal and/or monetary restraint, for an end of hostilities in Vietnam, and for the restoration of international monetary stability. On balance, yields changed little over the interval. Average yields on long-term Treasury bonds were 5.33 per cent at the end of April, compared with 5.36 per cent at the close of 1967. The Bond Buyer's index of yields on 20 municipal bonds was 4.44 per cent on May 2, the same as on December 28, 1967. New Aa-rated utility bonds with 5-year call protection were offered at yields of around 6.75 per cent in early May, about the same level as had prevailed in December 1967.

Treasury and Federal agency financing operations were large during the 4 months. In January the Federal National Mortgage Association (FNMA) took advantage of a buoyant market atmosphere to sell $1.25 billion of two issues of participation certificates (including $450 million to Government trust accounts); the 20-year maturity was offered at a yield of 6.084 per cent. Later, the Treasury conducted a successful two-phased offering—the first of its kind—to refund maturing securities and to raise new cash. In the first week of February a new 7-year, 5¾ per cent note was offered to holders of issues maturing in February, August, and November; of the $12.1 billion in public hands, $3.9 billion was turned in on February 15. Then on February 13 the Treasury sold for cash $4.3 billion of 15-month, 5⅝ per cent notes for payment on February 21.

The gold crisis in March triggered both a 40-basis-point rise in the average yield on long-term Government bonds and a similar sharp deterioration in the markets for corporate and municipal bonds. In the wake of the crisis FNMA's sale of $1 billion of three issues of participation certificates on March 26 (including $270 million placed with Government trust accounts) required a 6.45 per cent yield on the 20-year maturity, the highest on a Government obligation since the Civil War. The President's peace initiative and his renewed call on March 31 for a tax increase led to a spirited rally in the capital markets, but the price gains faded in April when the Congress adjourned for the Easter recess without clarifying the outlook for fiscal restraint legislation—suggesting to many the inescapability of further monetary restraint.

SYSTEM OPERATIONS IN GOVERNMENT SECURITIES DURING 1968
In millions of dollars

Type of operation	Jan. 1– Apr. 30	May 1– June 20	June 21– Sept. 25	Sept. 26– Dec. 31	Total
Outright purchases:					
Treasury bills:					
From market	1,595	1,356	1,380	1,543	5,874
From foreign accounts	1,196	675	671	1,888	4,430
Coupon issues	574	70	285	247	1,176
Special certificates of indebtedness	....	....	87	688	775
Outright sales:					
Treasury bills:					
To market	1,091	286	1,194	891	3,462
To foreign accounts	421	98	246	1,819	2,584
Coupon issues	....	....	....	....	....
Matched sale—purchase transactions:					
With dealers:					
Sales	2,400	400	4,715	8,885	16,400
Purchases	2,400	400	4,715	8,885	16,400
With foreign accounts:					
Sales	....	....	....	415	415
Purchases	....	....	....	415	415
Redemptions:					
Treasury bills	592	171	278	436	1,477
Special certificates of indebtedness	....	....	87	688	775
Repurchase agreements:					
Government securities:					
Purchases	4,592	3,821	3,869	3,580	15,862
Sales	4,459	3,958	3,997	3,580	15,994
Federal agency obligations:					
Purchases	292	260	219	204	975
Sales	318	223	268	204	1,013
Net change	+1,368	+1,446	+441	+532	+3,787

NOTE—All figures are as of date of delivery.

Open market operations. System open market operations unfolded against the backdrop of the foregoing economic and financial developments. (For a statistical summary of System operations in Government securities, see the accompanying table.) In January the money market had to cope with the huge flows of funds that are characteristic of the beginning of the year. Total member bank deposits (not seasonally adjusted) declined by $5 billion over the month, while large amounts of reserves shifted away from the money centers and then back again. The basic reserve deficit of the 46 major money center banks declined from an average of $1.7 billion in the week ending January 10 to $148 million in the week ending January 31 (middle left panel of Chart 1).[1] Country bank excess reserves also fluctuated widely, averaging as high as $520 million in the week ending January 10 and as low as $114 million in the following week.

The System alternately absorbed and supplied reserves—allowing net reserve availability to fluctuate widely in accordance with expected week-to-week changes in the demand for excess reserves. Initially, it supplied reserves in volume to avoid pressures arising from the expected early-January accumulation of excess reserves by country banks. When float rose beyond expectations and the weekly sample of country bank reserve positions pointed to higher-than-expected reserve availability, the System first sold bills outright and then on Wednesday, January 10, sold $460 million of bills under 1-day matched sale–purchase transactions to counter the influx of Federal funds at declining rates.

The matched sale–purchase technique, introduced in July 1966, enables the System to effect much greater short-term reserve absorption than would be feasible through outright sales since dealers do not need to assume the market risks involved in outright purchases from the System. During 1968 the Account

[1] The basic reserve position of this group of banks is defined as the group's excess reserves less its net purchases of Federal funds and its borrowings from the Reserve Banks.

Manager made much more frequent use of this technique than earlier as he sought to maintain the desired pressure on bank reserve positions. Several matched sale–purchase operations during 1968 absorbed well over $1 billion of reserves for short periods.

Over the remainder of January, System operations were influenced by the reserve-management patterns of both the country and reserve city banks. In the weeks ending January 17 and 31, money market conditions tended to ease early in the week as the reserve city banks anticipated that substantial amounts of the excess reserves that country banks carried over into the final week of their biweekly reserve-settlement periods would flood the Federal funds market later in the week. In an attempt to keep money market conditions firm, the System absorbed reserves early in those weeks. However, the money market banks were content to accumulate sizable reserve deficiencies, which they still hoped to cover at lower rates at the end of the week. As a consequence, demands for funds far exceeded supplies on the Wednesday settlement dates, when these banks scrambled to cover their deficiencies. Rates for Federal funds rose from around 4¾ to as high as 5⅛ per cent on January 17 and on January 31 were as high as 5¼ per cent. On both settlement days the System made overnight repurchase agreements to moderate the tautness in the market, but even so, member bank borrowing from the Reserve Banks surged to more than $1 billion on January 17 and to $800 million on January 31.

The Treasury's February financing operations conditioned open market operations during the month, but they did not forestall an appreciable increase in monetary pressures on the banks after midmonth. During early February the System supplied reserves just a little after the needs became apparent, in order to keep the money market steadily firm; under these conditions Federal funds generally traded at rates ranging from 4⅝ to 4¾ per cent. Since indicated reserve needs were relatively short-lived, the System provided reserves entirely through repurchase agreements, including some against "rights" to the Treasury refunding—that is, issues eligible to be exchanged for the new 7-year notes.

Such agreements—written to mature on February 15, the exchange date—served a dual purpose: (1) to meet a part of the banking system's reserve needs, and (2) to facilitate the Treasury refunding by assisting dealers who purchased rights issues. However, when net reserve availability considerably exceeded expectations over the period February 9 to February 12—the holiday weekend when Lincoln's Birthday fell on a Monday—the System quickly switched to selling Treasury bills—at first outright, and then under 1-day matched sale–purchase transactions.

By about mid-February it became clear that bank credit growth was outrunning expectations (Chart 1, top right panel) and that a move toward greater restraint—to the extent permitted by Treasury financing—was called for under the proviso clause of the directive of the Federal Open Market Committee adopted at the February 6 meeting. Inasmuch as the distribution of the new 7-year notes was proceeding smoothly and the sale of $4.3 billion of 15-month notes on February 13 had been successful, the Account Manager began to allow the seasonal action of float and other factors affecting reserves to exert increasing pressure on the banks without taking fully offsetting action. Member bank borrowing from the Reserve Banks rose to an average of $424 million in the last 2 weeks of February from $313 million in the prior 2 weeks, and net borrowed reserves emerged for the first time in a year (except for 1 week in January). In late February the System tempered the tautness in the money market by making outright purchases of Treasury securities, including coupon issues.

Over the next 2 months the System carried out one of the swiftest increases in monetary restraint in history. An inflationary rate of expansion in the domestic economy and the threat that persistently rising domestic prices posed to international confidence in the dollar, and hence to the international monetary system, provided the backdrop for this action. In the first 2 weeks of March the Account Manager, acting under the Committee's March 5 directive, allowed conditions in the money market to tighten by not offsetting the reserve drains generated by gold losses and other reserve factors. The Federal funds rate reached 5 per cent on several days. Member bank borrowing from the Reserve Banks rose to an average of $640 million for the 2-week period, and net borrowed reserves to an average of $253 million.

Reflecting in part the uncertainties of the international monetary situation and expectations of a possible increase in the discount rate, banks managed their reserve positions cautiously, bidding strongly for Federal funds and borrowing heavily from the Reserve Banks—in excess of $1.2 billion over the March 8–10 weekend. As a result, a redundancy of reserves appeared in the money market on Tuesday, March 12. However, in view of the deterioration that developed in the securities markets as foreign demand for gold mounted, the System purchased Treasury bills offered for sale by foreign official accounts, instead of selling the bills for those accounts in an unreceptive market. When the money market displayed signs of marked easing on Wednesday, March 13, the end of settlement periods for both reserve city and country banks, the System roughly offset the immediate reserve effect of its purchases from foreign accounts by negotiating overnight matched sale–purchase transactions.

The securities markets opened on Thursday, March 14, amid reports that turnover on the London gold market had exceeded the previous daily peak recorded in the aftermath of the devaluation of sterling in November 1967. Sentiment in the securities markets deteriorated rapidly amid rising expectations of an increase of a full percentage point in the discount rate. To facilitate an orderly adjustment as market rates moved higher, the System conducted a go-around of the market at an unusually early hour and purchased $313 million of Treasury bills. It also purchased Treasury securities, including coupon issues, from foreign accounts. (The Treasury helped to offset the reserve impact of these operations by advancing a scheduled transfer of gold from the monetary stock to the Stabilization Fund by 3 days.) An increase of ½ of a percentage point in the discount rate to 5 per cent was announced on the afternoon of March 14, and prices of securities rebounded the next day. The announcement on March 17 of the termination of gold pool operations served to calm the debt markets further, and the System conducted no additional operations in the week ending March 20.

Following the increase in the discount rate, the Federal funds rate adjusted upward to the area of 5¼ to 5¾ per cent in late March and early April, and New York City banks raised their rates on new loans to Government securities dealers to a range of 5½ to 6¼ per cent. On Wednesday, March 27, an unusual kind of strain developed in the market—one that could mislead banks and others as to the degree of pressure the monetary authorities intended to bring to bear on the monetary system. In view of the large reserve deficiencies accumulated by large banks outside New York City, the Account Manager had expected tightness to occur in the market that day. However, the Federal funds rate did not begin to rise sharply until about 1:00 p.m., by which time neither repurchase agreements nor cash trades with dealers were feasible. When the rate for Federal funds rose to a new record high (since surpassed) of 6⅜ per cent later that afternoon, the System moved to show its concern over the aberrant tightness (and to meet a part of the following week's reserve needs) by buying Treasury bills for delivery the next day.

As April unfolded, the slightly greater restraint being exerted by open market operations—in accordance with the Committee's April 2 directive—contributed to, and was reinforced by, a marked increase in pressure on the major money market banks. These banks were confronted by the prospect of heavy demands for credit on the April 15 corporate tax date at a time when interest-rate relationships suggested the likelihood of considerable attrition in banks' outstanding CD's. The major New York City banks, which experienced a $700 million deepening in their basic reserve deficit in the week ending April 10, raised their rates on new loans to Government securities dealers to around 6¼ per cent. The Federal funds rate rose and fluctuated around 5¾ per cent as the 46 major money market banks bid heavily for funds to cover a basic deficit, which had deepened by almost $1.8 billion to $2.5 billion.

At the onset of these reserve pressures on April 4, the System stepped in to supply reserves—in part through outright purchases of Treasury bills and in part through repurchase agreements against Treasury securities and bankers' acceptances. The repurchase contracts were written at 5⅛ per cent—⅛ of a percentage point above the prevailing discount rate. The use of such a differential, it was explained to the dealers, was a new and flexible operating technique designed to make it possible to write such contracts at rates closer to prevailing market rates for short-term securities. In the past the Account Manager had on occasion made repurchase agreements at rates below the discount rate when relatively low market interest rates had made it necessary to depart from the usual practice of setting the rate on System repurchase agreements at the discount rate. However, it had not been the System's practice to set the rate on its repurchase agreements above the discount rate when market interest rates were well above the discount rate, and as a consequence the Account Manager had sometimes felt constrained from providing reserves through repurchase agreements at such times.

On Friday, April 5, the Manager negotiated additional contracts at the 5⅛ per cent rate. However, a number of market participants interpreted the premium repurchase rate as suggesting that further monetary restraint lay ahead, and this contributed to the upward pressure on Treasury bill rates.

The System reversed direction after the weekend and sold some Treasury bills to mop up a glut of reserves, which stemmed in part from a bulge in float that resulted from an unexpected bank holiday in New York State on April 9 in honor of Dr. Martin Luther King, Jr. During the following statement week, the System again injected reserves through outright purchases and repurchase agreements at 5⅛ per cent in order to accommodate the churning of funds over the April 15 tax-payment date and to moderate strong upward pressures on Treasury bill rates. These latter pressures threatened the viability of the existing 5½ per cent ceiling on interest payments on negotiable CD's under Regulation Q.

On Thursday, April 18, the Board of Governors announced the increase in Federal Reserve discount rates to 5½ per cent and an upward revision in Regulation Q ceilings on large-denomination CD's.[2] Earlier that day the System had bought some Treasury bills and short-term coupon issues to meet a part of the sizable reserve need foreseen for the week. Markets adjusted readily to the new rate levels, and the System stayed on the sidelines the next day.

Reserves bulged unexpectedly after the weekend, however, and the System sold Treasury bills outright and under matched sale–purchase transactions. Federal funds traded predominantly in a 5½ to 5⅞ per cent range during most of the week but dropped as low as 4 per cent on April 24, the reserve-settlement day. However, after the execution of matched sale–purchase transactions that day, the rate rose to 6¼ per cent. On Thursday, April 25, trading in Federal funds opened at 5⅞ per cent and in order to nudge the rate higher, the System sold Treasury bills under 1-day matched sale–purchase transactions. (It also purchased bills directly from foreign accounts to meet part of the week's reserve needs.) During that day some Federal funds were traded at rates as high as 6¼ per cent. Moreover, trading opened at that rate on the next 2 days, but most transactions were at 6⅛ per cent. Then on April 30, with the Federal funds rate tending even higher, the System injected reserves through repurchase agreements executed at a new high rate of 5¾ per cent, ¼ of a percentage point above the discount rate.

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[2] See p. 80 for revised rates.

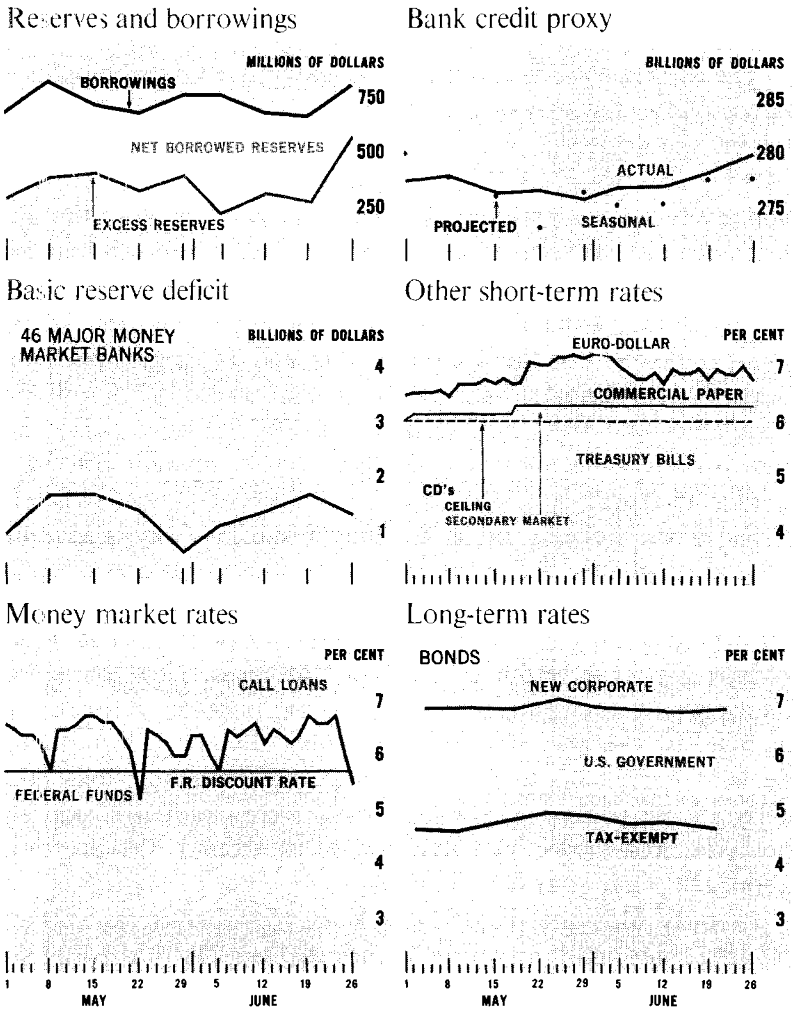
MAY 1–JUNE 20:
CONTINUED MONETARY RESTRAINT PENDING ENACTMENT OF FISCAL RESTRAINT

The economic and financial environment. After several months of intensifying monetary restraint, System policy shifted to maintaining the degree of pressure on the banks already achieved, in part because prospects for enactment of fiscal restraint legislation appeared to have improved. As events unfolded, most of the System's open market operations during the 7 weeks prior to passage of the bill by the House of Representatives on June 20 were aimed at tempering a tendency toward undue tautness in the money market. For the 2 months May and June, member bank borrowings from the Federal Reserve averaged $719 million, compared with $683 million in April. For the same period net borrowed reserves averaged $334 million, compared with $413 million in April.

Rates on Federal funds fluctuated during May and June around or slightly above the high level attained at the very end of April. Most trading was in a 6 to 6½ per cent range, although rates occasionally dropped toward the end of statement weeks (Chart 2). At the beginning of May the major New York City banks posted rates on new loans to Government securities dealers as high as 7⅛ per cent, and the higher financing costs to the dealers contributed to the upward push of Treasury bill rates early in the period. These loan rates were gradually reduced, however, and they closed the interval at around 6½ per cent, about the same as at the end of April.

In early May the major New York City banks raised their offering rates on all maturities of negotiable CD's to the Regulation Q ceilings that had been put into effect on April 19. With secondary market rates at or above these levels throughout the period, however, the weekly reporting banks sustained net losses of nearly $700 million of CD's over the 7-week interval May 2–June 19. Large banks with access to the Euro-dollar market bid strongly for such funds, and they succeeded in attracting Euro-

2. MAY 1, 1968 - JUNE 26, 1968



For notes see pp. 232-33.

dollars in an amount that was more than twice as large as their loss of CD's. In the process the rate on 3-month Euro-dollar deposits was driven as high as 7⅛ per cent by the end of May; this compared with 6½ per cent early in the month and was equal to the crisis level of March.

Reflecting the substantial reduction in CD's outstanding, as well as a slowdown in the growth of other time deposits, the increase in total commercial bank time deposits slowed to an annual rate of 3.5 per cent in May and June, compared with 6 per cent over the previous 4 months and 16 per cent for the year 1967. The money supply, on the other hand, grew at an annual rate of 10 per cent during May and June, double the rate of the prior 4 months. In part, the more rapid growth of money reflected a sharp decline in U.S. Government demand deposits, which are not counted as part of the money supply. In part, it may also have reflected the expanded volume of trading in corporate stocks. The bank credit proxy grew at the same average rate (4 per cent) during May and June as in the first 4 months of the year. Bank loans generally grew somewhat more slowly than they had in the earlier period, with the exception of loans to nonbank financial institutions. Meanwhile, banks continued to reduce their rate of net new investment in securities.

The atmosphere in the securities markets altered dramatically as the outlook for fiscal restraint changed during May and June. Prices generally declined until May 23, then began to move up.

After fluctuating irregularly during the first half of May, prices of debt issues plummeted in reaction to a delay in the vote on the tax measure announced by House leaders on May 15. Prices continued to drop sharply over the following week as dealers attempted to lighten inventories swollen by their underwriting of the Treasury's successful May financing (see below). Sizable purchases of Treasury coupon issues executed for Treasury accounts helped to relieve dealers' inventories without impeding substantial downward price adjustments. From April 30 to May 22, yields on intermediate- and long-term Treasury securities rose by about 30 and 20 basis points, respectively. Corporate bond yields rose some 25 basis points as dealers attempted to reduce their inventories in anticipation of the heavy June calendar. The municipal bond market was particularly depressed in late May, with yields up 30 to 40 basis points from their end-of-April levels (bottom right panel of Chart 2).

In early May the Treasury conducted a financing that was quite successful in view of the uncertain atmosphere prevailing in the market. In an operation that involved both an exchange issue and a cash offering, it raised $2.1 billion of new money and refunded notes and bonds maturing May 15. Private holders of $3.9 billion of maturing issues exchanged $2.7 billion of their holdings into new 7-year, 6 per cent notes, while $10.3 billion of subscriptions were tendered for $3.4 billion of new 15-month, 6 per cent notes offered for cash. (Large subscriptions to the shorter-term notes were allotted at a rate of 28 per cent.) In the initial favorable reaction to the offering, the new 7-year notes were bid as high as $100\frac{6}{32}$, but by May 22, when the market was generally unsettled by the uncertain outlook for fiscal action, the bid price was $99\frac{8}{32}$, equivalent to a yield of 6.13 per cent.

Prices of securities rebounded beginning on May 23 in a dramatic reversal of market sentiment. Sparked by the statement of the chairman of the House Ways and Means Committee that he foresaw congressional passage of the proposed tax bill, the rally gained renewed vigor following the President's statement on May 30 that he would accept the $6 billion reduction in expenditures demanded by congressional leaders. With the removal of the last potential obstacle to fiscal restraint, dealers sought aggressively to rebuild their inventories. While prices sustained relatively mild and brief setbacks in reaction to two further postponements of the vote on the tax and spending bill by the full House, they did rise from May 23 to June 20—when the House finally approved the bill; yields on intermediate-term Treasury securities showed declines of about 60 basis points, and those on long-term Treasury bonds about 40 basis points on the average.

The price improvement was more restrained in the corporate and tax-exempt bond sectors, although prices rose sharply during the few days just before the House vote. Offerings of new corporate issues were heavy, and they encountered mixed receptions. In fact, some issues ran into investor resistance even at the record yields available. As the final vote on the fiscal restraint bill approached, however, investor interest in new issues picked up. The Blue List of dealers' advertised inventories of tax-exempt issues, for example, declined from its mid-May high of $649 million to $427 million as of June 20. On balance, yields on corporate and tax-exempt bonds were virtually unchanged over the May 1–June 20 period.

Treasury bill rates rose generally by 25 to 50 basis points over the first 3 weeks of May; the steepest increases occurred in the wake of the May 14 decision of congressional leaders to postpone House action on the tax bill. Market rates on 3- and 6-month bills reached record levels (since surpassed) of 5.92 and 6.08 per cent, respectively, just before Chairman Mills predicted on May 23 that the tax bill would eventually pass. Rates dropped sharply in response to that statement but moved somewhat higher in early June in reaction both to a subsequent delay in the House vote and to seasonal pressures. Rates again declined sharply on the eve of the House vote—reflecting renewed optimism over the outlook for fiscal restraint, very large purchases of bills by the System, and expectations of heavy seasonal demand for bills. By June 20, the market rate for 3-month bills was 5.40 per cent —down 11 basis points from the end of April and 52 basis points below the interim high.

Open market operations. The System's operations in the open market during the May 1–June 20 interval sought to maintain the firm conditions in the money market achieved by late April. A recurring problem was the need to head off or moderate undue tautness in the money market. During the interval—a period of seasonal reserve needs—the System injected a net of $1.4 billion of reserves. The Trading Desk arranged $4.1 billion of repurchase agreements against Treasury and Federal agency securities, while maturities and withdrawals of such agreements totaled $4.2 billion. But on an outright basis the System purchased $2.0 billion of Treasury bills—$922 million on June 19 alone. Reserve absorptions were quite limited during the period; the total reflected outright sales of $384 million of Treasury bills, sales of $400 million of bills under 1-day matched sale–purchase transactions, and redemptions of $171 million of maturing bills.

During the first half of May—while the Treasury's May financing was proceeding smoothly—the System sought to maintain in the money market the firmer conditions that had been achieved earlier. Its operations were directed largely toward attempting to overcome the excessive tautness that developed in the money market as major banks sought to cover sizable reserve deficits by bidding aggressively for Federal funds. In part these conditions reflected a growing desire by these banks to conserve their use of the Federal Reserve discount window until the June corporate tax-payment date when the pressures of loan demands and run-offs of CD's might pose a major problem.

In resisting the resultant strong upward pressure on the Federal funds rate, the System repeatedly injected reserves through repurchase agreements with nonbank dealers in Government securities, and on several days when its first round failed to produce the intended relief to the market, it made a second round of such agreements. During the May 1–15 interval the Account Manager arranged a total of $2.3 billion of repurchase agreements against Treasury and Federal agency securities; these were supplemented by $84 million of such agreements against bankers' acceptances. All of these agreements were written at 5¾ per cent, ¼ of a percentage point above the Federal Reserve discount rate. In spite of these persistent reserve injections, Federal funds traded predominantly in a 6⅛ to 6⅜ per cent range in the first half of May, and a new record "effective" rate of 6½ per cent was set on May 14.

Around the middle of May, System operations were conditioned somewhat by developments in the securities markets, but there was no significant departure from money market objectives. At the opening on Thursday, May 16, the markets were very unsettled as a result of news of the postponement of congressional action on the tax bill until early June, and Federal funds were quoted at 6¼ per cent bid and 6½ per cent asked. In order to facilitate orderly adjustments in the market to the changed outlook for fiscal restraint and to provide for a part of the estimated sizable reserve needs for the week, the System conducted an early go-around of the market and purchased outright $301 million of Treasury bills; it also bought $33 million directly from foreign accounts. (Earlier still, the Trading Desk had purchased on behalf of a Treasury trust account a substantial amount of the new 7-year notes for which settlement had been made just the day before.) Later in the day the System injected an additional $301 million of reserves through 4-day repurchase agreements written against Treasury and Federal agency securities and bankers' acceptances; the rate on these agreements was 5¾ per cent.

As it turned out, the System's actions on May 16 more than filled the reserve needs for the week, and toward the end of the statement period conditions in the Federal funds market eased. No attempt was made to counter this temporary ease because of the unsettled state of the securities markets and because of the reserve needs projected for the next several weeks. Indeed, in view of these circumstances, the System purchased $265 million of Treasury bills and $70 million of Treasury coupon securities on Wednesday, May 22, for delivery the following day, which was the beginning of the next settlement period.

On several other occasions during May and June conditions in the money market eased near the end of a statement week. In view of the very tight conditions generally prevailing—and, at times, the unsettled state of the securities markets—the System usually made no effort to counter such temporary ease. But there was an exception in the week ending May 29, when easing tendencies manifested themselves relatively early in the statement period—on Monday, May 27—as the distribution of reserves shifted in favor of the major money centers. On that day the System sold $212 million of Treasury bills outright, and the next day it sold $400 million of bills under 1-day matched sale–purchase transactions. The only other outright sales during May and June took place on Tuesday, May 7, when the System sold $172 million of Treasury bills to combat easing tendencies that emerged temporarily.

The System was ready to absorb reserves again early in June but was inhibited by an unusually marked divergence between the reserve statistics and the tone of the money market. Firm money market conditions at the beginning of the statement week ending June 5 led to heavy member bank borrowing from the Reserve Banks—more than $1 billion—over the weekend. These borrowed reserves combined with a sharp decline in excess reserves at country banks in the final week of those banks' biweekly reserve-settlement period to produce a high level of net borrowed reserves as well as an easing of money market pressures after the weekend. The Account Manager stood ready to inject reserves if the money market should tighten—as the reserve figures indicated was likely. But the expected firming did not occur during the week, and the System took no action in the market. Net borrowed reserves for the week averaged $551 million (top left panel, Chart 2).

At the end of the period under review the System injected a huge volume of reserves to moderate unusually heavy pressures on the money market stemming from international transactions. On June 18 and 19 the System provided a total of $1.3 billion of reserves, largely to offset the reserve effect of an $800 million net repayment to the System on June 19 of a British swap drawing. On the day before the repayment the money market had been relatively comfortable—with Federal funds trading at 6⅛ per cent—and the System had confined its operations to the purchase of $134 million of Treasury bills available from foreign accounts for delivery on Wednesday, June 19. On the latter day, however, the money market became exceptionally tight, as the swap repayment absorbed reserves and as banks in the money centers scrambled to cover deficits in their reserve positions that had been accumulated earlier in the statement period. In these circumstances the System purchased $622 million of Treasury bills for immediate delivery and arranged $252 million of repurchase agreements at 5¾ per cent. In addition, as a start in meeting part of the sizable reserve needs projected for the next several weeks, the System purchased $300 million of Treasury bills in the market for delivery on Thursday, June 20. In spite of this record injection of reserves, Federal funds were bid as high as 6¾ per cent on June 19—although trading was predominantly at 6½ per cent—and total borrowings by member banks from the Federal Reserve Banks surged to $1.9 billion.

JUNE 21–SEPTEMBER 25:
MONETARY POLICY ACCOMMODATES TENDENCIES FOR SHORT-TERM RATES TO DECLINE FOLLOWING PASSAGE OF REVENUE AND EXPENDITURE CONTROL ACT

The economic and financial environment. With passage of the revenue and expenditure control bill by the House of Representatives on June 20 and by the Senate the next day, the thrust of national fiscal policy changed significantly. This in turn set the stage for a shift in monetary policy from the maintenance of firm conditions in the money market to the accommodation of tendencies for short-term interest rates to decline. In implementing that policy, somewhat less firm conditions were permitted to develop in the money market. Rates on both long- and short-term securities declined substantially over the next several weeks, and many market rates reached their lows for the year in early August. On August 15 the Board of Governors announced a reduction in one Reserve Bank's discount rate from 5½ to 5¼ per cent in a technical realignment with the changed market conditions; similar reductions at the other Banks followed within a 2-week period.

In accordance with the Committee's policy directives, open market operations accommodated the tendency toward lower short-term interest rates and somewhat less firm money market conditions by supplying reserves somewhat more generously than in the previous period. Meanwhile, time and savings deposits at banks were growing rapidly, and bank credit showed a sharp expansion in a period when Treasury financing operations were very large. As the period progressed, however, open market operations were directed at maintaining prevailing conditions in money and short-term credit markets and, at times, at resisting in a marginal way the tendency for growth in bank credit to outstrip expectations. In the generally less tight money market environment, average member bank borrowings from the Reserve Banks declined to $535 million in the third quarter from $707 million in the second, and net borrowed reserves dropped to $183 million on the average from $360 million.

The declines in interest rates reflected widely held expectations that the new fiscal restraint measures would produce quickly a slowdown in the rate of economic expansion and that monetary policy would need to be relaxed progressively. For a time there was even some talk of economic "overkill" if monetary restraint were not decisively lessened. But as the period progressed, the strength of various economic indicators kept pushing the expected slowdown further into the future. The most surprising element was a surge in personal consumption expenditures, which reflected in part a sharp cut in the rate of personal saving. Business fixed investment also showed renewed growth in the third quarter, and inventory accumulation slowed less than expected. Price inflation continued, and the nation's underlying balance of payments situation remained a matter of serious concern.

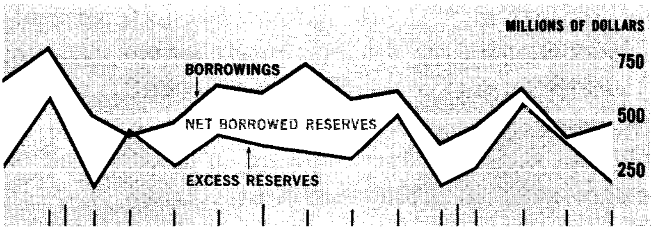
Anticipation of a relaxation of monetary restraint, reinforced by some evidence of such relaxation, contributed to a decline in money market rates and an acceleration in bank credit expansion. Federal funds traded generally around the 6⅛ per cent level through mid-August and in a 5¾ to 6 per cent range after the reduction in the discount rate (bottom left panel of Chart 3). Rates on loans to Government securities dealers posted by the major New York City banks were reduced somewhat in July, but such rates crept upward in the first half of August as dealers added to inventories in expectation of a further rise in prices. Although the cut in the discount rate led to some decline in dealer loan rates, these rates drifted upward again in late September. Bank credit, as approximated by the bank credit proxy, grew at a seasonally adjusted annual rate of 13 per cent from June to September, more than three times the rate in the first half of the year.

Most of the growth of the bank credit proxy in the third quarter was accounted for by time deposits. Such deposits expanded at an annual rate of 19 per cent as declining market interest rates made the rates offered by banks on time deposits more competitive. The secondary market rate on 3-month CD's fell from more than 6 per cent in June and July to a range of 5.60 to 5.70 per cent by late September—well below the maximum rate payable on new deposits. In the easier money market environment weekly reporting banks succeeded in adding some $3 billion to their outstanding CD's between June 19 and August 28 before experiencing a seasonal dip in September (figures not seasonally adjusted). In contrast to the rapid growth in time deposits, private demand deposits displayed little growth after early July. U.S. Government deposits, on the other hand, increased sharply—in large part as a result of Treasury financings and FNMA sales of participation certificates, which raised $7.0 billion of new money during the period.

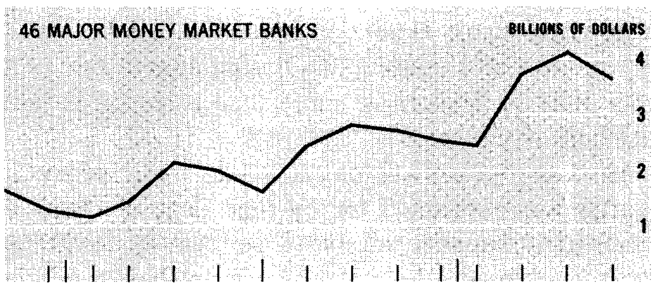
On the asset side of the banks' balance sheets, holdings of securities and of loans collateralized by securities rose sharply during the third quarter. Increases in these accounts reflected not only bank participation in the underwriting of new Government

3. JUNE 19, 1968 - SEPTEMBER 25, 1968

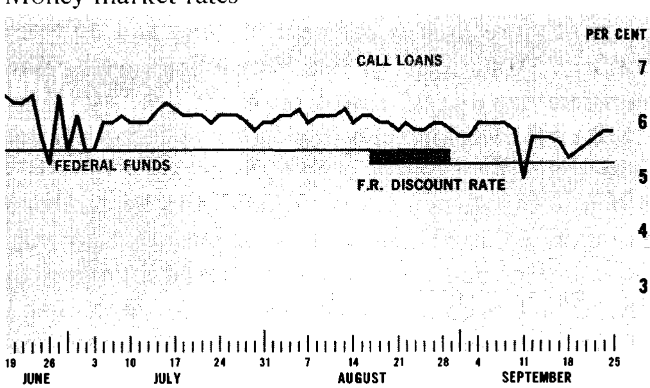
Reserves and borrowings



Basic reserve deficit



Money market rates

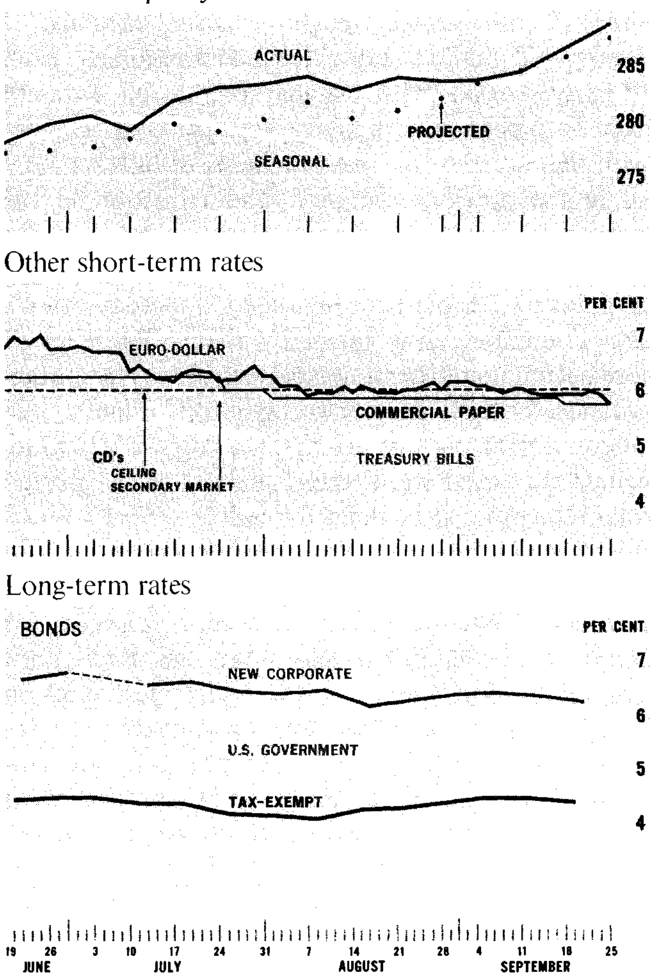


For notes see pp. 232-33.

Bank credit proxy

Other short-term rates

Long-term rates



securities issues and record offerings of tax-exempt securities but also bank purchases of such securities for portfolio. Other loans also increased, with special strength in consumer loans.

In the Treasury bill market, rates declined irregularly from June 20 until early August, with the market rate on 3-month bills falling from 5.40 per cent to a low of 4.89 per cent. The decline began with the System's massive purchases of bills on June 19 (described in the previous section). The reduction in the rate of interest on System repurchase agreements by 1/8 of a percentage point to 5⅝ per cent in early July and by another 1/8 percentage point to 5½ per cent on July 17, the day after a meeting of the Committee, was taken by many observers as signaling a more accommodative monetary posture—contributing to sizable demands for bills despite rising prices. Finally, the Treasury's announcement on July 31 that its August refunding would not include the usual short-term "anchor" issue spurred hopes for strong reinvestment demand for bills.

As bill yields dropped, however, the widening spread between these yields and dealers' financing costs left the bill market vulnerable to a reaction. When optimism over the prospects for declining interest rates diminished and when the New York City banks started to post higher dealer loan rates early in August, Treasury bill rates reversed direction quickly. The reduction of ¼ of a percentage point in the discount rate, announced on August 15, served to steady bill rates, and these rates fluctuated narrowly for the remainder of the period. On September 25 the market rate on 3-month bills was 5.11 per cent, down 29 basis points from June 20 and 81 basis points below the mid-May high. Other short-term rates posted similar net declines; rates offered by dealers on prime 4- to 6-month commercial paper, for example, declined from 6¼ to 5¾ per cent.

In the capital markets a brief period of profit-taking in the wake of the enactment of the fiscal restraint legislation, which had been heavily discounted in the markets for several days prior to final passage, soon gave way to ebullience amid expectations of lower interest rates in the months to come. Underwriters bid aggressively for new corporate and municipal issues, and institutional interest in such securities revived markedly. Government securities dealers added heavily to their inventories, encouraged by the reductions of ⅛ percentage point in the rates on System repurchase agreements on July 5 and July 17.

The buoyant atmosphere facilitated Federal Government financing operations, in which substantial amounts of new money were raised. First, in early July the Treasury sold $4 billion of tax-anticipation bills due in March and April 1969. In late July the FNMA offered to the public two issues of participation certificates totaling $800 million (in addition to $530 million placed directly with Treasury trust accounts). Both the 10-year, 6⅛ per cent certificates and the 20-year, 6.20 per cent certificates sold out quickly and moved to substantial premiums in secondary market trading. In connection with the refinancing of coupon issues maturing in August, the Treasury raised $1.7 billion of additional cash. It sold to the public $5.5 billion of 6-year, 5⅝ per cent notes, priced to yield 5.70 per cent, in the largest cash sale of an over-5-year issue in more than 20 years. The notes were heavily oversubscribed—with large subscriptions allotted at 18 per cent—and they went to a premium in early trading.

Dealers in particular subscribed heavily for the new notes—augmenting the large positions they had already built up in outstanding issues in anticipation of capital gains. Faced with the task of distributing such a large volume of the new notes, dealers occasionally grew restive with their exposure to changes in market conditions, and yields edged irregularly upward from early August until early September. On the whole, however, the yield rise was contained by dealers' continuing expectations of lower rates in the months ahead, by sporadic bank demand for the new 5⅝ per cent notes, and by a gradual reduction in the penalty cost of carrying inventories of securities after the reduction in the discount rate on August 16. Dealers placed considerable amounts of securities with investors in August and September; this relieved the congestion and improved the atmosphere in the market. Yields declined a bit in the last 2 weeks of the period amid easier conditions in the money market and talk of an impending reduction in the prime lending rate of commercial banks, which finally occurred at the end of the period. Over the period as a whole, yields on long-term Treasury bonds declined an average of 7 basis points to 5.08 per cent (bottom right panel of Chart 3).

In other areas of the capital markets the greatest declines in yields were in the corporate sector, in which new public offerings in the third quarter totaled only slightly more than half the volume for the similar period in 1967. Yields on high-grade corporate bonds declined about 35 basis points over the period; new Aa-rated utility issues with 5 years of call protection were yielding about 6.40 per cent in late September, compared with 6.75 per cent just before passage of the fiscal restraint bill in June. In the market for tax-exempt bonds, on the other hand, flotations in the third quarter reached a record level, 50 per cent more than in the comparable period of 1967. The Bond Buyer's weekly index of yields on 20 municipal bonds declined 13 basis points on balance over the period to 4.30 per cent on September 26.

Open market operations. System open market operations initially moved to accommodate tendencies for short-term interest rates to decline in the wake of passage of the Revenue and Expenditure Control Act by the Congress. In conjunction with the resulting easing of money market conditions, the Account Manager in July twice reduced the rate charged on System repurchase agreements with dealers in Government securities and bankers' acceptances—bringing the rate back to the level of the discount rate. Moreover, the System's accommodative posture, with its focus on interest rates, entailed the provision of a large volume of reserves as the banking system helped to underwrite large additions to U.S. Government debt and record flotations of bonds by States and municipalities, as well as rapid increases in consumer debt. In the face of the resultant surge in the bank credit proxy, the Account Manager responded to the proviso clause of the Committee's current economic policy directive on two occasions during the period—aiming for somewhat firmer conditions in order to resist excessive expansion of bank credit.

On balance, the System provided $441 million of reserves over the June 21–September 25 interval (table, page 235). Most of the net addition of reserves was through outright purchases of Treasury securities—including $2.1 billion of bills, against sales of $1.4 billion and redemptions of $278 million of maturing bills. The System also purchased outright $285 million of Treasury coupon securities. In providing additional reserves on a temporary basis, the Account Manager arranged $4.1 billion of repurchase agreements against Treasury and Federal agency securities during the interval. In the latter part of the period the System relied heavily on matched sale–purchase transactions to offset extraordinary supplies of reserves brought about by a combination of outside factors. The System sold and bought back a total of $4.7 billion of Treasury bills under such short-term arrangements during the period.

During the first 2 weeks after congressional passage of the revenue and expenditure control bill, conditions in the money market varied widely, with the Federal funds rate fluctuating around 6⅜ per cent early in each statement week and around 5½ per cent toward the end of each. In both of those weeks the System injected reserves to combat the early tautness and then refrained from absorbing reserves as more comfortable conditions emerged in the money market near the end of the statement week. On July 5, when a nationwide reserve need was again indicated, the Account Manager supplied reserves by repurchase agreements written at 5⅝ per cent, ⅛ percentage point below the rate that had been employed since April 30.

At its meeting on July 16, the Committee issued a directive calling for accommodation of the tendency toward somewhat less firm money market conditions that had developed since the preceding meeting. The next day, in accordance with discussion at the meeting, the Manager again cut the rate on repurchase agreements by 1/8 percentage point to 5 1/2 per cent, thus realigning the rate with the discount rate. Market participants interpreted the move, coming on the heels of the Committee meeting, as evidence of a modification of monetary policy that, coupled with the economic slowdown anticipated, was expected to lead to a marked decline in interest rates in the months ahead.

In accordance with this judgment, dealers and underwriters aggressively built up their inventories of Government securities, CD's, and corporate and municipal bonds—financing the bulk of their acquisitions by borrowing at banks. It soon became apparent that the growth of bank credit was significantly exceeding the projections presented at the July 16 meeting of the Committee, and estimates of the increase in bank credit in July and August were revised upward over the next several weeks. Accordingly, the Account Manager began to permit some firming of money market conditions—having been freed to a degree from the normal constraints that a Treasury financing imposes on such action by the enthusiastic reception accorded the Treasury's offering of new 6-year notes. During the 3 weeks following the mid-July cut in the rate on repurchase agreements, the System made occasional outright purchases of Treasury bills and repurchase agreements at 5 1/2 per cent, but it usually did so only after pressures on bank reserves had pushed the Federal funds rate up to 6 1/4 per cent. With undue tautness thus relieved, Federal funds traded primarily in a 6 to 6 1/8 per cent range over the remainder of the 3-week period.

The combination of declining Treasury bill rates and firm money market conditions, as already indicated, widened the spread between bill yields and dealers' costs of financing inventories and left the market vulnerable to any change in expectations regarding the outlook for interest rates. And a correction did begin about August 8 as dealer loan rates mounted further and as doubts spread concerning the likelihood of any near-term easing of monetary policy. At its meeting on August 13 the Committee indicated its concern about the upward pressures on bill rates, which had been moderated but not contained by System injections of a sizable amount of reserves through repurchase agreements. The reductions in Federal Reserve discount rates to 5¼ per cent initiated on August 15 afforded additional relief without presaging immediate further easing moves. On the next 2 days the Account Manager arranged repurchase agreements at the new discount rate and also made some outright purchases of bills.

Together, the discount rate cut and open market operations produced a climate of reserve cost and availability in which the disparity between dealer financing costs and other short-term rates was significantly reduced, although not eliminated. While the remaining penalty cost of carrying positions encouraged distribution, dealers remained willing to hold heavy positions in hopes of lower interest rates in the future. Reflecting in part bank financing of these holdings and in part banks' additions to their own investment portfolios, the growth of bank credit continued to outstrip projections throughout August and September.

In view of the rapid growth of bank credit, open market operations by late August shifted their focus away from special concern with Treasury bill rates and again sought at the margin to resist excessive expansion of bank credit. During the last 2 weeks of the period under review, moreover, the Account Manager had to contend with a confluence of extraordinary factors providing reserves. Among these was the inauguration on September 12 of new procedures for calculating member bank reserves.[3] One consequence of the new procedures was that required reserves—based on average deposits for 2 weeks previously—averaged

[3] For details, see the Board's Policy Record for Apr. 23, 1968, p. 82, and the Federal Open Market Committee's Policy Record for Oct. 8, 1968, pp. 195-203.

some $500 million less in the 2 weeks ended September 25 than they would have under former procedures. In these circumstances and to absorb a seasonal rise in reserves that was augmented by a sharp temporary drop in Treasury balances and foreign drawings on the System swap network, the System undertook very large-scale open market operations.

In view of the short-lived nature of the bulge in reserves and the considerable uncertainty over how banks would modify their behavior under the new accounting rules, the Account Manager proceeded cautiously, accomplishing most of the reserve absorption on a day-to-day basis. For this purpose matched sale–purchase transactions proved particularly useful, and the Trading Desk arranged a total of $4,715 million of such agreements in a 2-week interval. On Wednesday, September 11, the System absorbed $1,530 million through open market operations, a record amount for a single day.

The amounts of matched sale–purchase transactions outstanding ranged as high as $1,750 million, the level reached on September 18. These massive reserve absorptions provided clear evidence to the market of the System's desire to avoid an easing of money market conditions as a result of redundant reserves.

The Federal funds rate rose from 5⅜ per cent on Wednesday, September 18, to 5⅞ per cent a week later. When pressures intensified on the latter date, the System injected $362 million of reserves through outright purchases of Treasury bills.

SEPTEMBER 26–DECEMBER 31: MONETARY RESTRAINT INTENSIFIES AS INFLATIONARY PRESSURES PERSIST

The economic and financial environment. In the fourth quarter, with the economy continuing to advance more robustly and with prices rising faster than previously expected, a growing inflationary psychology was reflected in stepped-up business spending. In general, open market operations from September to mid-December sought to maintain firm conditions in the money and short-term credit markets, while not attempting to resist moderate upward pressures on other market rates. At times when growth in the bank credit proxy was persistently outpacing expectations, the Account Manager sought, under the authority of the proviso clause of the directive, to move toward still firmer conditions.

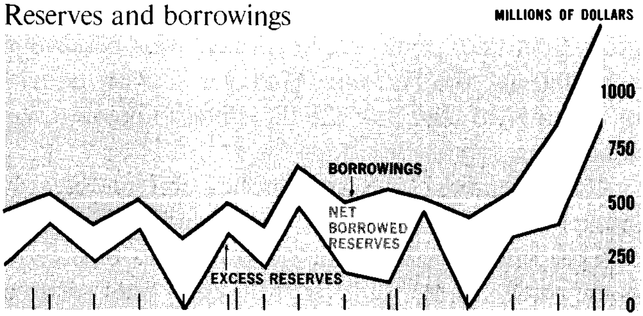
On December 17 System policy shifted toward considerably greater restraint. The move was signaled by an increase of ¼ of a percentage point in the discount rates of nine Reserve Banks —the other three quickly followed—and was confirmed by outright sales of bills by the Trading Desk in a firm money market pursuant to the directive issued at the Committee's December 17 meeting. Interest rates, which had edged upward from early August through November and had been climbing rapidly earlier in December, spurted in the wake of the System's firming actions. By the end of the year yields on most long-term debt securities were well above their previous historic highs.

Inflationary pressures persisted in the fourth quarter, and the rate of unemployment sank to the lowest level since 1953. Consumer spending grew much more slowly than in the third quarter, and retail sales, while fluctuating appreciably over the period, tended to level off on a seasonally adjusted basis. But business spending for both inventories and fixed investment expanded sharply, and capital spending plans pointed to a further rise in 1969. During most of the fourth quarter, indicators suggested a worsening of the balance of payments situation. However, a sharp —and partly temporary—influx of funds in the last few weeks of the year produced a substantial payments surplus on the liquidity basis for the fourth quarter and a small surplus for the year as a whole.

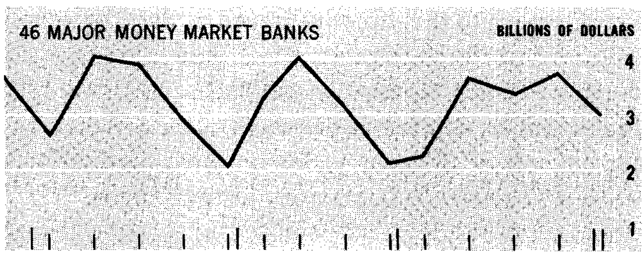
The combination of monetary restraint and of heavy demands for credit produced a gradual, though irregular, firming of money and short-term credit market conditions over the last 3 months of the year. Member bank borrowing from the Reserve Banks rose from an average of $515 million in September to $765 mil-

4. SEPTEMBER 25, 1968 - JANUARY 1, 1969

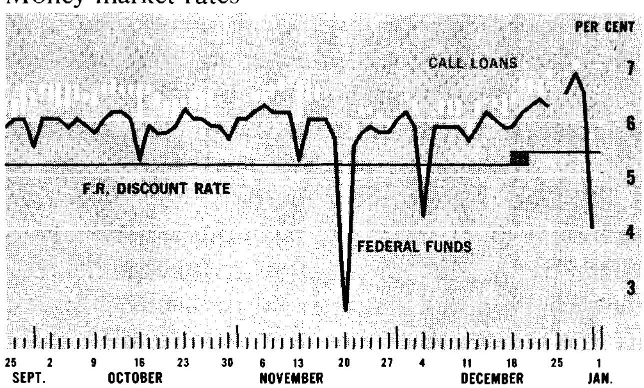
Reserves and borrowings



Basic reserve deficit

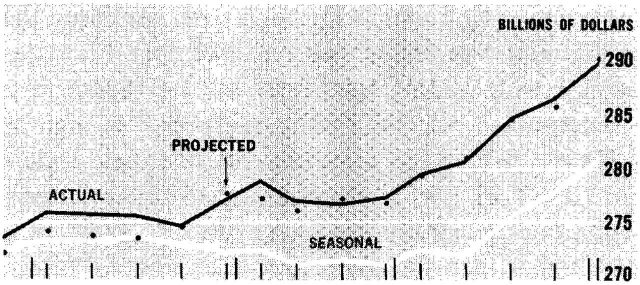


Money market rates

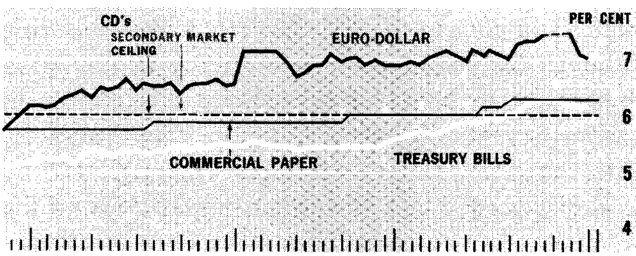


For notes see pp. 232-33.

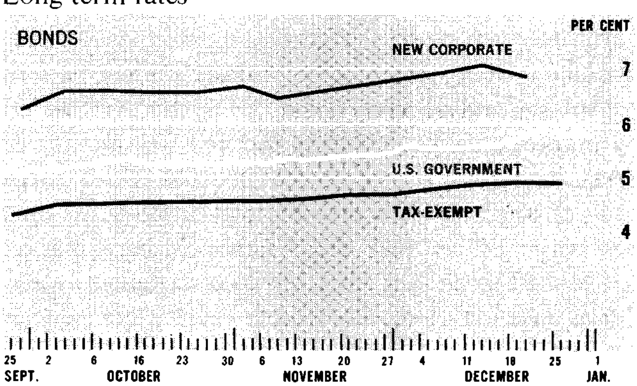
Bank credit proxy



Other short-term rates



Long-term rates



lion in December, while net borrowed reserves increased from $132 million to $352 million (top left panel of Chart 4). The Federal funds rate generally fluctuated around 6 per cent until the increase in the discount rate announced on December 17. After that it rose rapidly, with trading frequently at rates above 6½ per cent and sometimes—near the end of the year—as high as 7⅛ per cent. Rates on loans to Government securities dealers posted by major New York City banks followed a similar pattern, with the new loan rates generally averaging from ¼ to ⅝ of a percentage point higher than the effective rate on Federal funds.

Within the context of a gradual increase in pressure, there was considerable variability in money market conditions during the period. Although the institution of new reserve computation procedures for all member banks on September 12 (referred to in preceding section) eventually helped to reduce excess reserves, the characteristic biweekly pattern of reserve management by country banks was succeeded by a somewhat similar cycle on the part of reserve city banks, which at times aggravated tendencies toward short-term variability in the money market. Given the privilege of carrying over reserve excesses, as well as deficits, into the next statement week, reserve city banks fell into a pattern of alternating surpluses and deficits. These swings had sizable effects on money market conditions during the first few months of the new reserve-computation procedures because most large banks tended to act in phase with one another, instead of some having excesses while others had deficiencies. Money market conditions often tended to be taut early in those statement weeks in which the large banks started with sizable reserve deficiencies and to be relatively comfortable early in alternate weeks when these banks began with large surpluses. In addition, as a consequence of the lagging of required reserves 2 weeks behind deposits, the amplitude of swings in the basic reserve positions of the major money center banks increased, necessitating larger adjustments in the reserve positions of these banks and consequently placing greater demands on the Federal funds market.

Bank credit continued to expand rapidly, with the proxy series growing at an annual rate of 12 per cent during the last 3 months of the year; this was just a little below the average rate for the third quarter. Large-denomination CD's outstanding continued to grow rapidly until early December, when they began to run off sharply as an expected seasonal decline was reinforced by rising market rates that rendered CD offering rates noncompetitive at the Regulation Q maximums. Other time and savings deposits continued to grow throughout the period. The money supply grew faster than in the third quarter, and U.S. Government deposits declined substantially.

On the asset side of banks' balance sheets, there was increased growth in business loans, loans to nonbank financial institutions, and real estate loans. Consumer loans also remained strong. Securities loans declined, along with dealers' positions, as did the banks' own holdings of U.S. Government securities. Banks continued to invest heavily in non-Government securities until December, when they sharply reduced their rate of investment in such issues.

Short-term interest rates moved progressively higher from late September until late December. The Treasury bill market was kept under pressure by a variety of forces—firm money market conditions and the resultant high costs of financing heavy dealer inventories, a belief that the Federal Reserve was shading toward a firmer monetary policy in view of continuing inflationary developments in the economy, and the addition of $5 billion to the supply of bills outstanding through Treasury sales of tax-anticipation issues during the period. To be sure, there were intervals of temporary declines in bill rates as a result of investment demand and of outside influences, such as the rumors in mid-October of an impending break in the stalemated Vietnam peace talks in Paris and the Treasury's announcement on October 23 of a "rights" refunding, which encouraged some professional buying in expectation of demand from sellers of maturing rights. Rates on short-term bills edged down during most of November as a result of heavy buying by foreign official accounts and by investors seeking a safe haven amidst the uncertain near-term outlook for interest rates. At the same time, professional selling continued to push up rates on longer-term bills.

All types of interest rates advanced sharply in December. The generally unexpected increase in the prime lending rate of major banks to 6½ per cent on December 2 strongly affected market psychology. The System's moves toward greater monetary restraint in mid-December and the further increase in the prime rate to 6¾ per cent immediately thereafter were followed by further sharp increases in bill rates brought on by price reductions as dealers attempted to reduce their inventories. At the higher rate levels, strong and broadly based demand for bills appeared after Christmas, and bill rates dipped; dealers were able to reduce their bill holdings by $1.4 billion over the final week of the year.

On balance, the bid rate on 3-month Treasury bills rose 116 basis points from September 26 to the end of the year—closing at 6.25 per cent. Yields on virtually all Treasury bills were well above the Regulation Q ceilings on comparable maturities of CD's at the year-end. Secondary market rates on CD's also rose steadily during the period, closing at 6.50 to 6.65 per cent on 3-month certificates, compared with the Regulation Q ceiling of 6 per cent applicable to new CD's. Aggressive bidding for Euro-dollars by banks that were losing CD funds—in the face of a reduction in the supply of Euro-dollars as American firms repatriated funds and European banks engaged in the usual year-end window dressing—contributed to a rise in the 3-month Euro-dollar rate from 5$^{11}/_{16}$ per cent on September 25 to nearly 7½ per cent in late December. Rates on commercial paper rose more moderately during the period; the offering rate on 4- to 6-month paper placed through dealers increased from 5¾ per cent in late September to 6¼ per cent at the end of the year.

During most of the final quarter yields in the capital markets trended higher, reaching new historic highs by the year-end.

Large volumes of municipal issues, especially, and of corporate issues were floated against a background of uncertainties surrounding the strength of the economy and its implications for monetary policy, the national elections, the Vietnam peace talks, and another international monetary crisis. Except for a sharp but short-lived rally sparked in mid-October by renewed hopes for the end of hostilities in Vietnam, yields remained under nearly steady upward pressure for 3 months beginning September 25.

The Treasury offered holders of issues maturing in November and December the right to exchange into the reopened 5¾ per cent note of November 1974 at par or into a new 18-month, 5⅝ per cent note priced to yield 5.73 per cent. The inclusion of the 6-year note came as a surprise to market participants in view of the uncertainties abounding, and underwriters showed little interest in the issue; nevertheless, public subscriptions totaled $1.3 billion, which was higher than generally anticipated. With an additional $2.5 billion of the public's holdings of the eligible issues exchanged into the shorter note, $1.8 billion of the maturing issues were redeemed. This attrition made it necessary for the Treasury to sell $2 billion of tax-anticipation bills in late November to rebuild the Treasury's cash balance.

Market yields rose sharply in the wake of the boost in the bank prime rate on December 2. And they rose even more sharply in the week following the increase in the discount rate announced on December 17 and the further rise in the prime rate the next day. After Christmas, however, a surge in year-end tax swapping and net demand at the record yields led to a partial recovery in prices of Government notes and bonds. On balance, from September 25 to December 31 yields on long-term Treasury issues rose some 67 basis points to an average of 5.75 per cent. Dealers reduced their holdings of Treasury coupon issues maturing in more than 1 year to $360 million at the end of December from the year's high of $1.5 billion in early August.

In the corporate and tax-exempt bond markets, a number of issues were postponed after the first increase in the prime rate in December. But the tax-exempt market was kept under pressure by sizable flotations of industrial revenue bonds before the January 1 effective date of legislation removing the tax-exemption privilege on issues of more than $5 million and by a large volume of undigested earlier offerings. Dealers succeeded in reducing their advertised inventories of tax-exempt issues by $300 million in December to $550 million at the end of the year. By then the Bond Buyer's index of yields on 20 tax-exempt bonds had risen 55 basis points from late September to 4.85 per cent. Yields of corporate bonds rose even more than that during the fourth quarter. The year's last new Aa-rated utility issue with 5 years of call protection was floated on December 5 at 7.10 per cent, about 70 basis points above the yield on similar issues late in September.

Open market operations. System open market operations from late September to mid-December were generally directed toward maintaining firm conditions in the money and short-term credit markets. As the period progressed and the economy continued to be stronger than had been expected, both short- and long-term interest rates moved up. Reflecting the tenor of the Committee's concern with the rate of bank credit growth, open market operations offered little resistance to the rate rise. Indeed, under the proviso clause, the Account Manager moved toward firmer money market conditions in October and again in late November and early December. After the increase in the discount rate announced on December 17, open market operations were aimed at attaining firmer money market conditions in such a manner as to make clear the System's determination to resist inflationary pressures.

On balance, the System provided $532 million, net, of reserves through open market operations over the September 26–December 31 interval (table). It purchased outright $3.4 billion of Treasury bills and $247 million of coupon issues. Repurchase agreements of $3.8 billion against Treasury and Federal agency securities were also arranged and terminated during the period.

The System absorbed reserves through outright sales of $2.7 billion of bills and redemptions of $436 million of maturing bills. In addition, the Trading Desk arranged $3.9 billion of matched sale–purchase transactions, by far the heaviest use of this instrument in any quarter since its inception. Finally, for several days prior to the influx of corporate tax payments, the System purchased varying amounts of special certificates of indebtedness to tide the Treasury over seasonal low points in its cash balances. The total amounts of these special certificates held over the period December 10–17 ranged up to a high of $596 million.

Conditions in the money market firmed toward the end of September as a result of the reversal of the seasonal influences that had provided reserves in volume earlier in the month. Required reserves, under the new computation procedures, began to catch up with the mid-September rise in demand deposits at the same time that the Treasury was rebuilding its balances at the Reserve Banks and float was declining seasonally. Although some firming of money market conditions from the comfortable tone earlier in the month was appropriate, the System injected a substantial amount of reserves early in the period to combat tendencies toward undue tautness. Indeed, the System purchased outright $854 million of Treasury securities during the statement week ended October 2 and made overnight repurchase agreements on the September 30 statement date, when the availability of bank credit to dealers was somewhat curtailed. Nevertheless, Federal funds traded primarily at 6 per cent during the week, compared with 5⅜ to 5⅞ per cent over the two previous weeks.

During October the Account Manager sought to resist excessive growth of bank credit by allowing money market conditions to firm slightly on the average, within the limitations imposed by the Treasury refunding then under way, as called for by the proviso clause. In addition, frequent open market operations were undertaken to offset short-run variations in money market conditions that resulted from the new reserve-carryover provisions introduced September 12.

Operations in the weeks ending October 16 and 23 are illustrative of the pattern of monetary actions sometimes needed to deal with such fluctuations. Thus, in the week ending October 16 the System injected reserves in large volume to counter undue firmness in the money market created when banks attempted to cover deficiencies carried over from the preceding week as quickly as possible through various forms of borrowing. Because the banks were overly cautious and took this action early in the week, a condition of ease developed near the end of the statement week, and the System absorbed reserves in volume, by means of both outright sales and matched sale–purchase transactions. Nevertheless, these actions did not match the volume of excess reserves accumulated so the large banks carried over sizable amounts of excess reserves into the next statement week. As a result, bidding for Federal funds was relatively limited early in the October 23 statement period, so the System absorbed a substantial volume of reserves in an effort to promote money market firmness and encourage a larger volume of member bank borrowing over the weekend.

However, the banks were content to accumulate deficits, and borrowing remained quite light through Tuesday, October 22. Partly because of the low volume of borrowing early in the week, reserves available in the Federal funds market that day were not sufficient to meet the insistent deferred demands of deficit banks; hence, Federal funds were bid up to rates as high as 6½ per cent in the scramble for funds. The System then reversed direction and injected reserves to moderate the tightness. Similar patterns of alternating ease and tightness in the money market, which the System had difficulty in smoothing out completely, recurred in succeeding weeks.

Late in November open market operations were complicated by an unexpected bulge in float, a sharp decline in the Treasury's balance at the Reserve Banks, and heavy foreign drawings on the System's swap line stemming from massive speculation on an upward revaluation of the German mark and a devaluation of the French franc. In combination, these factors supplied reserves in very large volume, thereby tending to produce ease in the money market and to relax the pressures on the banks. In this situation the System was able to absorb reserves—without disrupting the securities market—by outright sales of Treasury bills to foreign accounts and by matched sale–purchase transactions with those accounts; additional reserves were absorbed by means of matched sale–purchase transactions with Government securities dealers.

Around the beginning of December the Account Manager satisfied seasonal needs for reserves by buying Treasury bills directly from foreign accounts, thus avoiding sales of bills for such accounts into the market at a time when short-term rates were already adjusting sharply higher. The System also arranged overnight repurchase agreements on December 2, the day the bank prime rate was boosted to 6½ per cent, with a view to facilitating the market adjustment to this unexpected event and to provide for an indicated reserve need.

After that brief injection of reserves, the System absorbed reserves steadily during the weeks ending December 11 and 18, a time of year when it usually had provided reserves to meet seasonal needs. The factors that had been instrumental in easing money market conditions late in November were still at work in the first half of December; increases in float (partly related to the influenza epidemic) were especially substantial, and the Treasury's balance at the Federal Reserve Banks declined sharply. There were indications, moreover, that bank credit was again outstripping expectations, thereby calling for implementation of the proviso clause. Accordingly, the System absorbed reserves each day during the 2-week period—employing matched sale–purchase transactions in the market as well as outright sales of bills in the market and to foreign accounts. Despite these large-scale absorptions of reserves the money market remained relatively comfortable, with Federal funds trading at rates around 5⅞ per cent.

Open market operations promptly confirmed the firmer stance of monetary policy that was signaled by the announcement on December 17 of an increase in the discount rate to 5½ per cent—along with the stand-fast on Regulation Q ceilings. With projections indicating the need to absorb some reserves, but with current money market conditions relatively firm, the System sold outright $187 million of Treasury bills into the market on December 19. This move was promptly interpreted in the market as confirming a policy of greater restraint. Having provided this signal, the System remained on the sidelines for the next 2 days while money market conditions tightened further and securities yields rose steeply as market participants reacted to the prospect of significantly greater monetary restraint.

During the remainder of the year open market operations sought to maintain the degree of restraint achieved after the increase in the discount rate, while cushioning somewhat the market's sharp reaction to the firmer policy stance. From December 24 to December 31 the System injected a large volume of reserves to combat the undue tautness in the money market that had resulted from the combined effects of the delayed rise in required reserves under the new computation procedures, of the Treasury's repayment of borrowing from the Reserve Banks, and of the rebuilding of the Treasury's balance. Extensive use was made of repurchase agreements as well as of outright purchases of Treasury bills, both in the market and from foreign accounts. Nevertheless, Federal funds traded at rates as high as 7⅛ per cent during the final week of the year, and a record high effective rate of 6⅞ per cent was reached. □

REVIEW OF OPEN MARKET OPERATIONS IN FOREIGN CURRENCIES

The central bank defenses developed in recent years to protect the world payments system from disruptive speculative movements of funds were subjected to some of their severest tests in 1968—the March gold crisis, heavy pressures on sterling, a political and economic crisis in France, and massive speculation on a revaluation of the German mark. To deal with these and other possible strains the defenses were strengthened during the year. Thus bolstered, the international financial system weathered the successive storms and continued to facilitate a growing volume of world trade, even against the background of persisting payments imbalances among major trading countries.

During the year the Federal Reserve and the U.S. Treasury participated in concerted action to restrain speculation in the gold and exchange markets and in major packages to bolster the official reserves of countries whose currencies were under speculative attack. In early March the United States joined in the $900 million package mobilized in support of the Canadian dollar—at the same time granting Canada complete exemption from all the restraints on U.S. capital outflows under the President's January 1 program. In response to the March gold rush and sharp intensification of currency fears, the United States and the other members actively participating in the gold pool convened an emergency meeting in Washington on March 16 and 17 to consider steps for curbing the speculative excesses. Agreement was reached at that meeting to end official intervention in the London gold market and to separate private and official transactions in gold into two distinct circuits. These new arrangements not only insulated official gold stocks from further inroads by private speculators but also, in conjunction with the Stockholm Agreement on Special Drawing Rights, reaffirmed worldwide support for maintaining the present official price of gold and the existing currency parities.

Among the decisions taken at the Washington meeting was an agreement to increase international credit facilities for the United Kingdom, with the Federal Reserve participating through an increase in the reciprocal currency arrangement with the Bank of England. At the same time the entire Federal Reserve swap network was enlarged, and on March 18 it was more than double the size of a year earlier. In the calmer atmosphere following the Washington meeting private demand for gold subsided, and both sterling and the Canadian dollar rebounded sharply as speculative pressures receded. When heavy speculative selling engulfed the French franc in the summer and fall, the Federal Reserve approved increases totaling $900 million in the swap line with the Bank of France, which raised that facility to $1 billion. The U.S. Treasury also extended a credit line to the Bank of France. By the end of 1968 the Federal Reserve swap network stood at $10.5 billion, an increase of nearly $3.5 billion for the year.

Apart from the very substantial increases in short-run defenses against currency speculation, a major step was taken to shield sterling over the longer term from pressures arising out of conversion of sterling balances by sterling-area countries. On September 9, after the monthly meeting of central bankers at Basle, the Bank for International Settlements and a group of 12 central banks announced that a $2 billion medium-term credit facility was being made available immediately to the Bank of England for that purpose.

At the opening of 1968 U.S. authorities had just over $2 billion of outstanding foreign currency commitments under central bank swaps and forward sales to the market. These heavy commitments had arisen in connection with the speculative flows of funds during the 1967 sterling crisis that culminated in the devaluation of the pound in November and during the subsequent period of uncertainty. Some $1.8 billion of these obligations took the form of drawings by the System on its reciprocal

TABLE 1: FEDERAL RESERVE RECIPROCAL CURRENCY ARRANGEMENTS

Other party to arrangement	Amount of facility (in millions of dollars equivalent)	
	Dec. 31, 1967	Dec. 31, 1968
Austrian National Bank	100	100
National Bank of Belgium	225	225
Bank of Canada	750	1,000
National Bank of Denmark	100	100
Bank of England	1,500	2,000
Bank of France	100	1,000
German Federal Bank	750	1,000
Bank of Italy	750	1,000
Bank of Japan	750	1,000
Bank of Mexico	130	130
Netherlands Bank	225	400
Bank of Norway	100	100
Bank of Sweden	200	250
Swiss National Bank	400	600
Bank for International Settlements:		
Dollars/Swiss francs	400	600
Dollars/authorized European currencies other than Swiss francs	600	1,000
Total	**7,080**	**10,505**

currency facilities to cover reserve gains of continental European central banks. Although a substantial reflow of funds from continental European currencies in early 1968 enabled the U.S. authorities to make some reduction in these obligations, it nevertheless was necessary to employ sizable nonmarket transactions in order to avoid their undue prolongation. Through the use of foreign exchange obtained in connection with the Canadian and U.S. drawings on the International Monetary Fund, from issuance of U.S. Treasury securities, and in special transactions, Federal Reserve obligations under the swap arrangements were reduced to less than $600 million by early March.

During the March gold crisis the United States incurred new swap debts and undertook new forward commitments to the market. However, in the quieter atmosphere following the Washington meeting it proved possible to liquidate these obligations as well as some further System swap drawings that had been undertaken in the spring. In liquidating some $1.3 billion of swap obligations the Federal Reserve and the Treasury purchased a substantial amount of foreign exchange from the central banks concerned as they replenished dollars sold in the exchange market. The System also obtained a substantial amount of exchange in connection with the French and British drawings on the IMF in June and from the U.S. Treasury, which issued new foreign-currency-denominated securities. Thus, by July 16 all Federal Reserve and Treasury obligations undertaken in swap transactions had been repaid. Moreover, during the spring and summer months the $155 million of outstanding U.S. forward commitments to the market were liquidated, and the U.S. Treasury redeemed in advance of maturity a $50 million equivalent mark-denominated security.

The events of the latter part of 1968 were dominated by deep-seated fears arising from the May crisis in France, by persistent apprehension over the lack of sustained improvement in the British trade position, and by a growing belief in the inevitability of a revaluation of the mark. Heavy speculation in marks erupted in late August and gave rise to unprecedentedly large shifts of funds into Germany before the assault receded. The respite proved temporary, however, and the inflows resumed on an even more massive scale in November, when the German Federal Bank purchased some $2.8 billion in the market as speculative funds moved into Germany, at heavy cost to French and British official reserves. The German Federal Bank's vigorous efforts to channel the speculative inflows to the market helped to moderate pressures on the Euro-dollar market. In the speculative rush of late August the System and the Treasury, participating jointly, supported the German Federal Bank's efforts by selling marks forward in the market, and these obligations were liquidated in due course. During the November rush for marks, the System reactivated its swap line—drawing marks to finance spot sales of that currency in New York. At the same time the System drew on its line with the Swiss National Bank to absorb most of that bank's dollar accumulation.

After mid-November the German authorities took measures to reduce the payments surplus and to restrain speculation while making clear their determination not to revalue the mark. These decisions were supported by the Group of Ten nations in a communiqué following a special meeting in Bonn on November 20–22. After the meeting President de Gaulle rejected any devaluation of the French franc and announced new austerity measures in support of the existing franc parity. When trading resumed on November 25, considerable apprehension remained in the market as traders assessed steps taken by the respective authorities in defense of their existing currency parities. Nevertheless, the speculative fever abated considerably.

In order to encourage a reflow of funds from Germany, the German Federal Bank provided outright forward marks to the market and offered attractive swap rates to German commercial banks. In support of these operations the System also sold marks forward—covering market commitments with swap drawings on the German Federal Bank. These measures helped to generate a substantial reflux of funds from Germany, and by the year-end almost the entire speculative inflow had been reversed. Late in December the System was able to begin acquiring cover for its market commitments in forward marks. At the end of 1968 Federal Reserve commitments under all swap lines stood at $432.1 million; drawings outstanding were in Swiss francs and German marks.

During the year other countries made substantial use of the Federal Reserve swap facilities. The Bank of England had emerged from the November 1967 devaluation with sizable commitments under the Federal Reserve swap arrangement. After further drawings and some repayments, the commitment stood at $1.2 billion by June 19, at which time it was liquidated, largely through a drawing on the IMF. Subsequently—in July and during the November exchange market upheaval—the Bank of England made further drawings on the swap line, and by the year-end it had total swap commitments of $1,150 million with the Federal Reserve. The Bank of England also had substantial commitments outstanding to the U.S. Treasury under special credit arrangements.

The Bank of France also made substantial use of its swap line with the Federal Reserve System—drawing on the facility for the first time in June. Drawings reached a peak of $611 million in November, but after the French decision to hold firm on the existing franc parity, reflows of funds developed and by the year-end the Bank of France had reduced its swap obligation to the System to $430 million. The Netherlands Bank and the National Bank of Denmark also drew on their lines for the first time; each employed moderate amounts, which were repaid before the year-end. The Belgian National Bank also drew dollars from the System, but it was able to pay off nearly all of its obligations before the year-end.

With the massive movements of funds into and out of European currencies, the Euro-dollar market was subjected to considerable churning during the year. On the occasions when mark revaluation rumors led to large inflows into Germany and to substantial dollar accumulations on the part of the German Federal Bank, that bank effectively channeled its dollar intake out into the Euro-dollar market. The Swiss National Bank also rechanneled large amounts of dollars taken in at midyear and at the year-end. Several other central banks operated in their respective forward markets so as to moderate flows into and out of their money markets and thereby ease the effects of these flows on the Euro-dollar market.

For its part, the System, through its arrangement with the BIS,

Table 2: Foreign Currency Transactions of the Federal Reserve, 1968

In millions of dollars equivalent

Currency	Operations initiated by the System									Swap operations initiated by others	
	Transactions under swap lines					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	Sales	Purchases	Sales	Drawings	Repayments
Belgian franc	107.1	212.9	107.1	10.0	202.5	5.1	0.5	6.9	8.7	210.5	203.0
Pound sterling	....	....	....	....	....	200.0	243.2	203.0	5.4	2,045.0	1,945.0
Canadian dollar	....	....	....	....	....	....	5.7	....	....	250.0	250.0
Danish krone	....	....	....	....	....	....	....	....	....	25.0	25.0
French franc	....	....	....	....	....	....	1.0	....	3.6	765.0	335.0
German mark	412.1	650.0	340.0	122.5	457.1	37.6	52.3	164.3	111.8	[2]643.0	[2]909.0
Italian lira	175.0	675.0	175.0	50.0	625.1	....	....	....	....	....	....
Dutch guilder	15.0	185.0	15.0	100.4	83.9	10.0	....	41.9	30.9	54.7	54.7
Swiss franc	498.0	828.0	498.0	288.3	535.9	....	....	60.8	28.0	....	....
Total	**1,207.2**	**2,550.9**	**1,135.1**	**571.2**	**1,904.5**	**252.7**	**302.7**	**476.9**	**188.4**	**3,993.2**	**3,721.7**

[1] Includes forward as well as spot transactions; excludes Italian lira forward operations.
[2] By BIS.

made dollars available to the Euro-dollar market on two occasions. In late June, when Euro-dollar rates were rising and sterling was under speculative pressure, the BIS placed $111 million of funds drawn from the System to minimize those pressures. Again, in early December, the BIS placed $80 million in the Euro-dollar market, drawing the funds from the Federal Reserve, at a time when Euro-dollar rates were rising and pressures were converging briefly on the pound. In both instances, the BIS drawings were quickly repaid.

STERLING

Late in 1967 the pound strengthened following reports that the British Government was planning sizable cuts in welfare and defense-spending programs to backstop its devaluation package. These cuts were announced on January 16, and although their major impact was not to take effect until 1969–70, as Britain would phase out its military operations east of Suez, a significant reduction in programmed spending—by some £300 million—was scheduled for 1968. The trade figures for both December 1967 and January 1968 showed major improvements over the predevaluation deficits, and export orders were reported to be on an encouraging uptrend.

Toward the end of January the sterling rate moved firmly above $2.4100, and during both January and February there was a steady demand for sterling that enabled the Bank of England to liquidate a large volume of maturing forward commitments that had been made prior to devaluation. In those months, however, the Bank of England was not able to make any reductions in its outstanding Federal Reserve swap debt, which at the end of 1967 stood at $1,050 million compared with $1,350 million by the time of devaluation. In addition, the Bank of England continued to make use of credits from the U.S. Treasury.

But U.K. official reserves were soon subjected to new erosion as a result of a combination of adverse developments. After 3 years of disappointed hopes, the market maintained a wait-and-see attitude concerning sterling's prospects. Hectic speculation in the gold market from November until mid-March kept the exchanges on edge, and sterling reacted sensitively to each new threat to the international financial system. Against this psychological background, and the nagging fear that the government's program to control expenditures and limit private demand would be thrown off course by labor or political unrest, sterling remained generally on the defensive. The forward sterling discount widened sharply at times, not only discouraging any inflow of interest-sensitive funds, but also contributing to withdrawals from London of maturing short-term placements of foreign funds. In addition, several sterling-area countries, having suffered an exchange loss on their reserves as a result of the devaluation, reconsidered the question of diversifying their reserves and began shifting a portion of their holdings out of sterling and into other reserve assets.

In the backwash of the gathering storm in the gold market, the pound dipped below its $2.40 parity for the first time on March 4. The following week, amid the climactic scramble for gold in London, the February trade figures for the United Kingdom were announced; these showed a heavy deficit, with imports at record levels. The next day—the last day of the gold pool operations—sterling tumbled to $2.39. The closing of the London gold market on Friday, March 15, in advance of a meeting in Washington of representatives of the central banks active in the gold pool, was accompanied by a declaration of a bank holiday the same day. With London financial markets closed, there was very little dealing in sterling either on the continent or in New York. However, when isolated trades began to appear at rates below the $2.38 floor, the Federal Reserve—under arrangements worked out with the Bank of England—made small purchases in New York that quickly restored the rate to $2.3825.

On March 17, the Washington communiqué of the Governors of central banks participating in the gold pool announced several important decisions in support of sterling and the exchange markets in general. Specifically, the Governors "agreed to cooperate fully to maintain the existing parities as well as orderly conditions in their exchange markets . . . [and] to cooperate even more closely than in the past to minimize flows of funds contributing to instability in the exchange markets." Taking note of the importance of the pound sterling in the international monetary system, they also announced that the total of credits immediately available to the U.K. authorities (including the IMF standby) would be raised to $4 billion. As part of this increase, the Federal Reserve swap arrangement with the Bank of England was increased by $500 million to $2 billion. At the same time the British authorities announced that the London gold market would remain closed for the remainder of March.

On Monday, March 18, the decisions set forth in the communiqué brought about a clear change of atmosphere in the exchanges. The demand for sterling, in particular, was strong and the rate rebounded to above par. The next day the British Government announced the long-awaited 1968–69 budget, calling for very substantial increases in indirect taxes on consumer purchases, a sharp rise in the selective employment tax (on employment in service industries), and a 1-year tax on investment incomes, among other provisions. At the same time the government announced that it would seek legislation to limit annual wage increases to 3½ per cent and to defer or suspend price or wage increases for up to a year. In the wake of a favorable market response to the budget and the Washington communiqué, on March 21 the Bank of England reduced its discount rate by ½ percentage point to 7½ per cent, the first reduction since the move to 8 per cent at the time of devaluation. Along with the strengthening of spot sterling, discounts on the forward pound narrowed from the 10 to 12 per cent per annum range for 3-month contracts, where they had been on March 13 to 15, to 4 per cent per annum by early April.

Despite the improved atmosphere in the latter half of March—featured by the successful conclusion of the Group of Ten talks in Stockholm, which ironed out the last major differences on the

SDR facility—the month as a whole had been costly to U.K. reserves. The Bank of England drew $50 million on its swap with the Federal Reserve (bringing the amount outstanding to $1,100 million) while making use of other sources of credit, including the U.S. Treasury.

April was a much quieter month for sterling and for international financial markets in general. Nevertheless, another monthly report of a large British trade deficit at a time when observers were looking for clear signs that devaluation was beginning to work created an uneasy undertone in the market, and this grew more pronounced in May. The spot rate gradually drifted below par, and the forward discount began to widen again, reaching nearly 7 per cent by the end of May. At the same time Euro-dollar rates, which had dropped back from the peaks reached at the time of the mid-March gold crisis, began to rise once again, with the rate on 3-month deposits moving from just under 6 per cent in early April to more than 7 per cent by the end of May. As a result, the covered incentive to move foreign funds out of local authority deposits into Euro-dollars shot up to nearly 6 per cent, adding to the strains on sterling that reemerged in May.

During the April–May period, U.S. banks—spurred by tightening credit conditions in this country—turned heavily to the Euro-dollar market in search of funds. Although the sharp run-up in Euro-dollar rates increased the incentive to switch out of pounds, developments in the United Kingdom were also causing concern. Setbacks for the Labor Party in by-elections, reports of dissension in labor ranks over the continuation of the austerity program, and fears—subsequently borne out—that the next monthly trade figures would again look bleak, all added to market pessimism. In mid-May the crisis in France added a new dimension of uncertainty to the international monetary situation and helped to demoralize the market even further. As a result of these various disturbing factors, the pattern of heavy pre-weekend selling of sterling reemerged in May for the first time since devaluation, and at heavy cost to U.K. reserves.

In order to bolster the official reserves in May, the Bank of England drew $345 million on the Federal Reserve swap line and made use of further credits from the U.S. Treasury as well as other international assistance. The bank repaid $245 million of the swap drawings in early June. Subsequently, after a further small drawing on the Federal Reserve that was soon reversed as pressures eased, the Bank of England's swap debt stood at $1.2 billion in mid-June.

At that point it was announced that the United Kingdom would draw the full $1.4 billion available under the standby credit with the IMF to repay outstanding short-term credits to central banks. A substantial part of this IMF drawing was used on June 19 to reduce the $1.2 billion of drawings then outstanding under the Federal Reserve arrangement. The remainder of these drawings was paid down on the same date by means of Federal Reserve and U.S. Treasury purchases of sterling on a covered or guaranteed basis from the Bank of England. To permit such purchases by the Federal Reserve, the Authorization for System Foreign Currency Operations was amended to increase from $200 million to $300 million equivalent the amount of sterling that could be held on a covered or guaranteed basis for System working balances. Thus, as of the end of June the $2 billion swap arrangement between the Federal Reserve and the Bank of England had reverted to a fully available standby basis (although certain other credit facilities, including those from the U.S. Treasury, were still in use).

Official confirmation on July 8 that 12 central banks and the BIS were prepared to participate in a new multilateral credit facility—amounting to $2 billion—to offset reductions in the sterling balances of sterling-area countries helped to turn market sentiment, which until that period had been increasingly discouraged. More important, June trade figures, showing reduced imports, seemed to offer the first tangible evidence that devaluation was working. Combined with a number of other encouraging developments at home and abroad, these announcements stimulated widespread buying of sterling, which lifted the spot rate above $2.3950 by the end of July. However, heavy reserve losses at the end of June and in the first week of July had required the Bank of England to reinstitute drawings on the Federal Reserve swap arrangement, and despite sizable reserve gains in the last 3 weeks of July, outstanding drawings amounted to $350 million at the month-end.

Hopes for further improvement in the trade account helped to sustain demand for pounds through early August, and the Bank of England was able to reduce its swap drawings by $50 million to $300 million. But these hopes were dashed with the publication of July trade results showing that the previous month's gains had been reversed. Shortly afterward, Soviet intervention in Czechoslovakia brought new uncertainties, which were soon compounded by mark revaluation rumors, which in turn cast new doubts on sterling. The pressures thus generated carried through early September, by which time the spot rate was back close to the floor and the Bank of England had increased its drawings on the Federal Reserve to $400 million.

As in earlier months, the market's appraisal of sterling turned heavily on the latest trade figures. Relatively favorable results for August and September were thus important factors in sterling's improved showing through the end of October. The temporary subsiding of mark revaluation rumors and the announcement in early September that final agreement had been reached on the new sterling balances arrangement were further elements in sterling's stronger market performance during this period.

A sharp run-up in sterling rates, following President Johnson's announcement of a bombing halt in North Vietnam, was abruptly halted by the new outbreak of mark revaluation rumors in early November. The sterling market remained roughly balanced at about $2.39 during the first 2 weeks of November despite uneasiness over the implications for the domestic economy of the government's announcement of new instalment credit restrictions. But news on November 13 of a doubling of the U.K. trade deficit for October left sterling fully exposed to the mounting pull of funds into Germany in anticipation of an imminent mark revaluation. Before the end of November the Bank of England had been forced to extend heavy support to hold sterling at $2.3827 and had increased its outstanding drawings on the Federal Reserve by $750 million, raising the total to $1,150 million.

During the Bonn meeting of November 20–22, foreign exchange dealings were suspended in London, as in several other major European centers. Meanwhile, the U.K. authorities acted to bolster their austerity program through indirect tax increases, tightened credit curbs, and a 50 per cent deposit requirement against imports of manufactured and semimanufactured goods.

Although speculation abated and markets were steadier once the Bonn meeting was over, considerable uneasiness remained. When trading resumed on November 25, demand for pounds was limited to modest covering of short positions. Moreover, in the early part of December, sterling was subjected to renewed selling pressure by the market's apprehensions over heightened tensions in the Middle East and by reports suggesting disagreement within the British Government regarding the austerity program. Higher interest rates in the United States added to the market pressures.

In this atmosphere, the Bank of England sustained substantial losses in support of spot sterling, and forward discounts again widened sharply. By midmonth, however, the market had become heavily oversold, and traders—spurred by expectations that the next set of trade figures would show substantial improvement, as in fact was the case—moved to cover short positions. The rebound enabled the Bank of England to recover most of its losses earlier in the month, but the market then turned cautious once again. On balance, very little of the substantial reflux of funds from Germany found its way back into sterling, with the result that the Bank of England's commitments to the Federal Reserve remained at $1,150 million at the year-end.

GERMAN MARK

During the early part of 1968 funds flowed heavily from Germany, as German banks responded to the pull of relatively attractive interest rates in the Euro-dollar market and foreign borrowers turned to German financial markets for long-term funds. The substantial outflow depressed the mark rate and enabled the System to repurchase the small amount of marks used in market intervention late in 1967 and to obtain further amounts sufficient to complete the liquidation of the System's outstanding $350 million swap debt to the German Federal Bank by early March. The $750 millon reciprocal swap facility thus reverted to a fully standby basis.

But Germany's trade account remained very strong during the early months of 1968, as it had throughout 1967. It was evident, moreover, that Germany's resurgent growth, as well as its accompanying stimulus to activity in other Common Market countries, was being accomplished with few strains on Germany's productive potential. Although persistent capital outflows depressed the spot mark early in the year, the market remained aware of the underlying strength in the current account and of the potential for a rapid reversal of direction with a new outbreak of speculative demand. During the gold crisis that began to erupt in early March, speculation on a revaluation of the mark touched off such a burst of speculative demand and consequent heavy flows of funds to Germany. On Friday, March 15, with unprecedented uncertainties in the exchanges arising out of the closing of the London gold market and the emergency central bank meeting convening in Washington over the coming weekend, speculation seemed to focus on the mark, and funds flowed into Germany from all over Europe and from the United States. The Federal Bank's intake of $400 million that day raised its gross spot intake in March to some $800 million, including a moderate amount through the Federal Reserve Bank of New York.

These large shifts of funds into marks would have severely aggravated the strains then being felt in the Euro-dollar market and the pressures on sterling had the Federal Bank not immediately reoffered the dollars to German commercial banks on a swap basis for repurchase later at attractive rates. Initially in the first week of March, the Federal Bank offered swap rates equivalent to a premium on the forward mark of 2 per cent per annum, more than ½ percentage point below the market. Subsequently the bank varied its rates to moderate the reflow, and by the month-end it had raised the total of its swap sales to an amount that about offset the gross spot inflow earlier in March. The System participated in the market swap operation, as it had done in November 1967, by reactivating its swap line with the German Federal Bank to absorb $300 million from that bank.

The firm support for existing currency parities that emerged from the Washington meeting helped to reassure the highly nervous markets. News of the large general expansion in the Federal Reserve swap network, including an increase in the line with the German Federal Bank to $1,000 million, contributed importantly to that reassurance. Under these circumstances the underlying liquidity of the Frankfurt market was quickly manifest, and the spot mark moved lower through the end of March. In order to maintain an orderly market as the earlier heavy speculation unwound, the Federal Bank sold a sizable amount of spot dollars.

During the spring, confidence in currency parities was strengthened by President Johnson's new peace initiative in Vietnam and the Stockholm Agreement on a plan for SDR's. Moreover, rising interest rates in the United States and in the Euro-dollar market after the ½ point increase in Federal Reserve discount rates to 5½ per cent exerted a strong pull on German short-term funds. At the same time the German Federal Bank continued its easy monetary policy to encourage the investment of excess funds abroad, and as capital outflows developed, it sold substantial amounts of spot dollars, permitting the spot mark to slide gradually lower. The authorities also concluded new market swaps with the German commercial banks to facilitate investment of short-term funds abroad by these banks. Thus a very substantial part of the dollars that had flowed in as a result of the maturing of the March swap contracts were channeled out.

In April the System began to reduce its swap debt to the Federal Bank; using marks acquired from a correspondent and some marks from balances, it reduced the $300 million swap obligation by $25 million. International currency uncertainties flared up again in May, however, triggering a new round of mark revaluation rumors as apprehensions over the failure of the U.K. trade position to show improvement were compounded by uneasiness over further delay in enactment of the proposed U.S. tax surcharge. Speculative demand for marks boosted the spot rate sharply, and the German authorities again purchased dollars. But the buying was not sustained; in fact, it quickly dissipated after a flat denial of any revaluation plans was issued by Dr. Karl Blessing, President of the German Federal Bank. At the end of May the market responded favorably to another official statement, which explicitly encouraged German commercial banks to export capital and stressed that the authorities would provide sufficient domestic liquidity for further business expansion despite the flow of funds abroad. Thus, with official approval and ample resources available, foreign borrowers placed additional issues in the German capital market.

One notable example of the broadly equilibrating influence of the outflow from Germany was the Canadian Government's 5-year borrowing of 250 million marks in late May. The borrowing not only served to bolster Canadian official reserves and to offset Germany's current-account surplus but also afforded the Federal Reserve the opportunity to purchase a sizable amount of German marks. The Federal Reserve purchased from Canada $25.2 million equivalent of the proceeds of the borrowing and used them, together with $25 million more acquired from the market, to reduce its swap debt to the German Federal Bank to $225 million equivalent.

The flow of German capital seeking employment abroad stepped up in June when the Federal Bank sold sizable amounts of dollars in the market, partly in response to conversion of the mark proceeds of Canadian and Mexican long-term borrowings. In the latter part of that month the persistent demand for dollars depressed the spot mark to parity, and since marks were readily available, the Federal Reserve and the Treasury purchased marks in the New York market against outstanding commitments. In addition, the System obtained $50 million of marks from the German Federal Bank when that Bank replenished dollars sold to France in connection with the French drawing on the IMF. These marks, together with market purchases, were used to reduce System swap obligations in marks by $100 million to $125 million as of June 21. Finally, near the end of June the U.S. Treasury issued to German banks special mark-denominated securities equivalent to $125.1 million. These securities were issued in conjunction with agreements reached with the German Government to neutralize part of U.S. troop-stationing costs in Germany. The System purchased these marks and used them to liquidate the last $125 million outstanding under the swap line with the Federal Bank.

Selling of marks continued unabated through early August, partly reflecting reflows abroad from German banks after midyear. By early August the spot mark had declined to $0.2486½, the lowest level since the 1961 revaluation, and the German Federal Bank had continued to supply spot dollars to the market. In the New York market both the Federal Reserve and the Treasury made sizable purchases of marks. On August 9, the Treasury used its recent purchases to redeem in advance of maturity a $50.3 million equivalent, 22-month note held by the German Federal Bank.

Toward the end of August new rumors of an imminent revaluation of the mark again touched off heavy speculative demand. Within days the spot mark had risen virtually to its ceiling, and the German Federal Bank had begun to take in huge amounts of dollars. The bank's market purchases amounted to $1.7 billion in the period August 27–September 6. Some of the inflow represented conversions of sterling and French francs, but a large part came from the Euro-dollar market. From the outset, the Federal Bank moved to neutralize the potentially disruptive effect of these inflows, as it had in the past, by making dollar/mark swaps available at rates that provided a sizable incentive to German banks to channel the funds to the Euro-dollar market. U.S. authorities assisted in these efforts by selling some $33.8 million equivalent of marks in the forward market in New York. After the monthly central bank meeting in Basle on the weekend of September 7–8, the demand for marks declined as speculative influences receded. The German Federal Bank continued with its swap sales, and by the end of September it had returned to the market virtually all of the funds it had taken in from the earlier speculative inflow.

The market atmosphere remained quiet through most of October—encouraging renewed capital outflows and consequent substantial sales of dollars by the German Federal Bank. As the spot rate declined, the Federal Reserve Bank of New York made modest purchases of marks for Treasury account, and the System and the Treasury paid off maturing August–September forward sale commitments.

Market expectations of an eventual revaluation of the mark persisted, however, and by the end of October this undercurrent was reflected in a strengthening of the spot rate. In early November rumors of an imminent revaluation of the mark and devaluation of the French franc again swept the exchanges. These rumors triggered a huge demand for marks, and by November 15 the German Federal Bank had purchased nearly $2 billion. Although the momentum behind the speculation was being generated mainly in Europe, the heavy demand reflected purchases by U.S. firms as well. To meet some of the demand in New York, the Federal Reserve Bank of New York sold $47 million of marks on behalf of the Federal Reserve. These sales were covered by a $40 million drawing on the swap line with the German Federal Bank and from balances.

Once again the German Federal Bank acted to recycle the funds by concluding market swap sales of dollars at attractive rates. After swapping out some $1 billion of its spot gains, however, the Federal Bank took action to curb the tendency of German banks to resell the spot dollar proceeds of the swaps rather than hold the funds in dollar investments—thereby in effect obtaining outright forward cover as a result of the swaps. The German authorities indicated that they would conclude further swap sales of dollars only if the banks invested the spot dollar proceeds in U.S. Treasury bills. But the German banks and their customers had become interested mainly in acquiring outright forward cover in marks, and they chose not to engage in swap transactions with the Federal Bank on these terms; instead, they bid for spot marks and sought forward cover through swaps in the market.

Speculative buying of marks continued with full fury on Monday, November 18, when the regular monthly meeting of central bankers at Basle ended without the official statement that the market had expected, and speculators remained convinced that the next move would be an upward revaluation of the mark. On November 18 and 19 the Federal Bank purchased $850 million, bringing gross purchases in November to more than $2.8 billion. On November 19, in an effort to calm the market, the German authorities issued a formal communiqué stating that the mark would not be revalued and, to reduce the German trade surplus, announced new tax measures that would raise export prices while lowering import costs.

After a holiday on Wednesday, November 20, trading in Germany was effectively suspended for the 2 days before the weekend as the Finance Ministers and central bank Governors of the Group of Ten nations met in emergency session in Bonn. On November 22, the Group of Ten nations issued a communiqué fully supporting the German Government's decision to stand firm at the existing mark parity, its new tax measures, and the Federal Bank's decision to impose 100 per cent reserve requirements on new foreign-owned mark deposits held in German banks. The monetary move, which was designed to discourage further speculative inflows, reinforced the ban already in effect on interest payments on foreign-owned sight or time deposits denominated in marks. The German authorities also initiated legislation authorizing the licensing of mark deposits by foreigners with German banks.

When trading resumed in Frankfurt on November 25, substantial amounts of funds began to flow from Germany as market expectations of a revaluation receded and long positions were liquidated. To encourage these and subsequent reflows, the Federal Bank offered outright forward cover back into marks at a 3 per cent per annum premium for 3-month maturities. The Federal Reserve backed up the German Federal Bank's operations, offering outright cover to the market at the same rates for the same maturities. By the end of November the Federal Bank had resold $880 million spot and sold $246 million of outright forward marks. The System's outright forward sales reached $72.5 million equivalent; all were covered by swap drawings, which raised Federal Reserve swap debt in marks to $112.1 million equivalent.

On December 2 the Federal Bank and the Federal Reserve discontinued outright sales of forward marks, concluding that such sales had served their purpose of encouraging capital outflows and assuring the market that there would be no parity change. The Federal Bank offered instead to undertake swaps with its banks at improved rates and for a wider range of maturities. Earlier the authorities had dropped their requirement that the proceeds of the swaps be invested in U.S. Treasury bills and now requested only that investments match the maturities of the official swap contracts. German banks responded to the improved incentives—enabling the authorities to roll over into 1969 the very large December maturities of earlier swaps. Moreover, German banks also purchased very substantial amounts of spot dollars, as foreigners withdrew funds from Germany and commercial leads and lags began to unwind. These heavy outflows from Germany enabled the Federal Reserve to begin accumulating German marks to cover outstanding System commitments.

FRENCH FRANC

Late in 1967 the French current account began to recover from the modest deficit that had emerged during the preceding year. With this favorable development in the background, the franc remained above par ($0.2025½) during the early months of 1968. Nevertheless, there were occasional periods of pressure on the franc, arising from reactions to the new U.S. balance of payments program announced on January 1, shifts of funds into the Euro-dollar market by French banks, and the March speculative stampede into gold. By the end of April the franc had drifted to a level just above par, from which there was little change well into May.

On May 17, however, student rioting broke out, followed shortly by labor strikes in Paris and similar disorders elsewhere in France. Within days the strikes had virtually paralyzed the French economy, and on May 20 the absence of personnel forced nearly all French banks to close. For all practical purposes, this also closed the Paris exchange market and complicated the delivery of francs bought and sold in exchange dealings in other countries. Trading in spot francs continued in those markets, but at a sharply lower volume.

With the French markets closed, the Bank of France called upon the Federal Reserve Bank of New York to help maintain franc quotations within declared limits by purchasing spot francs for the Bank of France account. Subsequently, the Bank of France made parallel arrangements to cover European markets through the BIS. For a few days the franc fluctuated just above its floor ($0.2010½), but as the political crisis deepened, the rate fell to the floor level and had to be heavily supported. Even though banks were closed in France, speculative flows from France to Switzerland and into the Euro-dollar market grew to substantial volume, and at the end of May the French Government imposed exchange controls over resident capital transfers abroad; nonresident transactions remained free of controls, however.

In early June the selling abated somewhat after President de Gaulle's call for national elections raised hopes that a beginning had been made toward restoring order in France. Evidence of a scattered return to work by French workers also helped to improve the atmosphere. Moreover, the Bank of France was able to resume its regular activities and make its presence felt in support of the franc on the continent. French commercial banks began operating again, and on June 7 the Paris bourse opened its doors for the first time since May 20.

But the reopening of normal channels of foreign exchange dealings brought with it further selling of francs. Despite the gradual return to work by French workers during the month of June, it was feared that the large wage increases necessary to bring an end to the work stoppage might initiate a wage-price spiral that could seriously weaken French international competitiveness. As a result, selling of francs stepped up, based in large part on a precipitate reversal of commercial leads and lags despite the exchange controls imposed at the end of May. The French Government's announcement of a program of temporary import quotas and export subsidies to bolster the franc did little to stem the speculative tide. But the sweeping victory of the Gaullist forces in the elections at the month-end cleared away one area of uncertainty besetting the market, and although the selling of francs persisted thereafter, the market fever abated.

For May the Bank of France announced a reserve loss of $307 million, and in June a further loss of $203 million was recorded. But sizable credit operations had also been initiated. In June the Bank of France bolstered its reserves by drawing the full $100 million then available under its swap line with the Federal Reserve, the first drawing by that bank since the inception of the arrangement in March 1962. In addition, France drew $885 million from the IMF—representing its gold tranche and other drawing rights resulting from previous Fund use of French francs supplied by France under the General Arrangements to Borrow. (As described in other sections of this report, the Federal Reserve was able to acquire certain currencies drawn by France, and it used them to reduce System drawings on swap lines with other central banks.) Thus the cost of official support for the franc in May and June came to \$1.5 billion. Part of this reserve loss took the form of gold sales by the French authorities to replenish dollar balances, including \$220 million of gold sold to the U.S. Treasury.

With the announcement of the June reserve figures in early July, Finance Minister Couve de Murville (later named Premier) strongly reaffirmed the government's intention to defend the franc parity. As evidence of that resolve, the French authorities broadened their defense of the franc to include an increase in the Bank of France discount rate from 3½ to 5 per cent, a tightening of exchange controls, and new taxes. Shortly thereafter, on July 10, the Bank of France announced a \$1.3 billion package of new credits from the Federal Reserve, the central banks of Belgium, Germany, Italy, and the Netherlands, and the BIS. The Federal Reserve participation took the form of a \$600 million increase in the swap line with the Bank of France, which raised that facility to \$700 million.

Despite these stabilizing measures, the market remained skeptical about the future of the franc, particularly in view of the inflationary potential of the wage increases in June. Pressure on the franc continued throughout the summer, and it was aggravated by recurring rumors of a revaluation of the German mark. Selling pressures eased only temporarily after publication, in mid-September, of the French Government's 1969 budgetary plans. At the same time removal of the exchange controls imposed in May had only a short-lived favorable impact.

During the summer the Bank of France drew a further \$390 million on the expanded swap facility. Net drawings at September 30 amounted to only \$450 million, however, since the Bank of France had repaid \$40 million of its drawings in the summer following a sale of gold to the U.S. Treasury; during the third quarter France sold a total of \$240 million of gold to the United

States. The French authorities also made use of other international credit facilities.

October was a generally quieter month, and the Bank of France was able to repay $75 million of its swap debt to the System and to reduce obligations under other international credits. The respite was short-lived, however. The outbreak of renewed speculation in marks in early November gave rise to a massive outpouring of funds from France, with heavy losses to French official reserves. The French authorities responded by tightening monetary policy—including an increase in the discount rate to 6 per cent and placement of a ceiling on short-term bank credit growth. On November 18, after the November 16-17 monthly meeting of the central bankers at Basle, Premier Couve de Murville went on nationwide television to declare that France was assured of "all the help she might need or will need in the future" and promised large cuts in planned government spending to bolster the franc.

But the markets remained convinced that the franc faced imminent devaluation, and heavy selling continued. To meet the pressures, the Bank of France drew further on the Federal Reserve swap facility, raising its debt under that line to $611 million, and also drew funds from other participants in the July credit package. In view of the continuing feverish speculation, the French authorities decided to close the Paris financial markets during the period of the Bonn meeting (November 20-22). Although the New York market remained open, there were only scattered quotations for spot francs at deep discounts below parity, and forward quotations were essentially unobtainable as the market believed that a devaluation of the franc was certain to follow the meeting.

At the conclusion of the Bonn meeting a new central bank credit facility for France in the amount of $2 billion was announced. U.S. participation in the new credits took the form of a $300 million increase in the Federal Reserve swap line—raising the total to $1 billion—and a $200 million facility extended to the Bank of France by the U.S. Treasury. The next day President de Gaulle confounded market expectations by rejecting devaluation of the franc, and on November 24 he set forth a new program to defend the existing franc parity. The new plan included a sharp cut in the government budget deficit, further monetary curbs, price restraints, and tax adjustments to improve the French competitive position—all backed up by stringent exchange controls.

When trading resumed on Monday, November 25, there was some immediate covering of short positions and the Bank of France began to take in dollars. In subsequent days the Bank of France continued to gain reserves, as the newly imposed exchange controls stopped capital outflows and French exporters complied with regulations requiring them to repatriate export proceeds within a short period of time. In early December further restrictions required French importers to abrogate a substantial portion of their contracts to purchase forward cover in foreign exchange, and French banks were obliged to sell to the Bank of France the currencies held as cover against those contracts.

As a result of these moves the Bank of France continued to gain reserves, which it used in part to repay official borrowings. By the year-end the bank had liquidated a total of $181 million of its swap debt to the Federal Reserve—lowering those commitments to $430 million. The bank had also repaid substantial credits drawn from other countries of the European Economic Community and from the BIS. At the same time the French authorities made further gold sales, bringing those to the United States to $600 million for the year.

SWISS FRANC

The Federal Reserve had drawn heavily on its Swiss franc swap lines in 1967 to absorb inflows of funds seeking refuge in Switzerland from currency uncertainties in the wake of the Middle East conflict, the crisis in sterling, and massive speculation in gold. By the end of that year Federal Reserve swap drawings amounted to $250 million on the Swiss National Bank and $400 million on the BIS. Moreover, as part of the concerted central bank effort to restrain speculation, the Federal Reserve and the U.S. Treasury jointly had underwritten $65.5 million of forward franc sales in the market by the Swiss National Bank in December 1967. Thus, at the beginning of 1968, total U.S. swap and forward market commitments in francs stood at $715.5 million equivalent.

Early in 1968 a substantial but largely seasonal reflux of funds from Switzerland developed as Swiss commercial banks moved to rebuild their dollar investments. The spot franc rate dropped sharply, and the Swiss National Bank extended sizable support by selling dollars in the spot market. The National Bank covered these sales by purchasing dollars from the Federal Reserve in exchange for francs. The System used these francs, along with modest franc balances obtained in the market and from special transactions, to reduce its swap obligations in Swiss francs by $343 million through early March.

At the same time the Federal Reserve was able to pay off an additional $175 million of its drawings on the BIS and the Swiss National Bank through issuance by the U.S. Treasury of a $100 million equivalent Swiss franc security to the Swiss National Bank and by purchasing $75 million equivalent of Swiss francs from that bank. (The Swiss National Bank simultaneously purchased $25 million of gold from the U.S. Treasury.) Thus, by March 8 the Federal Reserve swap debt in Swiss francs was reduced to $132 million equivalent, with $77 million outstanding to the Swiss National Bank and $55 million to the BIS. Earlier, in February, the U.S. authorities also paid off the first $10 million of maturing forward sales contracts falling due to the market; this left $55.5 million still outstanding, divided evenly between the System and the Treasury.

The speculative upsurge in the gold market in March was accompanied by a strengthening in the spot franc, although the advance was dampened by the demand for dollars by holders of Swiss francs who wished to buy gold in London. On March 15, with the London gold market closed and traders unsure of the outcome of the weekend meeting in Washington, the demand for Swiss francs intensified. The Swiss National Bank indicated to the market that it would henceforth sell francs at the official upper intervention point of \$0.2328¼, rather than the unofficial limit of \$0.2317½ in effect in recent years. The National Bank did take in some dollars at the new intervention point that day, but the amounts were not large. Demand for francs was heavier in the forward market, however, and the Swiss National Bank, acting jointly for the Federal Reserve and the Treasury, sold a total of \$56 million equivalent of forward francs, raising U.S. forward commitments to the market to \$111.5 million.

The news of the decisions taken at the Washington meeting calmed the market considerably. One result of that meeting was a further increase in the Swiss franc swap facilities with the Swiss National Bank and with the BIS of \$200 million each. As a result, the resources available under each arrangement were raised to \$600 million. In succeeding weeks, the liquidity positions of Swiss banks remained relatively easy, and with the exchange markets generally calmer during April, it proved possible for the Federal Reserve and the U.S. Treasury to liquidate \$43 million equivalent of maturing Swiss franc forward contracts, thereby reducing these commitments to \$68.5 million.

The month of May brought a strengthening of the spot franc. Early in the month, market uncertainties arising from a spate of rumors of a revaluation of the mark and growing apprehensions over sterling generated speculative demand for francs. In addition, there were indications that Italian interests were buying francs to liquidate credits that were becoming expensive relative to loan rates elsewhere. Later in the month the political and economic upheaval in France pushed the Swiss franc still higher. By the end of May, the flight of French capital to Switzerland had lifted the Swiss franc to its ceiling and the Swiss National Bank had taken in a sizable amount of dollars. The System subsequently absorbed most of that intake by drawing $73 million under the swap facility with the Swiss National Bank—raising Federal Reserve commitments to the Swiss National Bank to $150 million. On the other hand, the remaining $55 million equivalent of Federal Reserve swap debt in Swiss francs to the BIS was fully repaid in May through a U.S. Treasury swap of sterling against Swiss francs with the BIS.

In June quotations for the Swiss franc moved irregularly lower after the middle of the month, as the Swiss National Bank provided swap facilities to help Swiss banks meet their midyear liquidity needs. Such short-term swaps by the Swiss National Bank reached a total of $430 million, and the bank rechanneled the entire amount of the dollar proceeds to the Euro-dollar market, both directly and through the BIS. Toward mid-June, the System acquired $15 million of francs from a correspondent and with these francs reduced its commitments to the Swiss National Bank to $135 million by June 18. In addition, the U.S. authorities liquidated $3.0 million of maturing forward commitments to the market—using francs purchased from the Swiss National Bank.

In July money and credit conditions in Switzerland tightened, as heavy seasonal withdrawals of currency drained liquidity from Swiss banks and as midyear swaps between the central bank and the commercial banks ran off. Swiss banks bid strongly for francs to meet month-end needs, and interest rates on 1-week money climbed to 8 to 10 per cent per annum. With no immediate prospect of liquidating Swiss franc swap commitments through market transactions, the U.S. authorities moved to wind up these commitments by other means. In early July the U.S. Treasury issued to the BIS a 3-month certificate of indebtedness denominated in Swiss francs equivalent to $54.7 million. The Treasury used these francs to reverse its third-currency swap of sterling for francs with the BIS. Subsequently, on July 16, the Treasury issued to the Swiss National Bank a 3-month franc-denominated certificate for $133.7 million equivalent; the System used nearly all of these francs, together with balances on hand, to repay fully the $135 million commitment still outstanding under the swap line with the Swiss National Bank. The $600 million facility with the bank thus reverted to a fully available standby basis. Also during the month the System and the Treasury were able to liquidate at maturity $29.5 million of forward contracts with the market.

At the end of July credit conditions in Switzerland tightened still further, triggering heavy repatriations of funds into Switzerland, and the Swiss National Bank took in a large amount of dollars. The System subsequently absorbed nearly all those gains by reactivating its swap line with the Swiss National Bank—drawing a total of $145 million by August 1. The substantial injection of francs resulting from these inflows into the Swiss money market brought an end to the squeeze and an easing in the spot rate, which lasted well into August. Accordingly, in August, the System and the Treasury paid off the last $36 million of forward franc commitments to the market that dated back to late 1967 and early 1968.

After mid-August the Soviet invasion of Czechoslovakia and the uncertainties generated by a renewed flare-up of speculation in German marks brought a sharp jump in demand for Swiss francs. However, the franc rate did not reach the Swiss National Bank's upper intervention point, and in early September the spot rate eased somewhat as funds began to move out of Switzerland into Germany. Later in that month, end-of-quarter liquidity demands resulted in a firming of the franc, but Swiss banks sold only a small amount of dollars to the National Bank. In view of the relatively higher rates available on Euro-dollars the banks met their liquidity needs primarily by rediscounting money market paper with the Swiss National Bank rather than by liquidating dollar assets. In these circumstances, the Swiss National Bank covered the dollar needs of the Swiss Confederation and the dollar requirements for exchange transactions with other countries through purchases of dollars from the Federal Reserve, thereby providing the System with francs needed to meet short-term obligations. Thus, by early October the Federal Reserve had reduced its outstanding swap debt to the Swiss National Bank by $105 million to $40 million equivalent.

The Swiss money market remained tight in October, and late in the month the Swiss National Bank had to take in dollars. The Federal Reserve absorbed these gains by drawing $80 million equivalent on the swap line with the National Bank—raising its swap debt to $120 million equivalent by early November. Subsequently the spot franc dipped lower and traded quietly through mid-November, despite the heavy speculation in the exchanges focused on the German mark, French franc, and sterling. When international currency uncertainties intensified severely during the 3-day meeting of the Group of Ten in Bonn, the Swiss franc rose to the ceiling and the Swiss National Bank took in some $215 million. The Federal Reserve absorbed most of the Swiss National Bank's intake of dollars by drawing an additional $200 million equivalent on its swap line with that bank. These drawings raised the System's indebtedness under the swap facility with the Swiss National Bank to $320 million equivalent.

In December, as in past years, the Swiss authorities offered short-term swaps to Swiss commercial banks repatriating funds for year-end needs. The banks made very heavy use of this facility, with total swaps rising to $746 million. Following past procedure the Swiss authorities rechanneled these dollars back to the Euro-dollar market in order to prevent the disturbance of that market that would otherwise have occurred.

CANADIAN DOLLAR

The Canadian dollar came under heavy speculative attack during the early months of 1968. Although Canada's trading position remained strong, market sentiment had been shaken by the devaluation of sterling and the subsequent gold rush. The market was particularly disturbed by apprehensions that the new U.S. balance of payments program announced on January 1 would adversely affect U.S. direct investment in Canada and the balance of short-term capital flows between the two countries, despite Canada's continued free access to the U.S. bond market under the new program. In February political uncertainties added to market tensions as the Canadian Government encountered temporary difficulties in obtaining legislative approval for its anti-inflationary fiscal program. Official reserve losses were heavy in January and February, and the Canadian authorities accordingly reinforced their reserve position by drawing $250 million under the $750 million swap facility with the Federal Reserve and $426 million from the IMF. At the same time the Bank of Canada's discount rate was raised to 7 per cent effective January 22.

In early March, as the gold rush resumed, there was continuing heavy pressure on the Canadian dollar. Against the background of speculative pressures, fiscal measures designed to limit domestic demand were reintroduced into—and subsequently passed by—Parliament. Domestic measures were immediately supported by a bolstering of Canada's international credit lines. New international credits of $900 million—over and above the $500 million still available under the Federal Reserve swap line—were made available by the U.S. Export-Import Bank, the German Federal Bank, the Bank of Italy, and the BIS. At the same time the U.S. Government made clear its wholehearted support for Canada's program to defend the $0.9250 parity by granting Canada a complete exemption from the restraints on capital flows announced in the President's January 1 program.

The Canadian Minister of Finance assured the U.S. Government that this exemption would in no way impair the effectiveness of the President's balance of payments program. In addition, the Finance Minister announced Canada's intention to invest holdings of U.S. dollars—apart from working balances—in U.S. Government securities that do not constitute a liquid claim on the United States. Effective March 15, the Bank of Canada raised its discount rate by ½ percentage point to 7½ per cent. On the previous day most Federal Reserve Banks had announced a ½-point rise in discount rates.

These strong measures to protect the Canadian dollar began to exert their full effect as soon as the March 16-17 Washington meeting cleared away doubts about central banks' resolve to defend the existing international payments system. The Bank of Canada immediately announced that it would cooperate in the policies set forth in the Washington communiqué. It was also announced that the Bank of Canada's swap facility with the Federal Reserve had been increased to $1,000 million, providing further assurance of the capacity of the Canadian authorities to maintain the existing parity. The market response was favorable and the Canadian dollar began to strengthen.

The market was also helped by news of a large calendar of Canadian borrowings in New York, which suggested sizable forthcoming demand for Canadian dollars. Moreover, a Province of Quebec loan placed in Europe also suggested that Canadian borrowers could tap new capital resources in Europe, where monetary conditions had eased as a result of official policy actions designed to foster renewed business expansion on the continent.

With a sharp turnabout in market sentiment toward the Canadian dollar, the Canadian authorities began recouping reserves in the second half of March and thus offset some of the losses sustained early in that month. Buying pressure gathered momentum in April, as demand for Canadian dollars was strengthened by the conversion of export earnings, which had been at a very high level since the beginning of the year. Thus, the Canadian dollar strengthened gradually, and official reserves increased substantially in April and May. In May and June the Government of Canada sold new issues of bonds in the United

States, Italy, and Germany in a total amount of $262 million equivalent. As the exchange market situation continued to improve in late June, the Bank of Canada repaid $125 million of its $250 million of obligations under the Federal Reserve swap line and on July 1 reduced its discount rate by ½ percentage point to 7 per cent.

After a brief lull early in July, there was renewed buying of Canadian dollars as banks began to undo forward positions against the Canadian dollar, which had been undertaken during the peak of the speculative attack in January. The Bank of Canada took in dollars while gradually permitting the spot Canadian dollar to advance to its effective ceiling ($0.9324). Against this favorable background, the Bank of Canada announced on July 26 that it was lowering its discount rate by a further ½ percentage point to 6½ per cent. With this announcement the Canadian authorities also revealed that the Bank of Canada had repaid the final $125 million outstanding on its swap line with the System, thereby placing the entire $1,000 million facility on a standby basis. At the same time it was reported that the $100 million short-term facility with the BIS and the facilities of $150 million each with the Bank of Italy and the German Federal Bank had been terminated without having been utilized.

The Canadian dollar was at or near its effective ceiling throughout August. It then dipped for a time in September after the Bank of Canada reduced its discount rate to 6 per cent early in that month. But demand soon resumed in connection with conversion of borrowings abroad and the spot rate moved back to its ceiling before the month-end. By the end of September Canada's gold tranche with the IMF was reconstituted to the full $185 million.

The Canadian dollar continued to benefit from optimistic market appraisals through the closing months of 1968. In mid-December, an exchange of letters took place between U.S. and

Canadian Treasury officials, restating the exemption of Canada from all U.S. balance of payments programs and the basic principle that it would not be Canada's intention to achieve increases in its exchange reserves through borrowing in the United States. Implementation of this principle does not require that Canada's reserves be limited to any particular figure.

On December 18 the Bank of Canada raised its discount rate by ½ percentage point to 6½ per cent following announced increases in Federal Reserve discount rates. For the month of December the Bank of Canada gained some further reserves. Thus, despite a major crisis early in 1968, Canada's gold and foreign exchange reserves—including the net creditor position with the IMF—rose by $332 million for the year as a whole.

DUTCH GUILDER

Late in 1967 there were heavy flows of funds to the Netherlands, generated mainly by the sterling crisis but also by a brief liquidity squeeze in the Amsterdam market at the year-end. The Federal Reserve drew several times on its swap line with the Netherlands Bank, and by early January 1968 System commitments had reached $185 million. Moreover, the Treasury executed special temporary swaps with the Netherlands Bank for $126 million equivalent, to provide cover for that bank's spot dollar accumulations. As part of the concerted central bank effort in November 1967 to restrain speculation, the Netherlands Bank initiated forward sales of guilders totaling $37.5 million on behalf of the Federal Reserve and U.S. Treasury. Thus, U.S. authorities' short-term commitments in guilders reached a peak of $348.5 million on January 4, 1968.

Liquidity conditions in Amsterdam improved significantly with the new year, and Dutch banks responded by moving excess funds back into the Euro-dollar market. In mid-January, outflows from Amsterdam were sufficiently large for the Netherlands Bank to provide support for the guilder. The Netherlands

Bank then restored its dollar position through purchases from the Federal Reserve Bank of New York acting for account of the U.S. Treasury. Through these transactions the Treasury obtained $23 million equivalent of guilders, which were used to reduce Treasury commitments under its swap with the Netherlands Bank to $103 million equivalent.

These outflows from the Netherlands were short-lived, however, and the Federal Reserve was able to make only a modest start in repaying its commitments outstanding under the swap with the Netherlands Bank. Moreover, the Dutch balance of payments, which had been in modest surplus in 1967, showed no signs of shifting into deficit. To avoid an undue prolongation of the short-term guilder commitments incurred by the System and the Treasury, a variety of special transactions were undertaken. On January 29 the U.S. Treasury issued to the Netherlands Bank a 12-month certificate of indebtedness denominated in guilders equivalent to $65.7 million. The Treasury used $55.7 million equivalent plus a small amount in balances to reduce its swap commitments to $47 million. The Federal Reserve purchased the balance of the guilders and used them to reduce its swap indebtedness to the Netherlands Bank to $165 million.

On February 21 the Treasury repaid its remaining $47 million equivalent of swap commitments to the Netherlands Bank with guilders purchased from that bank. In turn the Netherlands Bank purchased $23.5 million in gold from the Treasury. Shortly afterward, Canada made its drawing from the IMF; this drawing included $30 million equivalent of guilders, which the Bank of Canada converted to U.S. dollars through the Netherlands Bank. This reduced the Dutch dollar position enough for the U.S. authorities to purchase sufficient guilders to liquidate the $37.5 million in forward contracts maturing in late February and early March. Finally, the U.S. Treasury drawing from the IMF included $100 million equivalent of guilders, which were used by the Federal Reserve to make a further reduction in its swap obligation with the Netherlands Bank. As of March 8

Federal Reserve swap debt to the Netherlands Bank was thus reduced to $65 million.

Demand for both spot and forward guilders swelled once again in the wake of the March gold rush. The Netherlands Bank purchased about $100 million through March 15 but swapped out a sizable amount of this intake—selling the dollars spot and repurchasing them forward—in order to mop up excess domestic liquidity. To absorb the bulk of the Dutch reserve gains, the Federal Reserve Bank of New York, acting for the account of the U.S. Treasury, concluded a special 45-day swap for $65 million with the Netherlands Bank. In addition to market swaps, the Netherlands Bank offered guilders forward on an outright basis, to limit the tendency for costly forward premiums to result in sales of spot dollars to the central bank. The Federal Reserve and the Treasury underwrote this operation, by each taking over $20.9 million equivalent of guilder forward commitments to the market—in the 1-, 2-, and 3-month maturity ranges. These combined operations by the Dutch and U.S. authorities helped to reassure the market and restrained further heavy inflows of funds.

The March 16–17 Washington meeting of the gold pool central banks marked a major turning point. (One of the agreements reached that weekend was a further increase in the swap facility between the Federal Reserve and the Netherlands Bank to $400 million.) Speculative influences abated, and the guilder market resumed a more normal trading pattern. The forward premium on guilders narrowed, restoring attractive yield incentives in favor of Euro-dollar investments, and a sizable reflux from the Netherlands soon developed. Moreover, commercial firms became buyers of foreign exchange to rebuild balances and to meet current requirements. With this reversal of pressures in the guilder market, the Netherlands Bank sold a substantial amount of spot dollars during the remainder of March and into April—replenishing those losses through purchases from the U.S. Treasury and the Federal Reserve.

The Treasury used the guilders so obtained to liquidate its $65 million special swap with the Netherlands Bank in advance of maturity, and by the end of April the System had also purchased sufficient guilders to repay the last of its swap drawing with the Netherlands Bank. The U.S. authorities were also able to liquidate the forward guilder contracts falling due to the market in April and May. The last $10.7 million of these obligations were covered in early June, when the United States purchased from France part of the guilder proceeds of the French drawing from the IMF.

Moreover, additional conversions of guilders drawn from the IMF by France and the United Kingdom reduced the dollar balances of the Netherlands Bank to the extent that the bank in turn drew a total of $54.7 million under the swap line with the Federal Reserve to replenish its holdings. This was the first time the Netherlands Bank had drawn on its swap line with the Federal Reserve since the inception of the swap arrangement in 1962. In addition, the Netherlands Bank bolstered its dollar balances by selling $30 million of gold to the U.S. Treasury.

Although the guilder drifted lower in July and August, the Netherlands Bank took in sufficient dollars to make a $24.9 million swap repayment in early September. The downward drift of the spot rate continued into late summer, as the Dutch current account weakened and as Dutch funds moved into U.S. corporate securities. A slight rise in Euro-dollar rates in early October contributed to a further decline in the guilder rate so that by mid-October it had reached $0.2744¼—its lowest level since the 1961 revaluation. During the course of the decline, however, the Netherlands Bank provided only occasional and modest market support. In fact, in mid-October the bank was able to restore the full swap facility with the Federal Reserve to a standby basis by repaying the $29.8 million outstanding balance of the June drawing.

The downtrend ended when the money market in Amsterdam tightened in the latter half of October. However, the spot guilder rate held steady as an increasing demand for marks more or less outweighed the influence of the tight money market. At that time the Netherlands Bank increased its dollar balances by selling $25 million of guilders to the U.S. Treasury, which used them to make an advance repurchase of its obligation to the IMF. After the Bonn meeting on November 20-22, the demand for marks eased abruptly and the spot guilder strengthened.

Year-end liquidity requirements in the Netherlands resulted in a further firming of the guilder throughout December. Pressures were modest, however, and were relieved through market purchases of dollars by the Netherlands Bank, largely on a swap basis; the bank's swap purchases for December totaled $84 million. Just before Christmas the Netherlands Bank raised its discount rate ½ percentage point to 5 per cent, explaining that the move was made in response to the rise in rates abroad, a weaker trend in the Dutch current account, and the danger of renewed inflationary tensions in the Dutch economy.

ITALIAN LIRA

Italian official reserves increased substantially in 1967, as Italy's balance of payments showed unexpected strength during the year and the sterling crisis induced large repatriations of funds in the fall. The Federal Reserve absorbed the bulk of these inflows through swap drawings on the Bank of Italy totaling $500 million, which were still outstanding at the end of 1967. Early in 1968 the spot lira eased seasonally but not enough to provide the Federal Reserve with the opportunity to acquire lire in volume through market transactions. In late February and early March, however, the Federal Reserve acquired $75 million equivalent of Italian lire and $100 million equivalent of German marks from the proceeds of Canadian and U.S. drawings on the IMF; the marks were converted into lire with the Bank of Italy, and the combined proceeds were used to reduce the swap debt to the Bank of Italy to $325 million in early March.

As a new wave of speculation on the London gold market spread to the exchange markets in March, inflows of funds to Italy developed, but these quickly tapered off when the Bank of Italy permitted a rapid rise in the spot rate. The spot lira moved sharply lower after the Washington meeting, but there was no significant reflux of funds from Italy as that country's external position remained strong. With little change in the market pattern through April and with the usual spring and summer buildup of Italian official reserves in prospect, the Italian authorities asked the System to absorb $175 million of their dollar holdings by a swap drawing toward the end of April, again raising Federal Reserve swap debt in lire to $500 million.

During the spring, however, the increase in Italian official reserves did not develop as expected. A brief period of labor and student unrest, together with political uncertainties arising out of the resignation of Premier Moro, may have induced some outflows of funds. More important, however, were relatively easy credit and liquidity conditions, which encouraged large capital outflows, particularly to the Euro-bond market. Such outflows of long-term funds from Italy continued into the summer, largely offsetting the normal rise of reserves during the tourist season.

These developments, along with the French and U.K. drawings on the IMF in June, provided the opportunity for the Federal Reserve to liquidate the full amount of its outstanding swap obligations to the Bank of Italy by early July. The currency packages put together by the IMF for France and the United Kingdom provided for $369 million of lire. Of this amount, the System purchased $141.5 million equivalent directly from the drawing central banks, and the bulk of the remainder was converted into dollars by the Bank of Italy—depleting its dollar holdings. Moreover, in the absence of a large seasonal increase in reserves, it became clear that the swap drawing effected in anticipation of such reserve increases no longer seemed necessary. Therefore, the System purchased an additional $351.1 million equivalent of lire from the Bank of Italy and used these lire, together with some $7.6 million equivalent acquired from a correspondent and in the market, to liquidate completely its remaining swap debt to the Bank of Italy. The $750 million reciprocal currency facility was thereby placed on a fully standby basis. Subsequently in October, the Federal Reserve and the Bank of Italy agreed to increase their reciprocal currency facility by $250 million to $1 billion, bringing it fully into line with the System's reciprocal currency arrangements with other major countries.

As the Italian balance of payments moved into its period of seasonal weakness, the lira tended to ease through late October. In November the speculative upheaval in Europe brought the lira under selling pressure as Italians covered commitments in marks. But normal trading patterns resumed after the Bonn meeting, and the spot rate held narrowly above par in routine markets through the close of the year.

Since early 1965, the U.S. Treasury has assumed technical commitments in forward lire, related to the dollar/lira swaps transacted by the Italian authorities with the Italian commercial banks. Earlier operations of this type had been conducted in 1962-64. The Federal Reserve joined in these commitments in November 1965, under an authorization to participate to the extent of $500 million. No opportunity subsequently appeared to terminate these Federal Reserve commitments through a reversal in the Italian banks' forward positions. Consequently, in line with System policy of limiting exchange operations to relatively short-term needs, in April 1968 the Federal Reserve transferred to the Treasury the total of its technical forward commitments in lire, which amounted to $500 million. During the year the Treasury took on a small amount of new technical forward commitments through the Italian authorities. Such commitments, as they have fallen due, have been rolled over by the Italian authorities.

BELGIAN FRANC

The Belgian National Bank gained substantial amounts of dollars in 1967 during the Middle East conflict and the subsequent sterling crisis. The Federal Reserve drew on the swap line to absorb some of these gains, and at the opening of 1968, System drawings of $105.8 million equivalent were still outstanding. Moreover, the Federal Reserve and the U.S. Treasury jointly had $11.8 million of outstanding commitments from forward sales of francs to the market through the Belgian National Bank in late 1967, as part of the concerted central bank effort to maintain orderly markets after the devaluation of sterling. In addition to these short-term obligations the U.S. Treasury had issued a $60.4 million medium-term franc-denominated note to the Belgian authorities.

In late January 1968 the Belgian National Bank purchased $25 million from the System to cover moderate losses in market support and to meet anticipated dollar requirements of the Belgian Government. The Federal Reserve used the franc proceeds to reduce its swap indebtedness to $80.8 million. In February, however, market conditions were briefly reversed, and the Belgian central bank once again purchased dollars, which the System covered by drawing $7.5 million equivalent of francs on the swap. Subsequently, the System was able to make further reductions in its Belgian franc commitments. Late in February it acquired $13.5 million of francs from the Belgian National Bank, when that bank needed dollars, and $30.2 million equivalent following Canada's IMF drawing. Moreover, the System acquired $10 million of Belgian francs in connection with the U.S. Treasury's drawing on the IMF. These francs were used to make swap repayments, and by March 8 such commitments had been reduced to $34.5 million equivalent. The remainder of the Treasury's $15 million Belgian franc drawing was used in the liquidation of System and Treasury forward contracts, and on March 8, $5 million equivalent remained outstanding.

On March 7 the National Bank cut its discount rate by ¼ percentage point to 3¾ per cent to promote a lower level of interest rates in Belgium and to stimulate domestic economic activity. But in the following week a violent burst of speculation in the gold and foreign exchange markets pushed the franc to the National Bank's upper intervention point. By March 15 the bank had taken in nearly $60 million. The Federal Reserve absorbed most of this inflow by additional drawings on the swap line; by March 19, System drawings outstanding reached $80.1 million.

In the calmer atmosphere immediately following the Washington meeting, however, Belgian banks soon began to channel funds back into dollar investments. As the National Bank provided occasional support in the spot market and replenished its dollar holdings through purchases from the System, gradual progress was made in reducing Federal Reserve swap debt in francs. At one stage, however, the System covered $33 million of Belgian official dollar holdings through a swap drawing that was soon reversed, and by early June swap obligations were lowered to $43.1 million. Moreover, the System and the Treasury purchased sufficient francs from the Belgian National Bank to liquidate the remainder of their forward franc commitments with the market.

In June, the French and British drawings on the IMF contained Belgian francs that the drawing countries converted into dollars with the Belgian National Bank. After these conversions the Belgian central bank replenished its dollar balances by purchasing dollars from the Federal Reserve. The System thus obtained sufficient francs to liquidate completely its outstanding swap debt in francs, including a $21 million further drawing on the Belgian National Bank that had become necessary.

During the summer months, the spot Belgian franc continued to edge downward as a result of the economic recovery and the maintenance of relatively low levels of short-term interest rates in Belgium, compared with the attractive yields in the Euro-dollar market. In July the spot franc dipped below par ($0.02000), and the Belgian National Bank intervened to slow the decline. As part of this operation, that bank utilized $20 million under its Federal Reserve swap line, the first such utilization since

1963. Selling of francs continued intermittently through late summer, especially during the period of heavy pressure on the French franc. The selling was not severe, however, and in the latter part of September the Belgian National Bank repaid the $20 million of credits drawn earlier under the swap line with the Federal Reserve—thus restoring the entire $225 million facility to a standby basis.

Selling pressures resumed near the end of September and carried into October. Part of the outflows from Belgium reflected spot sales of francs by some U.S. corporations, which refinanced in Belgium dollar credits employed earlier in direct investments in that country. During most of October the authorities held the spot franc moderately above its official floor ($0.019851) and covered market losses with drawings on the Federal Reserve swap line. By the end of October, drawings by the Belgian National Bank totaled $120.5 million.

November's speculative upheaval in Europe gave rise to heavy selling of francs. These pressures cost the Belgian authorities substantial support losses, although they lightened considerably in the quieter atmosphere after the Group of Ten meeting at Bonn. The Belgian central bank drew $65 million under its swap line with the Federal Reserve in November and another $5 million in December to cover the cost of official exchange market support. In early November and late December the U.S. Treasury purchased a total of $216 million of Belgian francs from the Belgian authorities; $60.4 million equivalent of these francs were used to redeem in advance of maturity a 2-year note issued to the National Bank in 1967 (leaving no further U.S. obligations in Belgian francs), and the balance was paid to the IMF to help reconstitute the U.S. gold tranche position with the Fund. For its part, the Belgian central bank used the dollar proceeds of the Treasury's franc purchases to replenish its reserves and repay a total of $183 million of its swap debt to the Federal Reserve—leaving $7.5 million still outstanding at the end of 1968.

In the meantime, effective December 19, the Belgian National Bank had raised its discount rate to 4½ per cent from 3¾ per cent, to help stem short-term capital outflows and in response to evidence of money market strains associated with larger domestic borrowing requirements. Subsequently the spot franc strengthened, reaching par just before the year-end.

OPERATIONS IN OTHER CURRENCIES

In 1968 the National Bank of Denmark drew for the first time on its $100 million reciprocal currency arrangement with the Federal Reserve. In June the bank drew $25 million to meet cash requirements largely associated with conversion of the Danish krone portion of drawings on the IMF by France and the United Kingdom, and with some shifts of funds into dollars by Danish commercial banks. The drawing was repaid at maturity in September.

EURO-DOLLAR MARKET

Euro-dollar rates eased sharply in early 1968 despite the announcement on January 1 of the more stringent U.S. balance of payments program. Sizable reflows of funds from France, Germany, and Switzerland added to market supplies, and the heavy pressure on the Canadian dollar produced substantial shifts of funds to the Euro-dollar market. At the same time, continuing wide discounts on forward sterling made short-term investments in sterling unattractive, diverting more funds into Euro-dollars.

In early March the speculative upheaval in the gold market inflamed market apprehensions over currency parities and the general stability of the international financial structure. In this atmosphere the 3-month Euro-dollar rate jumped to 7 per cent, as funds were withdrawn to continental centers. Once again, however, the central banks of Germany, the Netherlands, and Switzerland, acting in concert with U.S. authorities, took measures to rechannel funds to the Euro-dollar market, and by making forward exchange available curbed the tendency for mounting forward premiums on major continental currencies to pull additional funds from the Euro-dollar market. The German Federal Bank, for example, resold nearly $800 million in swap operations through March 31. In addition, by March 15 the Netherlands Bank had made available $41.8 million of forward guilders—partly in swap transactions but also on an outright basis—and the Swiss National Bank had made available $56 million equivalent of forward francs. The Federal Reserve underwrote the forward commitments in guilders and Swiss francs and participated in the German operations by drawing $300 million on its swap line to absorb dollars from the Federal Bank, thereby providing cover for part of that bank's forward purchases of dollars.

News of the decisions taken at the Washington meeting in March strongly bolstered market confidence in currency parities. (At that time the Federal Reserve swap facility with the BIS under which dollars can be made available for placement in the Euro-dollar market was increased to $1 billion.) Prospects for stability were further improved late in the month by President Johnson's peace initiative and the agreement at Stockholm on a plan for SDR's. With these favorable developments in the background, Euro-dollar rates dropped back from their mid-March peaks.

Nevertheless, in April interest rates in the United States moved up, and those on Euro-dollars also rose, exerting a strong pull on short-term funds from Europe. Substantial amounts of funds flowed into the Euro-dollar market from the continent, notably from Germany where the 3-month interbank loan rate of about 3½ to 3¾ per cent per annum was indicative of the relatively low money market rates in that country. Moreover, in May large amounts of funds were drained from London as growing apprehensions over the pound led to sharply widened discounts on forward sterling, creating an unusually large interest incentive for shifting funds into dollars on a covered basis. At the same time the prevailing uncertainties discouraged uncovered investments in sterling. The outflows from France that began after mid-May seem also to have gone largely into dollars. On the demand side, branches of U.S. commercial banks took on an increased volume of Euro-dollar liabilities and passed the funds on to their head offices.

With the approach of midyear there were indications of a possible developing squeeze of exceptional stringency in Switzerland, and the Swiss National Bank acted to relieve potential strains through market swap operations with commercial banks. The Swiss central bank bought $430 million on a short-term basis from Swiss commercial banks and rechanneled the dollar proceeds to the Euro-dollar market, both directly and through the BIS—thereby averting stress in that market. The System backed up that operation by placing $111 million in the Euro-dollar market through the BIS. Expectations of easier monetary conditions in the United States appeared soon after the passage of the income tax surcharge, and once midyear pressures were out of the way, Euro-dollar rates eased considerably.

Early in July, with funds readily available after the midyear adjustments by continental banks, U.S. banks increased their borrowings of Euro-dollars sharply, with total takings reaching $7.0 billion. During the rest of the month these borrowings were allowed to run off somewhat, to a level of approximately $6.2 billion at the month-end, only to be followed by a further sharp rise in August. Late in August the outburst of speculation over a revaluation of the German mark resulted in a heavy flow of funds—some of which came out of Euro-dollars—into German official reserves. The German authorities moved quickly to push these funds out again through dollar/mark swap operations with German commercial banks. Moreover, heavy drains on French reserves also tended to supply funds to the market in early September. Consequently, funds remained readily available in the market, and interest rates declined somewhat.

During October the Euro-dollar market was generally much quieter, as were the exchange markets. On the other hand, interest rates began to move up in sympathy with somewhat firmer monetary conditions in the United States.

The speculative upheaval in the exchange markets in November caused only moderate strains in the Euro-dollar market, as the German Federal Bank once again moved immediately to rechannel a major portion of its dollar intake out into the market through swaps. Moreover, the Federal Bank's outright sales of forward marks in the first few days after the Bonn meeting encouraged additional reflows from Germany; this operation was backed up in New York, where the Federal Reserve sold forward marks.

Nevertheless, in early December Euro-dollar rates again began to move up sharply as U.S. domestic interest rates advanced. Pressures were apparent particularly in the shorter maturities—reflecting not only the generally tighter monetary conditions in the United States but also the usual seasonal pressures associated with year-end positioning by European banks. At the same time, exchange market sentiment regarding sterling was softening once again, and as discounts on forward sterling widened, a substantial incentive developed in favor of Euro-dollars over U.K. investments. To avoid any undue additional strain on the pound in view of approaching year-end repatriations of funds to the continent, the BIS, using dollars drawn on its swap line with the Federal Reserve, placed $80 million in the Euro-dollar market.

Although Euro-dollar rates rose further in the latter part of December, the increase reflected by and large the higher levels of U.S. rates (following the ¼ percentage point increase in Federal Reserve discount rates on December 18 and the further rise in prime loan rates of U.S. banks to 6¾ per cent), and conditions in the Euro-dollar market remained orderly. Reflows from Germany continued. At the same time, repatriations of funds by Swiss commercial banks for domestic year-end needs were again accommodated without undue strain on the market, thanks to the swap operations of the Swiss National Bank. The Swiss commercial banks undertook $746 million of swaps with the National Bank, and the Swiss central bank in turn rechanneled the dollars so obtained back into the Euro-dollar market, both directly and through the BIS. In the latter part of December, takings by branches of U.S. banks dropped sharply—to a total of about $6.0 billion—but U.S. corporations took a substantial amount of dollars out of Europe, partly in response to interest-rate considerations and partly to comply with provisions of the Commerce Department's program. □

Special Studies by the Federal Reserve System

Reappraisal of the Federal Reserve discount mechanism. Work on the fundamental reappraisal of the Federal Reserve discount mechanism, originally announced in the 1965 ANNUAL REPORT, was highlighted in 1968 by the publication in July of the report of the System's Steering Committee. This report set forth the conclusions and recommendations of that committee, which had been appointed to reappraise and, where necessary, recommend redesign of Federal Reserve lending facilities. The report was adopted unanimously by the three members of the Board of Governors and the four Federal Reserve Bank Presidents who made up the Steering Committee. As of the end of 1968, however, the Board had not acted on the Committee's recommendations.

The Committee's report was made available in July so that comments and suggestions of the banking community and the public at large could be considered before the Board published any revision of Regulation A, its rule governing lending to member banks. Study of the comments and suggestions received and of the revisions deemed desirable in the published proposals is now under way. It is expected that a proposed revision of Regulation A will be published in the Federal Register in the spring of 1969, after which another period will be provided for general comment before a redesigned discount mechanism is implemented.

In addition to the final report of the Steering Committee itself, a summary report on the research undertaken in connection with the study and various of the individual research papers have been made available to the public upon request. A number of other research papers are in the process of publication; the availability of these papers will be announced in the Federal Reserve *Bulletin.* Papers currently available include the following:

- "Report on Research Undertaken in Connection with a System Study," by Bernard Shull
- "The Discount Mechanism in Leading Industrial Countries Since World War II," by George Garvy
- "Evolution of the Role and Functioning of the Discount Mechanism," by Clay J. Anderson
- "A Review of Recent Academic Literature on the Discount Mechanism," by David Jones
- "A Study of the Market for Federal Funds," by Parker Willis
- "The Secondary Market for Negotiable Certificates of Deposit," by Parker Willis
- "Reserve Adjustments by the Eight Major New York Banks During 1966," by Dolores Lynn
- "Discount Policy and Open Market Operations," by Paul Meek
- "The Redesigned Discount Mechanism and the Money Market," by Robert C. Holland and George Garvy
- "Summary of the Issues Raised at the Academic Seminar on Discounting," by Priscilla Ormsby
- "Discount Policy and Bank Supervision," by Benjamin Stackhouse

U.S. Government securities market study. The final report of the Steering Committee of the joint Treasury-Federal Reserve study of the U.S. Government securities market has been completed and forwarded to the U.S. Treasury and the Federal Open Market Committee.

Foreign operations of member banks. The principal part of the study of the foreign operations of member banks was completed in 1968. This part of the study provides a description and analysis of the broad range of international activities that have developed in U.S. commercial banks in recent years; the examination encompasses the operations and activities of head offices of U.S. banks and of their branches abroad, and the uses and roles of so-called Edge and Agreement corporations and their subsidiaries and affiliates. A second part of the study, which focuses principally on the supervisory responsibilities of the Federal Reserve in this area of banking activity, was still in preparation at the end of the year.

Econometric model construction. Work continued during 1968 on the development of econometric models designed to trace the effects of monetary policy on economic activity. Further progress was made on the quarterly econometric model of the economy being developed by 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. Price and wage equations were added to the model, and there were some important revisions in the consumption and housing equations in the light of recent data. A start was made at using sectors of the model to help in analyzing the current economic situation. A paper explaining the response to fiscal policy in the model and one discussing "The Channels of Monetary Policy" as depicted in the model were presented at the December 1968 meetings of the American Economic Association and the American Finance Association.

The current version of the model, like the preliminary version completed last year, suggests that both monetary and fiscal policies have powerful effects on the economy, though the time lag between a change in policies and the economic effect of the change is longer for monetary policy than for fiscal policy. The response of money income to changes in monetary policies is stronger in this model than in a number of other models, while the response to changes in fiscal policies is about the same in the current version of this model as it is in other models.

Progress was also made during 1968 on the construction of models to explain in greater detail the behavior of institutions and individuals in financial markets. A preliminary version of a monthly model of the money market was developed, and a progress report on this research was presented at the December 1968 meetings of the Econometric Society. Work on the aggregate behavior of nonbank financial intermediaries also was carried forward.

In the development of econometric models to explain the portfolio adjustments of individual commercial banks, particular emphasis was placed this year on the estimation of time lags between changes in monetary policy and the effect of such changes on the size and composition of bank portfolios. Work in this area progressed to the point where it became possible to begin examining the implications of models developed for individual banks for the behavior of the banking system. □

International Liquidity

In 1968 the Federal Reserve continued its active participation in discussions and negotiations concerning international liquidity. The main developments in this field related to Special Drawing Rights and gold.

Special Drawing Rights. In August 1964 the Ministers and the central bank Governors of the Group of Ten countries participating in the General Arrangements to Borrow, following completion of a study of international liquidity by their deputies, said in a published statement, "The continuing growth of world trade and payments is likely to entail a need for larger international liquidity. This need may be met by an expansion of credit facilities and, in the longer run, may possibly call for some new form of reserve asset." (The 1964 ministerial statement and the report prepared by the deputies were published in full in the Federal Reserve *Bulletin* for August 1964, pages 975–91.) In the following years further studies, followed by actual negotiations, focused on whether provision should in fact be made for the establishment of a new reserve asset, and if so, what form such a new asset should take. The further work done on these questions through 1967 was summarized in the ANNUAL REPORTS of the Board of Governors for 1965, 1966, and 1967.

Both questions were answered at the annual meeting of the Board of Governors of the International Monetary Fund held at Rio de Janeiro in September 1967 when approval was given to the Outline Plan for a system of Special Drawing Rights (SDR's). The Outline Plan stated the principles that would govern the creation, distribution, and use of SDR's. The text of the Outline Plan was published in the Federal Reserve *Bulletin* for November 1967 (pages 1877–82), and a summary of its main features and underlying principles appeared in the ANNUAL REPORT of the Board of Governors for 1967 (pages 311–17).

By early 1968 the Executive Directors of the IMF had advanced far toward completion of the task of putting the Outline Plan into legal language. The Ministers and the Governors of the central banks of the Group of Ten, meeting in Stockholm at the end of March 1968, reached a consensus on the most controversial issues posed by an amendment to the IMF Articles of Agreement, under which the SDR system would be established. The detailed text of the amendment was recommended by the Executive Directors of the Fund on April 16, 1968, and approved by the Fund's Board of Governors on May 31, 1968.

In the form in which the SDR plan was approved by the Fund, its fundamental principles were unchanged from those embodied in the Outline Plan of September 1967. When SDR's are created, they will be allocated among participants in proportion to each participant's quota in the Fund. A participating country may use SDR's to meet a balance of payments deficit or a decline in its reserves resulting from shifts by other countries in the composition of their reserves. The countries that are to receive the SDR's and therefore to provide convertible currency in return will be designated by the Fund, unless the country using SDR's has made arrangements under provisions that enable one or more participants to agree voluntarily to accept SDR's. Under the provisions governing voluntary agreements, a country may use any amount of SDR's (provided it has a need to do so, for either of the purposes just mentioned, and subject to later application of the reconstitution provision, which is explained below) to obtain its own currency held by other participants; a participant may also obtain currencies other than its own, provided that such exchanges of SDR's against currency would contribute to the accomplishment of one or more objectives prescribed by the Fund from a list of possible objectives specified in the amendment. The provisions governing voluntary agreements will be helpful to any country, but particularly to the United States, whose currency is held in significant amounts by other countries. Under the other procedure for using SDR's—that is, designation by the Fund of countries to receive SDR's from, and to provide currency to, a country using SDR's—the countries designated will normally be those having relatively strong balance of payments and reserve positions, although under certain circumstances the Fund may, in its designations, include countries outside this category.

Under the rules, each participating country is obligated to accept SDR's from other participants and to provide currency, only up to the point at which its holdings are equal to three times its cumulative allocations. This is what might be called each country's total "holding" obligation. (Any member may accept a larger amount, either *ad hoc* or by agreement with the Fund.) If a participating country went into deficit, and used all its cumulative allocations, then swung into strong and continuing surplus, it would have to accept SDR's—so long as it remained in the same payments position, and some other countries continued to use SDR's—until its total accumulation equaled three times its cumulative allocations.

The use of SDR's is subject to the reconstitution provision. This provision requires that during the initial basic period (which, like subsequent basic periods, is likely to be 5 years in length, although the Fund may decide otherwise) each participant's average holdings of SDR's must be at least 30 per cent of its average net cumulative allocations.

Under Article XVII of the existing Articles of Agreement, the amendment providing for the SDR facility, as well as for certain changes in existing Fund rules and practices, will enter into force when three-fifths of the members, having four-fifths of the total voting power in the Fund, have accepted it. Given the existing Fund membership of 111 countries, the three-fifths rule means that 67 member countries must accept the amendment before it can enter into force. As of April 11, 1969, 45 member countries, representing 62.4 per cent of the total voting power, had accepted the amendment. Of these 45 countries, 25, with 53.6 per cent of total quotas, had deposited the instruments of participation required by Section 1 of the proposed new Article XXIII. The United States was one of these 25, having been the first member country both to approve the amendment and to deposit its instrument of participation. With strong bipartisan support the bill authorizing U.S. acceptance of the SDR amendment and U.S. participation in the SDR system was approved by Congress late in the spring of 1968 and was signed into law by the President on June 19, 1968.

Gold: The two-tier system. From the early part of 1961 until March 1968 the dollar price of gold in the London gold market fluctuated within a relatively narrow range a little over $35 per ounce. This comparative price stability in the leading private market for gold, in a range just slightly above the official U.S. price of $35 per ounce, reflected a policy of official intervention to hold the price within that range. During most of this period such intervention was conducted on behalf of a consortium of countries known as the "gold pool." The gold pool and its market-intervention policy were established following a wave of speculative gold buying in October 1960 that pushed the price in the London market to more than $40 per ounce.

The devaluation of the pound sterling in November 1967 touched off a series of waves of speculative buying of gold, perhaps based initially on the belief that sterling devaluation might force devaluation of the U.S. dollar, that is, a rise in the official U.S. gold price, which would mean a rise in the price of gold in free markets. Speculative buying continued as expectations of a change in gold-pool intervention policies became widespread; rising losses from official gold stocks made the support policy seem less and less credible.

On Friday, March 16, 1968, the London gold market was closed by order of the Bank of England. On that weekend the Governors of the central banks of the seven active members of the gold pool—Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States—met in Washington. On March 17, they issued a communiqué. In this document the Governors announced termination of their sales of gold to private gold markets, reaffirmed adherence to the $35 per ounce price of gold for official transactions, and stated that ". . . as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market." (For the full text of the communiqué, see the Federal Reserve *Bulletin* for March 1968, page 254.)

Central banks of other IMF countries were informed of the action and were invited to support the principles of the March communiqué. Assurance of support was subsequently received from the overwhelming majority of these monetary authorities.

The gold pool policy of stabilizing the market price of gold had been based on the belief that if the market price diverged too widely from the official price, doubts about the viability of the official price might arise abroad even in official circles. The fact that by mid-March 1968 the SDR plan was close to adoption meant that the monetary authorities of the world, taken as a group, would soon have available a means for increasing reserves that did not depend upon either additional stocks of gold or an increase in the value of existing stocks of gold. With the establishment of the SDR system there would therefore be less and less reason to question the possibility of maintaining the official price of gold at $35 per ounce. As a result there would also be much less reason than before for concern about the price of gold in free markets.

Establishment of the two-market system for gold in March 1968, although done under the pressure of a speculative crisis, was a logical step in the evolution of the international monetary system away from dependence on gold. As the Governor of the Bank of Italy pointed out in his annual report for 1967, "The Washington decisions, while meeting current needs, form part of the continuous process which has been reducing the monetary function of gold, first within individual economies and then on the international plane." To say that the monetary functions of gold will be further reduced under the SDR system is not to argue that gold should be, or will be, demonetized. It simply means that if, as may reasonably be expected, the bulk of future additions to international reserves consist of SDR's, the size of the gold component, relative to total reserves, will gradually decline over time. □

Legislation Enacted

Elimination of gold reserve requirement against Federal Reserve notes. An Act of Congress approved March 18, 1968 (Public Law 90–269), eliminated the provision of Section 16 of the Federal Reserve Act under which the Federal Reserve Banks were required to maintain reserves in gold certificates of not less than 25 per cent against Federal Reserve notes.

Direct purchases by Federal Reserve Banks of Government obligations. An Act of Congress approved May 4, 1968 (Public Law 90–300), extended through June 30, 1970, the authority of Reserve Banks, under Section 14(b) of the Federal Reserve Act, to purchase direct or fully guaranteed obligations of the United States directly from the United States.

Truth in lending. The Truth in Lending Act (a portion of the Consumer Credit Protection Act), approved May 29, 1968 (Public Law 90–321), requires the Board of Governors to prescribe regulations to assure a meaningful disclosure of credit terms so that consumers will be able to compare more readily the various credit terms available and avoid the uninformed use of credit.

Special Drawing Rights certificates. The Special Drawing Rights Act, approved June 19, 1968 (Public Law 90–349), mainly for the purpose of authorizing U.S. participation in the Special Drawing Rights facility to be established within the International Monetary Fund, contains incidental provisions authorizing (1) the Secretary of the Treasury to sell to the Reserve Banks certificates against the Special Drawing Rights of the United States and (2) the Reserve Banks to use such certificates for specified purposes.

Defense production. An Act of Congress approved July 1, 1968 (Public Law 90–370), extended through June 30, 1970, the termination date of certain provisions of the Defense Production Act of 1950, including Section 301, which is the basis for guarantees of loans for defense production.

Bank protection. The Bank Protection Act of 1968, approved July 7, 1968 (Public Law 90–389), requires the Board of Governors and the other Federal supervisors of financial institutions whose deposits are federally insured to establish minimum standards with respect to installation, maintenance, and operation of security devices and procedures for use by such institutions in guarding against loss of funds by theft.

Margin requirements for securities traded over the counter. An Act of Congress approved July 29, 1968 (Public Law 90–437), amended the Securities Exchange Act of 1934 to authorize the Board of Governors (1) to extend the coverage of margin requirements to credit that banks and other lenders may extend for the purpose of purchasing and carrying securities traded over the counter (as distinguished from those traded on the national securities exchanges) and (b) to permit brokers and dealers to extend credit on such securities, subject to margin requirements.

"Tender offers" with respect to securities of State-chartered member banks. An Act of Congress approved July 29, 1968 (Public Law 90–439), amended the Securities Exchange Act of 1934 to require disclosure of certain information with respect to (1) acquisitions of more than 10 per cent of a class of equity securities registered pursuant to the 1934 Act, (2) the making of so-called "tender offers" (or solicitations favoring or opposing such offers), and (3) the replacement of a majority of the directors of an issuer in connection with such acquisitions or tender offers. Under the 1934 Act, the Board of Governors is responsible for implementing these requirements with respect to registered securities issued by State-chartered member banks.

Housing and urban development; real estate loans by national banks; member bank underwriting of certain municipal revenue bonds. The Housing and Urban Development Act of 1968, approved August 1, 1968 (Public Law 90–448), amended various laws relating to housing and urban development and enacted several new laws designed to assist in providing housing for low and moderate income families. Numerous provisions of the Act relate directly to the activities of the Reserve Banks and their member banks. In summary, such provisions:

(1) make the Reserve Banks depositaries for the Government National Mortgage Association, a new Federal instrumentality;

(2) expand the powers of national banks in the area of real estate loans by amending Section 24 of the Federal Reserve Act (a) to authorize such banks, without limitation, to make loans or purchase obligations guaranteed by the Secretary of Housing and Urban Development under the portion of the Act described as the "New Communities Act of 1968," (b) to authorize such banks to purchase a participation (as distinguished from the entire interest) in a loan secured by a first lien on improved real estate or on forest tracts, (c) to extend from 24 to 36 months the permissible maturity of loans by such banks to finance commercial building construction, and (d) to authorize such banks to accept a second lien on real estate as security for a loan if the bank relies primarily on the creditworthiness of the borrower or other security as collateral for repayment of the loan;

(3) expand the powers of national banks under paragraph Seventh of Section 5136 of the Revised Statutes (and to that extent remove Federal limitations on the power of State-chartered member banks) to authorize such a bank (a) to underwrite and deal in (i) obligations, participations, or instruments of or issued by the Government National Mortgage Association, without limitation on amount, and (ii) so-called "revenue obligations" of investment grade that are issued by a State or a political subdivision thereof, or an agency of either, for housing, university, or dormitory purposes, in an amount not to exceed, as to each such issuer, 10 per cent of the bank's capital and surplus, and (b) to purchase for its own account stock issued by corpora-

tions created pursuant to Title IX of the Act for the purpose of providing housing for low or moderate income families and to invest in partnerships or joint ventures formed by such corporations pursuant to that Title; and

(4) expand the powers of national banks by adding a paragraph Ninth to Section 5136 of the Revised Statutes to authorize such banks to issue securities guaranteed by the Government National Mortgage Association backed by a pool of mortgages insured under the National Housing Act or Title V of the Housing Act of 1949, or insured or guaranteed under the Servicemen's Readjustment Act of 1944 or chapter 37 of title 39 of the United States Code. (In connection with the latter, Section 21 of the Banking Act of 1933 was amended to remove a criminal prohibition against banks issuing such securities.)

Interest on deposits; reserves of member banks; open market operations; Reserve Bank advances. An Act of Congress approved September 21, 1968 (Public Law 90–505), extended through September 21, 1969, the flexible authority of the Board of Governors, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board in regulating the maximum rates of interest or dividends payable by insured banks and savings and loan associations on deposit or share accounts. The Act makes permanent the authority of the Reserve Banks to purchase in the open market direct or fully guaranteed obligations of Federal agencies and the authority of the Board to require member banks to maintain a reserve ratio for time deposits of not less than 3 and not more than 10 per cent. The Act also grants (1) the supervisory agencies referred to above the authority to prescribe regulations governing all aspects of payment of interest on deposits, including advertising, and (2) the Reserve Banks the authority to make advances (a) to member banks on the security of any obligations eligible for Reserve Bank purchase (including Federal agency issues), and (b) to any person on the security of obligations of Federal agencies (previously, the security was limited to direct obligations of the United States).

Legislative Recommendations

Lending authority of Federal Reserve Banks. Under present law, when a member bank borrows from its Reserve Bank on collateral other than obligations that are eligible for purchase by Reserve Banks (mainly U.S. Government obligations) or short-term promissory notes of the member bank's customers that meets certain "eligibility" requirements, it must pay interest at a rate not less than ½ of 1 percentage point 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, subject only to regulations by the Board, to borrow on any security satisfactory to its Reserve Bank without the necessity of paying a higher rate of interest simply because the security is "ineligible" for the basic rate.

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 again urges legislation that would authorize the Reserve Banks to extend credit on sound collateral without regard to the present "eligibility" provisions.

"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, however, 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 on them. In recent years, Florida, Minnesota, Mississippi, North Dakota, and South Dakota have enacted legislation along these lines. Despite the progress in this direction that has been made at the State level, the Board favors enactment by the Congress of a requirement that all federally insured banks pay at par all checks drawn on them.

Reserve requirements. For several years the Board has 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).

The reasons for such 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 banks are part of the country's money supply just as are those in member banks, nonmember banks should be subject to the federally imposed reserve requirements applicable to member banks.

Under present law, the Board has authority to establish a system of graduated reserves. However, implementation of such authority on the most rational and equitable basis is impaired by the outmoded differentiation between reserve city and "country" banks and by the lack of authority in the Board to make reserve requirements applicable to nonmember banks.

In the event that the Congress should consider that extending the coverage of federally imposed reserve requirements to nonmember banks is impractical at this time—even if accompanied by granting such banks access to Federal Reserve discount facilities—the Board recommends that the Congress remove the impediment to adoption by the Board of the most rational and equitable reserve requirements for member banks. This would be accomplished by legislation establishing a system of graduated reserve requirements on the basis of the amount of a bank's demand deposits.

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. To facilitate economic use of such balances, for several years the Board has favored enactment of legislation that would permit Reserve Banks to invest in obligations of foreign governments or monetary authorities that will mature within 12 months and are payable in a convertible currency.

Loans to bank examiners. Title 18 of the U.S. Code, "Crimes and Criminal Procedure," 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.

Bank holding companies and bank subsidiaries. In 1968 the Board engaged in an intensive study of the problems presented by the recent trend toward the formation of one-bank holding companies. The Board has favored inclusion of one-bank holding companies within the coverage of the Bank Holding Company Act since before its original enactment in 1956, and the Board continues to believe that such companies should be brought within the purview of the Act.

However, its recent study has led the Board to conclude that expansion of the coverage of the Act should be accompanied by legislation under which banks would have greater freedom to offer new services either directly, or through wholly owned subsidiaries, or through affiliates in a holding company system, subject to administrative approval of entry and of acquisitions to prevent involvement in operations that would be inconsistent with the purposes of the Act.

Litigation

Collateral Lenders Committee et al.* v. *Board of Governors of the Federal Reserve System. On February 1, 1968, the Board announced its adoption of Regulation G, "Credit by Persons Other Than Banks, Brokers, or Dealers for the Purpose of Purchasing or Carrying Registered Equity Securities," effective March 11, 1968. On March 1, 1968, plaintiffs, a group of lenders whose loans for the purpose of purchasing registered equity securities would thereby become subject to the margin requirements applicable to banks, brokers, and dealers, sought a declaratory judgment that Regulation G was invalid and unconstitutional, and a permanent injunction against the Board's enforcement of Regulation G as to plaintiffs.

A 5-day temporary restraining order against the Board was granted on March 1. Extension of this order beyond March 5 was refused by the Court, and on March 11, 1968, the effective date for the Board's Regulation G, the Court denied plaintiffs' motion for preliminary injunction and ruled that Section 7(d) of the Securities and Exchange Act of 1934, 15 U.S.C.A. § 78g(d), pursuant to which the Board promulgated Regulation G, as well as Regulation G itself, was constitutional and valid. The Court concluded that in promulgating Regulation G the Board had fully complied with applicable administrative law requirements and that there had been no violation of plaintiffs' procedural or substantive due process of law rights; it also concluded that plaintiffs had failed to establish any irreparable injury by application to them of Regulation G and that any injury to plaintiffs was overweighed by the immediate and irreparable injury that would occur to the national economy and the investing public if the effectiveness of Regulation G were delayed. Certain of the plaintiffs appealed to the U.S. Court of Appeals for the Second Circuit the lower court's order in favor of the Board. These appellants voluntarily dismissed their appeal on September 25, 1968, and an order of dismissal was entered by the Court of Appeals.

United States* v. *Girard Trust Bank and The Fidelity Bank, both of Philadelphia, Pennsylvania. On August 12, 1968, the Board approved a merger of Girard Trust Bank, Philadelphia, Pennsylvania, and The Doylestown National Bank & Trust Company, Doylestown, Pennsylvania, and the merger of The Fidelity Bank, Philadelphia, Pennsylvania, and Doylestown Trust Company, Doylestown, Pennsylvania. On September 10, 1968, suits were filed on behalf of the United States to enjoin consummation of the proposed mergers, the complaint in each case alleging that consummation of the merger would violate Section 7 of the Clayton Act in that such consummation "may be substantially to lessen competition or tend to create a monopoly." However, the issues raised by the suits were rendered moot by action of the Girard Trust Bank and The Fidelity Bank, in November 1968, in terminating the merger agreements.

Suits arising out of closing of San Francisco National Bank. On January 22, 1965, the San Francisco National Bank, San Francisco, California (SFNB), was declared insolvent by the Comptroller of the Currency, and the Federal Deposit Insurance Corporation was appointed receiver of the bank. The Federal Reserve Bank of San Francisco, pursuant to the provisions of Section 10(b) of the Federal Reserve Act and of the Board's Regulation A, had provided credit assistance to SFNB, through advances and discounts. During the latter part of 1964 and the first few weeks of 1965, the Federal Reserve Bank, pursuant to the statute and regulation cited, received collateral for these advances from SFNB in the form of certain Government bonds and promissory notes.

In November 1965 certain depositors of SFNB filed suit against the Federal Reserve Bank in the U.S. District Court, San Francisco, alleging superior rights to the collateral held by the Federal Reserve Bank and seeking a declaration of unlawful preference, subordination, and constructive trust. On motion filed by the Federal Reserve Bank, the District Court dismissed the complaints—holding, in part, that in making advances to SFNB the Federal Reserve Bank was acting primarily as an instrumentality of the United States and thus was protected from suit by the Federal Tort Claims Act and that the exercise of the discount function by the Federal Reserve Bank was the performance of a discretionary governmental function that was not subject to judicial review. Four of the cases decided in favor of the Federal Reserve Bank were appealed to the U.S. Court of Appeals for the Ninth Circuit and argued before that Court in March 1968.

While these and numerous other cases involving parties other than the Federal Reserve Bank, but also arising out of the closing of SFNB, were pending before the Court of Appeals, negotiations were undertaken looking to a settlement of the several cases. In December 1968 the Federal Reserve Bank, together with the Federal Deposit Insurance Corporation, numerous creditors of SFNB, and other parties involved, signed an agreement of settlement that assured creditors of the SFNB approximately 52 cents on the dollar and provided for dismissal of the appeals involving the Federal Reserve Bank and other litigants. The agreement was approved by the U.S. District Court on December 26, 1968, and on January 13, 1969, an order dismissing the pending appeals was entered by the U.S. Court of Appeals.

***Baker Watts & Co. et al.* v. *Saxon*.** Following rejection by the U.S. District Court of the District of Columbia of 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 REPORTS for 1966, page 314, and 1967, page 335), an appeal from that decision was taken to the U.S. Court of Appeals for the District of Columbia by the Port of New York Authority, one of the plaintiffs in the lower court. In March 1968 the Court of Appeals affirmed the District Court's decision.

Bank Supervision and Regulation by the Federal Reserve System

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 examination 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 independent examinations are made. All but 37 of the 1,262 State member banks were examined during 1968.

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 1968, 48 such changes in ownership of the outstanding voting stock of State member banks were reported to the Reserve Banks as changes in control of these member banks. In addition, reports of 24 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 appropriate 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 Administrator of National Banks (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 the Board's 1967 ANNUAL REPORT was released, member banks have submitted the following data as required by law:

Period covered (condition report dates)	Total loans to executive officers		Range of interest rate charged (per cent)[1]
	Number	Amount (dollars)	
Oct. 4, 1967—Dec. 30, 1967	8,211	14,364,199.32	1–12
Dec. 31, 1967—Apr. 18, 1968	8,804	16,039,841.36	2–18
Apr. 19, 1968—June 29, 1968	7,264	14,861,950.15	2–18
June 30, 1968—Oct. 20, 1968	9,886	19,861,431.82	3–18
Oct. 21, 1968—Dec. 31, 1968	(2)	(2)	(2)

[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.
[2] Compilation of data for condition report of Dec. 31, 1968, has not been completed.

Federal Reserve membership. As of December 31, 1968, 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 82 per cent of the total deposits in such banks. State member banks accounted for 14 per cent of the number of all State commercial banks and 40 per cent of the banking offices, and they held 60 per cent of total deposits in State commercial banks.

Of the 5,978 banks that were members of the Federal Reserve System at the end of 1968, there were 4,716 national banks and 1,262 State banks. During the year there were net declines of 42 national and 51 State member banks. The decline in the number of national banks reflected 54 conversions to branches incident to mergers and absorptions and 12 conversions to nonmember banks. The decline was offset in part by the organization of 14 new national banks and the conversion of 6 nonmember banks to national banks. The decrease in State member banks reflected mainly seven conversions to branches incident to mergers and absorptions and 40 withdrawals from membership.

At the end of 1968 member banks were operating 14,352 branches, 703 more than at the close of 1967; this included 684 *de novo* establishments.

Detailed figures on changes in the banking structure during 1968 are shown in Table 19, pages 388 and 389.

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 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 1968 the Board disapproved one and approved 14 applications, and it submitted 99 reports on competitive factors to the Comptroller of the Currency and 73 to the Federal Deposit Insurance Corporation. As required by Section 18(c) of the Federal Deposit Insurance Act, a description of each of the 14 applications approved by the Board, together with other pertinent information, is shown in Table 21 on pages 392 through 413.

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 1968, pursuant to Section 3(a)(1) of the Bank Holding Company Act of 1956, the Board approved nine applications for prior approval to become a bank holding company. Pursuant to the provisions of Section 3(a)(3) of the Act, the Board approved applications by 19 bank holding companies, involving acquisition of shares in 33 banks, and denied two applications. To provide necessary current information, annual reports for 1967 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 1968, 26 member banks had in active operation a total of 373 branches in 57 foreign countries and overseas areas of the United States; 14 national banks were operating 353 of these branches, and 12 State member banks were operating 20 such branches. The number and location of these foreign branches were as shown in the tabulation on the opposite page.

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 1968 approved 96 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 overseas as follows: The Valley, Anguilla; Buenos Aires, Cordoba, and Rosario, Argentina; Marsh Harbour and Nassau, Bahamas; Bridgetown, Barbados; Liège, Belgium; Road Town, Tortola, British Virgin Islands; Concepción, Chile; Barranquilla, Bogota, Cali, and Medellin, Colombia; Salcedo and Santiago, Dominican Republic; London, England; Guayaquil and Quito, Ecuador; Paris, France; Duesseldorf, Frankfurt am Main, and Munich, Germany; Athens and Piraeus, Greece; Guatemala City,

[Table referred to on opposite page.]

Latin America	*177*
Argentina	33
Bahamas	8
Barbados	1
Bolivia	2
Brazil	15
Chile	18
Colombia	17
Dominican Republic	7
Ecuador	7
El Salvador	1
Guatemala	3
Guyana	1
Honduras	3
Jamaica	2
Leeward Islands	3
Mexico	5
Nicaragua	2
Panama	21
Paraguay	6
Peru	8
Trinidad and Tobago	5
Uruguay	2
Venezuela	4
Virgin Islands (British)	3
Europe	*80*
Austria	1
Belgium	9
Germany	14
France	7
Greece	5
Ireland	2
Italy	2
Europe—Cont.	
Netherlands	5
Switzerland	3
United Kingdom	32
Africa	*3*
Liberia	1
Nigeria	2
Near East	*6*
Dubai	1
Lebanon	3
Saudi Arabia	2
Far East	*72*
Hong Kong	12
India	11
Indonesia	4
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	*35*
Canal Zone	2
Guam	2
Puerto Rico	17
Truk Islands	1
Virgin Islands	13
Total	**373**

Guatemala; Comayaguela, Honduras; Hong Kong; Bombay and Madras, India; Djakarta, Indonesia; Dublin, Ireland; Kingston, Jamaica; Amsterdam and Rotterdam, Netherlands; Belfast, Northern Ireland; Changuinola and Panama City, Panama; Asunción, Paraguay; Lima, Peru; San Juan, Puerto Rico; Basseterre and Sandy Point, St. Kitts; San Fernando, Trinidad and Tobago; Charlotte Amalie, Christiansted, and Frederiksted, Virgin Islands.

Acceptance powers of member banks. During the year the Board approved the applications of five member banks, pursuant to the provisions of Section 13 of the Federal Reserve Act, for increased acceptance powers. Four 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. One bank was 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 1968 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 1968, under the provisions of Section 25(a) of the Federal Reserve Act, the Board issued final permits to 10 corporations to engage in international or foreign banking or other international or foreign financial operations, and 10 corporations commenced operations. At the end of the year there were 56 corporations in active operation under Section 25(a): 30 have home offices in New York City; five in Philadelphia; three each in Boston, Chicago, and San Francisco; two each in Detroit and Seattle; and one each in Cleveland, Pittsburgh, Norfolk, Winston-Salem, Atlanta, Dallas, Los Angeles, and Portland. One of the corporations 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 49 of these corporations during 1968.

Bank Examination Schools and other training activities. In 1968 the Bank Examination School conducted four sessions of the School for Examiners, five 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, 3,769 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 17 foreign countries.

Federal Reserve Banks

Examination of Federal Reserve Banks. The Board's Division of Federal Reserve Bank Operations 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.

Earnings and expenses. The accompanying table summarizes the earnings, expenses, and distribution of net earnings of the Federal Reserve Banks for 1968 and 1967.

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1968 AND 1967

In thousands of dollars

Item	1968	1967
Current earnings	2,764,446	2,190,404
Current expenses	242,350	220,121
Current net earnings	2,522,096	1,970,283
Net addition to current net earnings	8,520	2,094
Net earnings before payments to U.S. Treasury	2,530,616	1,972,377
Dividends paid	36,960	35,028
Payments to U.S. Treasury (interest on F.R. notes)	2,463,629	1,907,498
Transferred to surplus	30,027	29,851

Current earnings of $2,764 million in 1968 were 26 per cent higher than in 1967, reflecting increases of $501 million on U.S. Government securities, $51 million on foreign currencies, and $22 million on discounts and advances.

Current expenses were $22 million more than in 1967, or 10 per cent. Statutory dividends to member banks amounted to $37 million, an increase of $2 million from 1967. 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 $2,464 million for the year, compared with $1,907 million in 1967. This amount consists of all net earnings after dividends and the amount necessary to bring surplus to the level of paid-in capital.

At the request of the Treasury Department, Bureau of the Mint, the System began separating the silver coin from clad coin (the three-layered coin that contains no silver, which was authorized by the Coinage Act of 1965) of the 10¢ and 25¢ denominations. The separation process at the Reserve Banks yielded approximately 501 million silver coins at a face value of about $65 million. The cost to the System for performing the operation, including the acquisition and maintenance of equipment, was $320,000, of which $120,000 was expended for the purchase of coin separating machines in addition to those furnished by the Mint.

Expenses of the Federal Reserve Banks also include costs of $717.98 for six regional meetings incident to the Treasury Department savings bond program.

A detailed statement of earnings and expenses of each Federal Reserve Bank during 1968 is shown in Table 7 on pages 374 and 375 and a condensed historical statement in Table 8 on pages 376 and 377.

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 1968 amounted to $51,935 million—an increase of $5,518 million over 1967. Holdings of acceptances decreased $31 million, whereas there were increases of $5,158 million in U.S. Government securities and $391 million in discounts and advances.

The average rates of interest on holdings were up from 4.33 per cent to 5.22 per cent on discounts and advances, from 4.62 per cent to 5.75 per cent on acceptances, and from 4.66 per cent to 5.17 per cent on U.S. Government securities.

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1966–68

Item and year	Total	Discounts and advances	Acceptances	U.S. Govt. securities[2]
	In millions of dollars			
Average daily holdings:[1]				
1966	42,612	649	117	41,846
1967	46,417	178	104	46,135
1968	51,935	569	73	51,293
Earnings:				
1966	1,885.8	29.2	5.8	1,850.8
1967	2,164.6	7.7	4.8	2,152.1
1968	2,687.4	29.7	4.2	2,653.5
	In per cent			
Average rate of interest:				
1966	4.43	4.50	4.96	4.42
1967	4.66	4.33	4.62	4.66
1968	5.17	5.22	5.75	5.17

[1] Based on holdings at opening of business.
[2] Includes Federal agency obligations.

Volume of operations. Table 9 on page 378 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1965–68.

Discounts and advances increased sharply over the previous year in both number and dollar amount, and the number of banks borrowing rose to 1,310 from 1,104 in 1967.

Volume continued to rise in most of the other operations, particularly in food stamps redeemed and in transactions in U.S. Government securities.

Loan guarantees for defense production. Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force, the Defense Supply Agency of the Department of Defense, the Departments of Commerce, Interior, and Agriculture, the General Services Administration, the National Aeronautics and Space Administration, and the Atomic Energy Commission are authorized to guarantee loans for defense production made by commercial banks and other private financing institutions. The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies under the Board's Regulation V.

During 1968 the guaranteeing agencies authorized the issuance of three guarantee agreements covering loans totaling $51 million. Loan authorizations outstanding on December 31, 1968, totaled $72 million, of which $21 million represented outstanding loans and $51 million additional credit available to borrowers. Of total loans outstanding, 71 per cent on the average was guaranteed. During the year approximately $77 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, 1970.

Table 11 (page 379) 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 $615 million in 1968. At the end of the year they amounted to $21,826 million: $11,183 million of earmarked gold; $9,120 million of U.S. Government securities (including securities payable in foreign currencies); $216 million in dollar deposits; $109 million of bankers' acceptances purchased through Federal Reserve Banks; and $1,198 million of miscellaneous assets. The latter item consists mainly of dollar bonds issued by foreign countries and international organizations. Assets held for international organizations, including IMF gold deposits, declined $1,317 million to $8,121 million.

In 1968 new accounts were opened in the names of the Central Bank of Brazil; Central Bank of Cyprus; Bank of Lebanon; Central Bank of Malta; Bank of Mauritius; Sultan of Muscat and Oman; Board of Commissioners of Currency, Singapore; Central Bank of Trinidad and Tobago; and Central Bank of Uruguay.

New gold collateral loan arrangements amounted to $15 million in 1968. All drawings during the year under these 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 1968, with the approval of the Board, properties adjacent to the Boston, Richmond, and San Francisco Reserve Banks and to the Denver, Omaha, and Los Angeles Branches were acquired for future expansion, and a site was obtained for a new building for the Baltimore Branch.

Table 6 on page 373 shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks and of real estate acquired for banking-house purposes.

Board of Governors

Building annex. In accordance with the Board's authorization as reported last year, plans for an annex to its present building were developed and subsequently approved by the Fine Arts Commission and the National Capital Planning Commission.

In addition, an agreement was entered into between the Board of Governors and the Department of the Interior whereby the Board will build a self-liquidating, underground garage for the use of Federal Reserve and Department of the Interior employees under the present Department parking lot adjoining the Board site on the north, and the National Park Service of the Department of the Interior, with the Board cooperating, will develop the surface as a park in accordance with its present designation as National Park Service land.

Income and expenses. The accounts of the Board for the year 1968 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, 1968, 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, 1968 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 30, 1969

Board of Governors of the Federal Reserve System

Balance Sheet
December 31, 1968

Assets

Operating Fund:		
Cash		$ 2,046,449
Miscellaneous receivables and advances		19,925
Stockroom and cafeteria inventories at first-in, first-out cost		34,929
Total operating fund		2,101,303
Property Fund:		
Land and improvements		792,852
Building and building construction		4,894,481
Furniture and equipment		1,153,966
Total property fund		6,841,299
		$ 8,942,602

Liabilities and Fund Balances

Operating Fund:		
Current liabilities:		
Accounts payable and accrued expenses	$ 642,395	
Income taxes withheld	483,158	
Accrued payroll	73,031	
		$ 1,198,584
Fund balance:		
Balance, January 1, 1968	(155,866)	
Excess of assessments over expenses for the year ended December 31, 1968	1,058,585	
		902,719
Total operating fund		2,101,303
Property Fund:		
Fund balance:		
Balance, January 1, 1968	6,285,038	
Additions	568,583	
Property adjustments and disposals	(12,322)	
Total property fund		6,841,299
		$ 8,942,602

The accompanying notes are an integral part of the financial statements.
[See page 362 for notes.]

Board of Governors of the Federal Reserve System

Statement of Assessments and Expenses for the Year Ended December 31, 1968

Assessments Levied on Federal Reserve Banks:		
For Board expenses and additions to property		$14,198,200
For expenditures made on behalf of the Federal Reserve Banks		18,811,038
Total assessments		33,009,238
Expenses:		
Expenditures for printing, issue and redemption of Federal Reserve Notes, paid on behalf of the Federal Reserve Banks		18,811,038
For the Board:		
Salaries	$7,952,415	
Retirement and insurance contributions	1,650,120	
Travel expenses	369,055	
Legal, consultant and audit fees	187,637	
Contractual services	440,245	
Printing and binding—net	437,649	
Equipment and other rentals	752,144	
Telephone and telegraph	181,284	
Postage and expressage	153,780	
Stationery, office and other supplies	103,486	
Heat, light and power	62,878	
Operation of cafeteria—net	75,688	
Repairs, maintenance and alterations	83,741	
Books and subscriptions	29,980	
System membership, Center for Latin American Monetary Studies	28,100	
Miscellaneous—net	62,830	
		12,571,032
For property additions		568,583
Total expenses		31,950,653
Excess of Assessments Over Expenses		$ 1,058,585

The accompanying notes are an integral part of the financial statements.

[See page 362 for notes.]

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 produce results which are not materially different from those which would have been produced on the accrual basis of accounting.

Long-term leases

The Board leases outside office space at an annual rental of $298,415 under a lease expiring in 1972. This lease may be terminated with six months notice after 1969.

Construction

The cost of the new Federal Reserve North Building and North Garage, as estimated by the architect, will be approximately $20,000,000. According to present plans this amount will be expended over the next three years.

Tables

1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS COMBINED, DECEMBER 31, 1968

(In thousands of dollars)

ASSETS

Gold certificates on hand			1,278	
Gold certificates due from U.S. Treasury:				
Interdistrict settlement fund			5,967,237	
F.R. Agents' fund			4,057,000	
Total gold certificate account				10,025,515
F.R. notes of other F.R. Banks				784,712
Other cash:				
United States notes			3,846	
Silver certificates			65	
National bank notes and F.R. Bank notes			73	
Coin			201,619	
Total other cash				205,603
Discounts and advances secured by U.S. Govt. obligations:				
Discounted for member banks		163,580		
Discounted for others		....	163,580	
Other discounts and advances:				
Discounted for member banks		25,000		
Foreign loans on gold		....	25,000	
Total discounts and advances			188,580	
Acceptances:				
Bought outright			57,715	
Held under repurchase agreement			....	
Federal agency obligations:				
Held under repurchase agreement			....	
U.S. Govt. securities:				
Bought outright:				
Bills	18,756,205			
Certificates	....			
Notes	28,706,122			
Bonds	5,474,502			
Total bought outright		52,936,829		
Held under repurchase agreement		....		
Total U.S. Govt. securities			52,936,829	
Total loans and securities				53,183,124
Cash items in process of collection:				
Transit items			10,946,517	
Exchanges for clearing house			199,019	
Other cash items			670,719	
Total cash items in process of collection				11,816,255
Bank premises:				
Land			31,769	
Buildings (including vaults)		123,682		
Fixed machinery and equipment		67,729		
Total buildings		191,411		
Less depreciation allowances		109,904	81,507	
Total bank premises				113,276
Other assets:				
Claims account closed banks			....	
Denominated in foreign currencies			2,060,664	
Gold due from U.S. Treasury for account International Monetary Fund			230,118	
Reimbursable expenses and other items receivable			4,206	
Interest accrued			455,801	
Premium on securities			1,294	
Deferred charges			3,174	
Real estate acquired for banking-house purposes			4,299	
Suspense account			9,589	
All other			3,035	
Total other assets				2,772,180
Total assets				78,900,665

1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS COMBINED, DECEMBER 31, 1968—Continued

(In thousands of dollars)

LIABILITIES

F.R. notes:			
Outstanding (issued to F.R. Banks)		47,560,111	
Less: Held by issuing F.R. Banks	2,037,493		
Forwarded for redemption	11,854	2,049,347	
F.R. notes, net (includes notes held by U.S. Treasury and by F.R. Banks other than issuing Bank)			**45,510,764**
Deposits:			
Member bank reserves		**21,737,916**	
U.S. Treasurer—General account		**702,795**	
Foreign		**215,966**	
Other deposits:			
Nonmember bank—Clearing accounts	66,681		
Officers' and certified checks	20,969		
Reserves of corporations doing foreign banking or financing	75,840		
International organizations	321,458		
All other	262,212		
Total other deposits		**747,160**	
Total deposits			**23,403,837**
Deferred availability cash items			**8,334,396**
Other liabilities:			
Accrued dividends unpaid		....	
Unearned discount		491	
Discount on securities		380,744	
Sundry items payable		9,126	
Suspense account		1,768	
All other		1	
Total other liabilities			**392,130**
Total liabilities			**77,641,127**

CAPITAL ACCOUNTS

Capital paid in	**629,769**
Surplus	**629,769**
Other capital accounts[1]	....
Total liabilities and capital accounts	**78,900,665**
Contingent liability on acceptances purchased for foreign correspondents	**109,198**

[1] During the year this item includes the net of earnings, expenses, profit and loss items, and accrued dividends which are closed out on Dec. 31; see Table 7, pp. 374 and 375.

NOTE.—Amounts in boldface type indicate items shown in the Board's weekly statement of condition of the F.R. Banks.

2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1968 AND 1967

(In millions of dollars unless otherwise indicated)

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1968	1967	1968	1967	1968	1967	1968	1967	1968	1967	1968	1967
ASSETS												
Gold certificate account	10,026	11,481	554	698	2,813	2,792	494	662	739	921	861	1,008
F.R. notes of other Banks	784	727	63	71	162	173	35	49	67	65	83	53
Other cash	207	360	11	23	21	43	5	9	24	48	13	21
Discounts and advances:												
Secured by U.S. Govt. securities	163	129	....	2	74	41	*	1	11	*	3	2
Other	25	12	....	....	....	7	....	....	....	....	....	....
Acceptances:												
Bought outright	58	75	....	....	58	75	....	....	....	....	....	....
Held under repurchase agreements	....	89	....	....	....	89	....	....	....	....	....	....
Federal agency obligations held under repurchase agreements	....	38	....	....	....	38	....	....	....	....	....	....
U.S. Govt. securities:												
Bought outright	52,937	48,980	2,762	2,512	12,687	12,318	2,810	2,526	4,175	3,743	3,978	3,607
Held under repurchase agreements	....	132	....	....	....	132	....	....	....	....	....	....
Total loans and securities	53,183	49,455	2,762	2,514	12,819	12,700	2,810	2,527	4,186	3,743	3,981	3,609
Cash items in process of collection	11,817	11,135	605	695	2,663	2,143	635	650	807	740	886	887
Bank premises	113	112	3	3	10	10	2	2	5	5	10	7
Other assets:												
Denominated in foreign currencies	2,061	1,604	101	77	529	418	109	83	185	144	107	83
IMF gold deposited[1]	230	233	....	....	230	233	....	....	....	....	....	....
All other	481	316	24	18	118	80	27	16	39	26	39	25
Total assets	78,902	75,423	4,123	4,099	19,365	18,592	4,117	3,998	6,052	5,692	5,980	5,693

LIABILITIES												
F.R. notes	45,510	42,369	2,637	2,496	10,511	9,854	2,616	2,444	3,700	3,404	4,142	3,882
Deposits:												
Member bank reserves	21,737	21,092	731	870	5,897	6,054	870	872	1,538	1,449	1,021	941
U.S. Treasurer—General account	703	1,123	*	83	681	233	*	77	*	66	1	78
Foreign	216	135	11	7	52	31	12	7	20	13	11	7
Other:												
IMF gold deposits[1]	230	233	....	....	230	233	....	....	....	....	....	....
All other	517	430	13	9	287	232	13	26	18	13	21	19
Total deposits	23,403	23,013	755	969	7,147	6,783	895	982	1,576	1,541	1,054	1,045
Deferred availability cash items	8,334	8,549	649	561	1,292	1,570	520	493	632	617	688	682
Other liabilities and accrued dividends	395	296	20	15	95	77	20	15	32	22	30	22
Total liabilities	77,642	74,227	4,061	4,041	19,045	18,284	4,051	3,934	5,940	5,584	5,914	5,631
CAPITAL ACCOUNTS												
Capital paid in	630	598	31	29	160	154	33	32	56	54	33	31
Surplus	630	598	31	29	160	154	33	32	56	54	33	31
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	78,902	75,423	4,123	4,099	19,365	18,592	4,117	3,998	6,052	5,692	5,980	5,693
Contingent liability on acceptances purchased for foreign correspondents	109	156	5	8	28	40	6	8	10	14	6	8
F.R. NOTE STATEMENT												
F.R. notes:												
Issued to F.R. Bank by F.R. Agent and outstanding	47,560	44,311	2,714	2,601	11,038	10,321	2,684	2,507	3,933	3,644	4,272	4,005
Less held by issuing Bank, and forwarded for redemption	2,050	1,942	77	105	527	467	68	63	233	240	130	123
F.R. notes, net[2]	45,510	42,369	2,637	2,496	10,511	9,854	2,616	2,444	3,700	3,404	4,142	3,882
Collateral held by F.R. Agent for notes issued to Bank:												
Gold certificate account	4,057	6,663	280	450	500	1,000	300	525	600	600	665	640
Eligible paper	....	....	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities	44,691	38,606	2,451	2,176	10,600	9,400	2,500	2,100	3,400	3,100	3,690	3,395
Total collateral	48,748	45,269	2,731	2,626	11,100	10,400	2,800	2,625	4,000	3,700	4,355	4,035

For notes see end of table.

2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1968 AND 1967—Continued

(In millions of dollars unless otherwise indicated)

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1968	1967	1968	1967	1968	1967	1968	1967	1968	1967	1968	1967	1968	1967
ASSETS														
Gold certificate account	524	659	1,491	2,007	353	437	229	195	338	395	344	388	1,286	1,319
F.R. notes of other Banks	80	64	58	54	33	34	18	17	35	35	43	31	107	81
Other cash	27	42	27	67	25	34	3	4	16	18	12	14	23	37
Discounts and advances:														
Secured by U.S. Govt. securities	....	....	50	9	1	1	4	2	8	6	5	2	7	63
Other	10	....	15	....	*	....	....	*	....	1	....	4	....	....
Acceptances:														
Bought outright	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Held under repurchase agreements	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Federal agency obligations held under repurchase agreements	....	....	....	....	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities:														
Bought outright	2,937	2,725	8,698	7,817	1,869	1,768	1,023	952	2,050	1,972	2,253	2,047	7,695	6,993
Held under repurchase agreements	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Total loans and securities	2,947	2,725	8,763	7,826	1,870	1,769	1,027	954	2,058	1,979	2,258	2,053	7,702	7,056
Cash items in process of collection	907	913	2,028	1,881	574	501	403	336	824	733	577	626	908	1,030
Bank premises	18	20	17	18	8	9	3	3	19	17	9	9	9	9
Other assets:														
Denominated in foreign currencies	130	99	301	233	70	56	48	38	91	71	118	93	272	209
IMF gold deposited[1]	....	....	....	....	....	....	....	....	....	....	....	....	....	....
All other	26	18	76	48	17	11	9	6	18	12	20	13	68	43
Total assets	4,659	4,540	12,761	12,134	2,950	2,851	1,740	1,553	3,399	3,260	3,381	3,227	10,375	9,784

LIABILITIES														
F.R. notes	2,476	2,432	8,076	7,408	1,677	1,569	764	717	1,679	1,575	1,575	1,433	5,657	5,155
Deposits:														
Member bank reserves	1,306	1,165	2,988	2,900	784	754	678	507	1,039	957	1,229	1,150	3,656	3,473
U.S. Treasurer—General account	1	83	1	107	1	71	15	48	*	97	1	61	2	119
Foreign	14	9	32	21	7	5	5	3	10	6	13	8	29	18
Other:														
IMF gold deposit [1]	....	....	....	....	....	....	....	....	....	....	....	....	....	....
All other	12	11	39	31	8	7	6	5	10	9	11	10	79	58
Total deposits	1,333	1,268	3,060	3,059	800	837	704	563	1,059	1,069	1,254	1,229	3,766	3,668
Deferred availability cash items	749	749	1,373	1,446	415	394	234	238	591	551	464	485	727	763
Other liabilities and accrued dividends	21	15	66	47	14	11	10	7	16	13	16	12	55	40
Total liabilities	4,579	4,464	12,575	11,960	2,906	2,811	1,712	1,525	3,345	3,208	3,309	3,159	10,205	9,626
CAPITAL ACCOUNTS														
Capital paid in	40	38	93	87	22	20	14	14	27	26	36	34	85	79
Surplus	40	38	93	87	22	20	14	14	27	26	36	34	85	79
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	4,659	4,540	12,761	12,134	2,950	2,851	1,740	1,553	3,399	3,260	3,381	3,227	10,375	9,784
Contingent liability on acceptances purchased for foreign correspondents	7	10	16	23	4	5	2	4	5	7	6	9	14	20
F.R. NOTE STATEMENT														
F.R. notes:														
Issued to F.R. Bank by F.R. Agent and outstanding	2,597	2,549	8,390	7,692	1,738	1,636	790	747	1,754	1,647	1,715	1,539	5,935	5,423
Less held by issuing Bank, and forwarded for redemption	121	117	314	284	61	67	26	30	75	72	140	106	278	268
F.R. notes, net [2]	2,476	2,432	8,076	7,408	1,677	1,569	764	717	1,679	1,575	1,575	1,433	5,657	5,155
Collateral held by F.R. Agent for notes issued to Bank:														
Gold certificate account	350	450	1,000	1,400	180	331	27	127	....	225	155	180	....	735
Eligible paper	....	....	....	....	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities	2,300	2,150	7,650	6,450	1,670	1,370	775	635	1,775	1,450	1,630	1,380	6,250	5,000
Total collateral	2,650	2,600	8,650	7,850	1,850	1,701	802	762	1,775	1,675	1,785	1,560	6,250	5,735

*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.

3. FEDERAL RESERVE BANK HOLDINGS OF U.S. GOVERNMENT SECURITIES, DECEMBER 31, 1966–68

(In thousands of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (−) during—	
		1968	1967	1966	1968	1967
Treasury bonds:						
1962–67	2½			107,560		−107,560
1963–68	2½		169,085	169,085	−169,085	
1964–69 June	2½	307,840	307,840	306,740		1,100
1964–69 Dec.	2½	358,199	358,199	335,199		23,000
1965–70	2½	573,540	573,540	573,540		
1966–71	2½	145,007	145,007	144,007		1,000
1967–72 June	2½	54,566	54,566	54,566		
1967–72 Sept.	2½	46,552	46,552	44,052		2,500
1967 Nov.	3⅝			595,450		−595,450
1967–72 Dec.	2½	95,858	95,858	95,858		
1968 May	3⅞		304,315	291,065	−304,315	13,250
1968 Aug.	3¾		348,200	315,200	−348,200	33,000
1968 Nov.	3⅞		104,900	97,500	−104,900	7,400
1969 Feb.	4	1,140,500	1,135,100	1,117,800	5,400	17,300
1969 Oct.	4	310,750	217,550	193,950	93,200	23,600
1970 Feb.	4	102,850	86,150	64,750	16,700	21,400
1970 Aug.	4	150,400	142,300	130,200	8,100	12,100
1971 Aug.	4	181,900	170,400	160,600	11,500	9,800
1971 Nov.	3⅞	249,900	213,900	203,450	36,000	10,450
1972 Feb.	4	158,650	151,650	138,000	7,000	13,650
1972 Aug.	4	117,150	114,150	102,900	3,000	11,250
1973 Aug.	4	176,250	168,450	117,650	7,800	50,800
1973 Nov.	4⅛	292,450	268,950	178,000	23,500	90,950
1974 Feb.	4⅛	116,150	94,300	74,700	21,850	19,600
1974 May	4¼	238,450	213,950	147,750	24,500	66,200
1974 Nov.	3⅞	46,700	46,700	37,150		9,550
1975–85	4¼	82,340	73,590	68,090	8,750	5,500
1978–83	3¼	6,250	6,250	3,250		3,000
1980 Feb.	4	53,550	42,650	34,800	10,900	7,850
1980 Nov.	3½	32,850	30,400	23,400	2,450	7,000
1985 May	3¼	27,800	24,800	23,800	3,000	1,000
1987–92	4¼	246,900	217,200	135,100	29,700	82,100
1988–93	4	23,500	23,500	13,500		10,000
1989–94	4⅛	37,350	36,200	24,400	1,150	11,800
1990 Feb.	3½	72,450	72,450	61,450		11,000
1995 Feb.	3	2,100	2,100			2,100
1998 Nov.	3½	25,750	25,750	14,250		11,500
Total		5,474,502	6,086,502	6,198,762	−612,000	−112,260
Treasury notes:						
Feb. 15, 1967—B	3⅝			342,900		−342,900
Feb. 15, 1967—C	4			2,951,032		−2,951,032
May 15, 1967—D	4¼			6,374,082		−6,374,082
Aug. 15, 1967—A	3¾			338,850		−338,850
Aug. 15, 1967—E	4⅞			1,245,000		−1,245,000
Nov. 15, 1967—F	4⅞			6,694,993		−6,694,993
Feb. 15, 1968—A	5⅝		839,300	837,100	−839,300	2,200
May 15, 1968—B	4¾		3,313,432		−3,313,432	3,313,432
Aug. 15, 1968—C	4¼		4,378,582		−4,378,582	4,378,582
Nov. 15, 1968—D	5¼		5,975,165		−5,975,165	5,975,165
Feb. 15, 1969—A	5⅝	7,441,343	7,353,993		87,350	7,353,993
May 15, 1969—B	5⅝	148,050			148,050	
Aug. 15, 1969—C	6	40,500			40,500	
May 15, 1970—B	5⅝	5,293,450			5,293,450	
Nov. 15, 1970—A	5	1,128,150	1,065,500	1,017,000	62,650	48,500
Feb. 15, 1971—C	5⅜	64,590	33,100		31,490	33,100
May 15, 1971—A	5¼	1,557,350	1,533,300	1,500,000	24,050	33,300
Nov. 15, 1971—B	5⅜	62,650	45,800	1,000	16,850	44,800
Feb. 15, 1972—A	4¾	94,850	55,500		39,350	55,500
Apr. 1, 1972—EA	1½	1,800	1,800			1,800
May 15, 1972—B	4¾	2,331,810	2,282,860		48,950	2,282,860
Aug. 15, 1974—B	5⅝	4,864,882			4,864,882	
Nov. 15, 1974—A	5¾	1,053,250	40,050		1,013,200	40,050
Feb. 15, 1975—A	5¾	934,150			934,150	
May 15, 1975—B	6	3,689,297			3,689,297	
Total		28,706,122	26,918,382	21,301,957	1,787,740	5,616,425

3. FEDERAL RESERVE HOLDINGS OF U.S. GOVERNMENT SECURITIES, DECEMBER 31, 1966–68—Continued

(In thousands of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (−) during—	
		1968	1967	1966	1968	1967
Certificates:						
Aug. 15, 1967	5¼	....	....	4,351,015	....	−4,351,015
Total	....	....	....	4,351,015	....	−4,351,015
Treasury bills:						
Tax anticipation	....	453,400	278,000	541,200	175,400	−263,200
Other due—						
Within 3 mos.	....	10,890,298	9,245,160	6,432,194	1,645,138	2,812,966
3–6 mos.	....	5,379,095	4,497,150	3,440,750	881,945	1,056,400
After 6 mos.	....	2,033,412	1,955,023	1,389,514	78,389	565,509
Total	....	18,756,205	15,975,333	11,803,658	2,780,872	4,171,675
Repurchase agreements	....	....	132,200	626,800	−132,200	−494,600
Total holdings	....	**52,936,829**	**49,112,417**	**44,282,192**	**3,824,412**	**4,830,225**
Maturing—						
Within 90 days	....	19,584,141	9,878,080	10,549,826	9,706,061	−671,746
91 days to 1 year	....	8,919,246	21,662,432	24,881,514	−12,743,186	−3,219,082
Over 1 year to 5 years	....	12,879,723	16,184,615	7,458,186	−3,304,892	8,726,429
Over 5 years to 10 yrs.	....	10,942,879	832,400	990,626	10,110,479	−158,226
Over 10 years	....	610,840	554,890	402,040	55,950	152,850

4. FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1953–68

(In millions of dollars)

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1953		1953		1954		1967	
Mar. 18	110	June 18	364	Mar. 15	134	Mar. 10	149
19	104	19	992	16	190	11	149
20	189	20	992			12*	149
21	189	21*	992	1955		June 15	87
22*	189	22	908	1956	none	Sept. 8	153
23	333	23	608	1957		9	153
24	186	24	296			10*	153
25	63			1958			
26	49			Mar. 17	143	1968	
		1954		18	207	Sept. 9	87
June 5	196	Jan. 14	22			Dec. 10	92
6	196	15	169	1959		12	45
7*	196	16	169	1960		13	430
8	374	17*	169	1961		14	430
9	491	18	323	1962	none	15*	430
10	451	19	424	1963		16	447
11	358	20	323	1964		17	596
12	506	21	306	1965			
13	506	22	283				
14*	506	23	283	1966			
15	999	24*	283	Dec. 9	169		
16	1,172	25	203	10	169		
17	823	26	3	11*	169		

*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.

5. OPEN MARKET TRANSACTIONS OF THE FEDERAL RESERVE SYSTEM DURING 1968

(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	1,488	1,593	20	1,410	1,593	20	....	....	....
February	967	770	100	917	770	100	50	....	7,658
March	1,550	567	305	1,212	567	305	51	....	....
April	1,761	982	167	1,651	982	167	58	....	....
May	1,168	784	....	1,098	784	....	10	....	−3,566
June	1,894	....	289	1,693	....	289	54	....	308
July	404	409	65	404	409	65	....	....	....
August	1,111	140	87	1,028	140	87	14	....	−4,778
September	5,515	5,605	115	5,403	5,605	115	31	....	....
October	2,736	2,246	....	2,601	2,246	....	53	....	308
November	3,602	3,430	150	3,602	3,430	150	....	....	−6,293
December	6,100	6,334	180	6,100	6,334	180	....	....	358
Total	28,295	22,861	1,477	27,119	22,861	1,477	319	....	−6,005

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	52	....	....	21	....	....	5	....	....
February	....	....	−8,497	....	....	839	....	....	....
March	208	....	....	64	....	....	15	....	....
April	41	....	....	8	....	....	3	....	....
May	41	....	−73	18	....	3,638	1	....	....
June	88	....	−308	50	....	....	10	....	....
July	....	....	....	....	....	....	....	....	....
August	24	....	142	34	....	4,636	12	....	....
September	31	....	....	45	....	....	5	....	....
October	27	....	−308	50	....	....	7	....	....
November	....	....	5,586	....	....	708	....	....	....
December	....	....	−358	....	....	....	....	....	....
Total	512	....	−3,816	289	....	9,821	56	....	....

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	1,136	1,031	−20	−38	−12	−69	−139
February	968	1,205	−140	....	−7	−20	−166
March	657	596	739	57	−1	35	830
April	1,832	1,627	815	−45	2	−5	766
May	2,488	2,753	119	−12	−1	−30	75
June	1,560	1,560	1,605	....	3	75	1,683
July	1,145	908	166	....	−2	−32	132
August	2,497	2,734	647	....	−5	−43	599
September	440	....	235	9	−4	39	280
October	790	1,230	50	−9	9	−39	11
November	980	980	21	....	2	....	23
December	1,369	1,369	−414	....	....	....	−414
Total	15,862	15,994	3,824	−38	−17	−89	3,680

[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.

6. BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES, DECEMBER 31, 1968

(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	2,555,318
New York	5,215,656	13,297,187	7,035,953	25,548,796	6,440,573
Annex	592,679	1,526,203	673,458	2,792,340	570,713
Buffalo	673,076	2,562,224	1,565,400	4,800,700	2,690,986
Philadelphia	1,884,357	4,841,559	2,154,452	8,880,368	2,358,818
Cleveland	1,295,490	6,642,919	3,571,958	11,510,367	1,101,526
Cincinnati	400,891	1,171,259	1,587,495	3,159,645	455,049
Pittsburgh	1,667,994	3,043,627	2,525,243	7,236,864	3,233,405
Richmond	513,524	4,207,163	2,497,936	7,218,623	1,676,020
Annex 1	146,875	256,000	....	402,875	302,608
Annex 2	91,404	5,755,644	....	5,847,048	5,847,048
Baltimore	250,487	2,023,475	1,068,445	3,342,407	1,370,152
Charlotte	347,071	1,069,026	625,121	2,041,218	1,140,879
Atlanta	1,304,755	5,804,778	3,558,580	10,668,113	7,945,418
Birmingham	410,775	2,000,619	1,019,618	3,431,012	1,956,202
Jacksonville	164,004	1,736,177	778,871	2,679,052	1,406,624
Annex	107,925	76,236	15,842	200,003	185,754
Nashville	592,342	1,474,678	1,098,924	3,165,944	1,838,410
New Orleans	1,557,663	2,754,271	1,448,181	5,760,115	5,243,698
Chicago	6,275,490	17,697,176	9,930,595	33,903,261	14,731,043
Detroit	1,147,734	2,869,786	1,466,915	5,484,435	2,576,901
St. Louis	1,675,780	3,191,744	2,285,317	7,152,841	1,535,548
Little Rock	800,104	1,963,152	962,372	3,725,628	3,543,869
Louisville	700,075	2,859,819	1,041,202	4,601,096	2,961,684
Memphis	128,542	294,763	218,883	642,188	168,562
Minneapolis	600,521	5,223,279	2,688,921	8,512,721	3,239,682
Helena	15,709	126,401	62,977	205,087	53,811
Kansas City	1,340,561	6,989,491	2,879,034	11,209,086	6,432,937
Denver	2,828,465	5,745,344	91,693	8,665,502	8,149,114
Oklahoma City	592,435	1,511,600	834,845	2,938,880	2,138,602
Omaha	950,689	1,491,117	731,925	3,173,731	2,020,107
Dallas	713,302	5,008,272	3,570,804	9,292,378	4,643,485
El Paso	262,477	787,728	393,301	1,443,506	876,905
Houston	695,615	1,408,574	714,187	2,818,376	1,801,346
San Antonio	278,180	1,400,390	570,847	2,249,417	1,342,477
San Francisco	684,339	3,783,530	1,458,028	5,925,897	776,565
Annex	247,201	124,000	30,000	401,201	346,401
Los Angeles	777,614	4,103,844	1,608,576	6,490,034	2,774,229
Portland	207,380	1,678,512	649,432	2,535,324	1,292,818
Salt Lake City	480,222	1,878,238	707,575	3,066,035	1,982,812
Seattle	274,772	1,890,966	1,049,264	3,215,002	1,568,085
Total	40,522,307	138,199,940	68,115,349	246,837,596	113,276,184

OTHER REAL ESTATE ACQUIRED FOR BANKING-HOUSE PURPOSES

Boston	500,000	....	....	500,000	500,000
Cleveland	395,875	381,000	....	776,875	668,925
Cincinnati	341,293	412,500	100,000	853,793	686,234
Richmond	326,403	....	....	326,403	326,403
Baltimore	548,656	....	....	548,656	548,656
Memphis	602,580	129,067	....	731,647	731,647
Denver	551,430	....	....	551,430	551,430
San Antonio	170,416	....	....	170,416	170,416
Los Angeles	115,156	....	....	115,156	115,156
Total	3,551,809	922,567	100,000	4,574,376	4,298,867

[1] Includes expenditures for construction at some offices pending allocation to appropriate accounts

7. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1968

(In dollars)

Item	Total	Boston	New York	Phila-delphia	Cleve-land	Rich-mond	Atlanta	Chicago	St. Louis	Minne-apolis	Kansas City	Dallas	San Francisco
CURRENT EARNINGS													
Discounts and advances	29,702,022	2,232,084	8,522,694	536,040	878,276	1,128,269	1,715,593	7,089,127	886,927	1,040,781	1,059,138	1,215,553	3,397,5
Acceptances	4,153,633	....	4,153,633	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities	2,653,503,692	138,894,925	663,949,404	136,299,631	203,417,300	195,815,741	142,665,634	431,041,066	94,130,996	52,687,917	105,217,837	112,264,984	377,118,2
Foreign currencies	76,539,434	3,748,273	19,676,674	4,054,447	6,888,464	3,980,002	4,819,832	11,172,527	2,604,402	1,762,479	3,368,652	4,364,788	10,098,8
All other	547,163	17,829	70,765	13,788	33,486	32,809	59,195	89,408	27,115	38,837	74,883	34,702	54,3
Total	2,764,445,942	144,893,111	696,373,170	140,903,906	211,217,526	200,956,821	149,260,254	449,392,128	97,649,439	55,530,014	109,720,510	117,880,026	390,669,0
CURRENT EXPENSES													
Salaries:													
Officers	9,965,527	551,112	2,053,518	684,765	655,302	841,449	675,441	977,778	818,119	550,179	722,298	619,594	815,9
Employees	119,117,557	7,637,329	30,043,570	5,392,314	8,557,885	8,099,685	8,478,208	16,804,468	6,814,466	4,255,565	6,698,001	5,235,591	11,100,4
Retirement and other benefits	20,933,715	1,374,205	4,924,632	987,835	1,505,001	1,459,594	1,484,005	2,813,325	1,222,359	750,178	1,264,008	980,702	2,167,8
Fees—Directors and others	1,237,972	101,790	253,997	114,147	91,874	84,530	105,685	76,487	78,577	72,721	78,938	63,026	116,2
Traveling expenses	2,831,590	184,044	414,476	116,716	184,538	206,251	287,187	318,879	192,898	210,020	175,219	190,848	350,5
Postage and expressage	28,688,476	1,768,982	3,385,958	1,150,091	2,508,842	3,496,360	2,650,930	3,659,671	1,787,520	1,140,328	2,198,344	1,613,926	3,327,5
Telephone and telegraph	2,495,618	113,294	565,031	95,181	167,507	198,308	296,715	282,025	132,774	98,574	167,564	155,385	223,2
Printing and supplies	10,369,493	722,679	1,880,540	541,720	793,363	800,974	926,893	1,516,722	764,393	347,093	745,952	460,062	869,1
Insurance	426,780	29,858	50,886	17,042	40,487	32,332	36,640	35,406	29,652	20,211	32,141	26,974	75,1
Taxes on real estate	6,184,251	641,815	1,080,351	179,904	552,381	230,004	411,081	1,081,148	262,735	350,961	500,925	318,614	574,3
Depreciation (buildings)	5,955,960	205,621	737,466	76,596	542,475	160,403	989,035	1,363,318	324,711	75,145	496,351	554,599	430,2
Light, heat, power, and water	2,400,885	147,350	350,276	91,438	272,359	197,086	228,919	325,075	167,876	99,660	238,816	130,365	151,6
Repairs and alterations	1,657,983	97,941	245,755	299,482	143,669	81,420	160,243	202,946	102,733	35,844	65,782	53,704	168,4
Rent	193,349	51,737	7,012	7,140	39,581	10,004	644	66,443	1,572	1,468	4,579	1,591	1,5
Furniture and equipment:													
Purchases	4,178,220	202,824	1,125,473	185,220	267,564	249,208	514,241	384,100	176,558	120,031	600,993	85,371	266,6
Rentals	10,061,483	629,322	1,008,180	384,991	726,146	989,250	804,579	2,086,738	620,336	453,608	739,402	729,645	889,2
All other	4,017,802	168,816	963,527	149,687	441,759	171,664	214,361	707,101	204,110	165,735	256,871	343,897	230,2
Inter-Bank expenses	....	84,104	−1,174,456	87,881	148,585	2,239	111,281	245,050	60,387	41,250	77,219	97,797	218,6
Subtotal	230,716,663	14,712,823	47,916,192	10,562,150	17,639,318	17,310,761	18,376,088	32,946,680	13,761,776	8,788,571	15,063,403	11,661,691	21,977,2
F.R. currency	20,474,404	1,286,529	3,322,472	1,384,816	1,035,850	2,402,749	1,981,549	2,898,106	1,015,930	325,330	852,712	985,655	2,982,7
Assessment for expenses of Board of Governors	14,198,198	688,400	3,647,200	749,900	1,273,000	734,000	893,900	2,078,400	483,000	332,600	624,000	815,298	1,878,5
Total	265,389,265	16,687,752	54,885,864	12,696,866	19,948,168	20,447,510	21,251,537	37,923,186	15,260,706	9,446,501	16,540,115	13,462,644	26,838,4

Less reimbursement for certain fiscal agency and other expenses	23,038,895	1,284,592	4,672,299	978,044	2,340,334	1,207,596	1,644,877	4,163,684	1,298,691	694,693	1,603,791	905,717	2,244,5
Net expenses	242,350,370	15,403,160	50,213,565	11,718,822	17,607,834	19,239,914	19,606,660	33,759,502	13,962,015	8,751,808	14,936,324	12,556,927	24,593,8

PROFIT AND LOSS

Current net earnings	2,522,095,572	129,489,950	646,159,605	129,185,084	193,609,692	181,716,906	129,653,594	415,632,626	83,687,425	46,778,205	94,784,187	105,323,099	366,075,1
Additions to current net earnings:													
Profits on sales of U.S. Govt. securities	792,717	41,727	191,709	40,879	61,657	58,222	43,606	132,340	28,356	15,878	33,201	33,593	111,5
Profits on foreign exchange transactions	8,049,430	394,422	2,068,703	426,620	724,449	418,570	507,114	1,175,217	273,681	185,137	354,175	458,817	1,062,5
All other	154,073	2,348	16,343	13	3,254	572	28,370	80,615	808	609	1,732	2,697	16,7
Total additions	8,996,220	438,497	2,276,755	467,512	789,360	477,365	579,090	1,388,171	302,845	201,624	389,108	495,107	1,190,7
Deductions from current net earnings	476,222	5,855	9,856	8,828	17,631	9,942	322,985	6,240	11,620	3,989	6,835	13,040	59,4
Net addition to or deduction from (−) current net earnings	8,519,994	432,642	2,266,899	458,683	771,728	467,422	256,104	1,381,931	291,224	197,636	382,273	482,067	1,131,3
Net earnings before payments to U.S. Treasury	2,530,615,568	129,922,592	648,426,504	129,643,768	194,381,420	182,184,329	129,909,698	417,014,557	83,978,649	46,975,841	95,166,460	105,805,166	367,206,5
Dividends paid	36,959,336	1,784,861	9,472,606	1,933,571	3,296,071	1,909,326	2,348,186	5,462,762	1,273,412	860,423	1,609,966	2,118,480	4,889,6
Payments to U.S. Treasury (interest on F.R. notes)	2,463,628,983	126,711,431	633,194,098	126,754,047	188,962,249	178,500,503	125,027,463	405,670,595	81,055,587	45,726,018	92,888,644	102,384,586	356,753,7
Transferred to surplus	30,027,250	1,426,300	5,759,800	956,150	2,123,100	1,774,500	2,534,050	5,881,200	1,649,650	389,400	667,850	1,302,100	5,563,1
Surplus, January 1	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
Surplus, December 31	629,768,650	30,542,950	160,073,300	32,781,800	56,007,700	32,849,350	40,161,950	93,241,000	21,999,950	14,474,700	27,122,550	35,765,750	84,747,6

NOTE.—Details may not add to totals because of rounding.

8. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, 1914–68

(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	28,911,600	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

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
1968	2,764,445,943	242,350,370	2,530,615,569	36,959,336	...	...	2,463,628,983	...	30,027,250
Total 1914–68	22,188,136,324	4,032,067,872	18,228,468,126	727,864,057	149,138,300	2,188,893	16,590,839,682	−3,657	758,440,849
Aggregate for each F.R. Bank, 1914–68:									
Boston	1,227,238,353	27[illegible],249,09[illegible]	958,867,472	41,535,562	7,111,395	280,843	869,166,484	135,411	40,637,775
New York	5,620,335,755	864,882,814	4,778,386,784	221,466,547	68,006,262	369,116	4,291,648,399	−433,413	197,329,871
Philadelphia	1,271,877,446	240,933,976	1,039,288,374	51,434,063	5,558,901	722,406	934,170,322	290,661	47,112,022
Cleveland	1,863,698,560	351,074,502	1,517,429,383	69,472,071	4,842,447	82,930	1,373,800,348	−9,906	69,241,493
Richmond	1,454,600,079	282,007,066	1,177,338,086	33,122,195	6,200,189	172,493	1,099,185,565	−71,517	38,729,158
Atlanta	1,190,831,172	258,577,685	934,584,565	34,022,458	8,950,561	79,264	846,098,300	5,491	45,428,490
Chicago	3,631,509,124	572,240,890	3,065,768,539	95,129,098	25,313,526	151,045	2,836,593,435	11,682	108,569,754
St. Louis	892,716,072	221,806,880	672,138,877	25,027,418	2,755,629	7,464	617,255,302	−26,515	27,119,578
Minneapolis	512,978,787	140,590,103	375,144,209	17,017,206	5,202,900	55,615	334,451,705	64,874	18,351,913
Kansas City	940,524,328	221,366,323	721,634,264	28,167,199	6,939,100	64,213	655,209,927	−8,674	31,262,500
Dallas	901,675,531	194,450,535	710,142,348	34,175,645	560,049	102,083	635,206,004	55,337	40,043,228
San Francisco	2,680,151,117	409,887,997	2,277,745,225	77,294,595	7,697,341	101,421	2,098,053,891	−17,089	94,615,067
Total	22,188,136,324	4,032,067,872	18,228,468,126	727,864,057	149,138,300	2,188,893	16,590,839,682	−3,657	[2]758,440,849

[1] Current earnings less current expenses, plus or minus adjustment for profit and loss items.

[2] The $758,440,849 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 $629,768,650 on Dec. 31, 1968.

NOTE.—Details may not add to totals because of rounding.

9. VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL RESERVE BANKS, 1965-68

(Number in thousands; amounts in thousands of dollars)

Operation	1968	1967	1966	1965
NUMBER OF PIECES HANDLED [1]				
Discounts and advances	11	6	16	11
Currency received and counted	5,561,500	5,338,781	5,232,806	5,144,345
Coin received and counted	10,957,259	10,958,606	9,304,120	5,855,884
Checks handled:				
U.S. Govt. checks	554,813	540,065	504,049	491,848
Postal money orders	195,871	205,343	217,473	223,337
All other [2]	5,904,929	5,419,583	5,021,454	r4,606,907
Collection items handled:				
U.S. Govt. coupons paid	13,255	14,355	14,305	14,087
All other	26,251	25,203	26,712	26,820
Issues, redemptions, and exchanges of U.S. Govt. securities	284,677	246,289	235,555	222,477
Transfers of funds	6,059	5,444	4,832	4,389
Food stamps redeemed	384,763	273,983	166,615	81,885
AMOUNTS HANDLED				
Discounts and advances	84,525,110	30,968,332	90,667,647	75,684,394
Currency received and counted	40,585,320	38,410,969	37,001,390	36,075,114
Coin received and counted	1,173,761	1,184,616	957,282	496,582
Checks handled:				
U.S. Govt. checks	190,653,523	175,068,179	160,014,331	134,806,438
Postal money orders	4,640,992	4,860,925	4,626,573	4,507,801
All other [2]	2,350,761,951	2,043,772,112	1,893,974,522	r1,633,863,858
Collection items handled:				
U.S. Govt. coupons paid	6,765,295	6,693,383	5,916,485	5,380,748
All other	19,827,053	15,299,519	12,624,804	10,723,571
Issues, redemptions, and exchanges of U.S. Govt. securities	1,008,454,073	820,283,379	793,261,958	763,248,392
Transfers of funds	7,865,682,832	6,565,594,328	5,555,075,862	4,496,230,723
Food stamps redeemed	513,618	368,569	226,508	116,498

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.

10. NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS, DECEMBER 31, 1968

Federal Reserve Bank (including branches)	President	Other officers		Employees [1]		Total	
	Annual salary	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
Boston	$ 40,000	25	$ 487,500	1,188	$ 7,692,347	1,214	$ 8,219,847
New York	75,000	86	2,027,500	4,153	31,048,613	4,240	33,151,113
Philadelphia	48,500	33	634,500	937	5,568,438	971	6,251,438
Cleveland	48,500	32	606,500	1,310	8,275,989	1,343	8,930,989
Richmond	37,500	42	792,500	1,431	8,397,403	1,474	9,227,403
Atlanta	37,500	33	574,250	1,506	8,291,146	1,540	8,902,896
Chicago	60,000	46	877,500	2,741	16,517,408	2,788	17,454,908
St. Louis	42,500	41	768,500	1,154	6,767,324	1,196	7,578,324
Minneapolis	42,500	28	508,000	714	4,297,130	743	4,847,630
Kansas City	46,000	39	676,350	1,189	6,659,618	1,229	7,381,968
Dallas	37,500	35	570,077	951	5,321,726	987	5,929,303
San Francisco	50,000	46	780,250	1,835	10,902,291	1,882	11,732,541
Total	$565,500	486	$9,303,427	19,109	$119,739,433	19,607	$129,608,360

[1] Includes 1,050 part-time employees.

11. FEES AND RATES UNDER REGULATION V ON LOANS GUARANTEED PURSUANT TO DEFENSE PRODUCTION ACT OF 1950, DECEMBER 31, 1968

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.

12. 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: [1]								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Other time deposits: [2]								
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	

Rates beginning July 20, 1966

Type of deposit	Effective date: July 20, 1966	Sept. 26, 1966	Apr. 19, 1968
Savings deposits	4	4	4
Other time deposits: [2]			
Mutiple maturity: [3]			
90 days or more	5	5	5
Less than 90 days (30–89 days)	4	4	4
Single maturity:			
Less than $100,000	5½	5	5
$100,000 or more:			
30–59 days	5½	5½	5½
60–89 days			5¾
90–179 days			6
180 days and over			6¼

[1] Closing date for the Postal Savings System was Mar. 28, 1966.
[2] For exceptions with respect to foreign time deposits, see ANNUAL REPORTS for 1962, p. 129, and 1965, p. 233.
[3] Multiple-maturity time deposits include deposits that are automatically renewable at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.

NOTE.—Maximum rates that may be paid by member banks as established by the Board of Governors under provisions of Regulation Q; however, a member bank may not pay a rate in excess of 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. Beginning Feb. 1, 1936, maximun rates that may be paid by nonmember insured commercial banks, as established by the FDIC, have been the same as those in effect for member banks.

13. MARGIN REQUIREMENTS

(Per cent of market value)

Regulation	Nov. 1, 1937–Feb. 4, 1945	Feb. 5, 1945–July 4, 1945	July 5, 1945–Jan. 20, 1946	Jan. 21, 1946–Jan. 31, 1947
Regulation T:				
For extension of credit by brokers and dealers on listed securities	40	50	75	100
For short sales	50	50	75	100
Regulation U:				
For loans by banks on stocks	40	50	75	100

Regulation	Feb. 1, 1947–Mar. 29, 1949	Mar. 30, 1949–Jan. 16, 1951	Jan. 17, 1951–Feb. 19, 1953	Feb. 20, 1953–Jan. 3, 1955
Regulation T:				
For extension of credit by brokers and dealers on listed securities	75	50	75	50
For short sales	75	50	75	50
Regulation U:				
For loans by banks on stocks	75	50	75	50

Regulation	Jan. 4, 1955–Apr. 22, 1955	Apr. 23, 1955–Jan. 15, 1958	Jan. 16, 1958–Aug. 4, 1958	Aug. 5, 1958–Oct. 15, 1958
Regulation T:				
For extension of credit by brokers and dealers on listed securities	60	70	50	70
For short sales	60	70	50	70
Regulation U:				
For loans by banks on stocks	60	70	50	70

Regulation	Oct. 16, 1958–July 27, 1960	July 28, 1960–July 9, 1962	July 10, 1962–Nov. 5, 1963	Nov. 6, 1963–Mar. 10, 1968
Regulation T:				
For extension of credit by brokers and dealers on listed securities	90	70	50	70
For short sales	90	70	50	70
Regulation U:				
For loans by banks on stocks	90	70	50	70

Regulation	Mar. 11, 1968–June 7, 1968	Effective June 8, 1968
Regulation T:		
For credit extended by brokers and dealers on—		
Listed stocks	70	80
Listed bonds convertible into stocks	50	60
For short sales	70	80
Regulation U:		
For credit extended by banks on—		
Stocks	70	80
Bonds convertible into listed stocks	50	60
Regulation G:		
For credit extended by others than brokers and dealers and banks on—		
Listed stocks	70	80
Bonds convertible into listed stocks	50	60

NOTE.—Regulations G, T, and U, prescribed in accordance with Securities Exchange Act of 1934, limit the amount of credit to purchase and carry registered equity securities that may be extended on securities as collateral by prescribing a maximum loan value, which is a specified percentage of the market value of the collateral at the time the credit is extended; margin requirements are the difference between the market value (100 per cent) and the maximum loan value.

Regulation G and special margin requirements for bonds convertible into stocks were adopted by the Board of Governors effective Mar. 11, 1968.

For earlier data, see *Banking and Monetary Statistics*, 1943, Table 145, p. 504.

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

Beginning July 14, 1966

Effective date [1]	Net demand deposits [2]				Time deposits [4] (all classes of banks)		
	Reserve city banks		Country banks		Savings deposits	Other time deposits	
	Under $5 million	Over $5 million	Under $5 million	Over $5 million		Under $5 million	Over $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	...
1968—Jan. 11, 18	16½	17	12	12½	...	...	...
In effect Dec. 31, 1968	16½	17	12	12½	3	3	6
Legal requirements—Dec. 31, 1968:							
Minimum	10		7		3	3	3
Maximum	22		14		10	10	10

For notes see opposite page.

15. FEDERAL RESERVE BANK DISCOUNT RATES, DECEMBER 31, 1968

(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	5½	6	6½
New York	5½	6	7
Philadelphia	5½	6	6½
Cleveland	5½	6	7
Richmond	5½	6	6½
Atlanta	5½	6	6½
Chicago	5½	6	6½
St. Louis	5½	6	6½
Minneapolis	5½	6	6½
Kansas City	5½	6	6½
Dallas	5½	6	6½
San Francisco	5½	6	6½

1 Discounts of eligible paper and advances secured by such paper or by U.S. Govt. obligations or any other obligations eligible for Federal Reserve Bank purchase. 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 direct obligations of, or obligations fully guaranteed as to principal and interest by, the U.S. Govt. or any agency thereof. Maximum maturity: 90 days.

Notes to Table 14 on opposite page.

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 columns above 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.

16. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918–68 AND END OF MONTH 1968

(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
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	49,150	48,980	170	141	2,576	164	52,031	11,982	6,784	47,226	1,344	1,123	135	653	−773	21,092	4,631	25,905	−182
1968—																			
Jan.	49,092	48,855	237	843	1,416	83	51,434	11,984	6,789	45,819	1,338	1,153	160	463	−564	21,838	5,025	25,504	1,359
Feb.	48,952	48,952	....	166	1,882	56	51,056	11,883	6,798	45,846	1,265	1,197	192	456	−415	21,195	4,948	25,428	715
Mar.	49,748	49,631	117	672	1,617	90	52,127	10,484	6,791	46,297	1,084	581	197	703	−593	21,133	3,936	25,041	28
Apr.	50,519	50,242	277	741	1,265	87	52,612	10,484	6,790	46,621	1,070	1,035	140	489	−689	21,221	4,740	25,248	713
May	50,625	50,625	....	1,026	1,714	56	53,421	10,384	6,790	47,202	990	956	422	490	−797	21,334	4,668	24,968	1,034
June	52,230	52,230	....	305	1,941	134	54,610	10,367	6,708	47,640	838	1,074	153	507	9	21,462	4,005	25,689	−222
July	52,397	52,160	237	736	1,648	99	54,880	10,367	6,710	47,979	803	1,113	202	479	−320	21,702	5,096	25,908	890
Aug.	53,044	53,044	....	529	1,851	51	55,475	10,367	6,724	48,353	776	916	127	463	109	21,822	4,139	25,647	314
Sept.	53,288	52,839	449	390	1,004	86	54,768	10,367	6,743	48,340	772	1,036	192	485	−246	21,297	4,704	26,004	−3
Oct.	53,329	53,329	....	179	2,373	56	55,737	10,367	6,766	48,719	754	1,086	99	434	−356	22,334	4,590	26,162	762
Nov.	53,350	53,350	....	471	2,381	58	56,260	10,367	6,786	49,989	742	478	220	436	−1,019	22,567	4,628	26,380	815
Dec.	52,937	52,937	....	188	3,361	58	56,544	10,367	6,814	50,922	752	703	216	747	−1,352	21,737	4,918	27,433	−778

[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.

17. PRINCIPAL ASSETS AND LIABILITIES, AND NUMBER OF COMMERCIAL AND MUTUAL SAVINGS BANKS, BY CLASS OF BANK, DECEMBER 31, 1968, AND DECEMBER 30, 1967

(In millions of dollars)

Item	All banks	Commercial banks							Mutual savings banks		
		Total	Member banks			Nonmember banks			Total	Insured	Noninsured
			Total	National	State	Total	Insured	Noninsured			
	December 31, 1968										
Loans and investments, total	471,382	402,477	326,023	236,129	89,894	76,454	73,553	2,901	68,905	60,088	8,817
Loans	321,278	266,475	221,222	159,257	61,965	45,253	43,378	1,875	54,803	48,286	6,518
Investments	150,103	136,001	104,801	76,872	27,929	31,200	30,175	1,025	14,102	11,803	2,299
U.S. Govt. securities	68,284	64,465	47,881	35,300	12,581	16,584	16,155	429	3,819	2,855	964
Other securities	81,819	71,536	56,920	41,572	15,348	14,616	14,020	596	10,283	8,948	1,335
Cash assets	84,748	83,752	73,756	50,953	22,803	9,996	9,305	691	996	883	113
Deposits, total	500,160	435,238	356,351	257,884	98,467	78,887	76,368	2,519	64,922	56,859	8,062
Interbank	24,696	24,694	23,540	15,303	8,237	1,154	960	194	2	2	....
Other demand	206,502	205,991	169,125	119,904	49,221	36,866	35,344	1,522	511	490	21
Other time	268,962	204,553	163,686	122,677	41,009	40,867	40,064	803	64,409	56,367	8,041
Total capital accounts	42,275	37,006	30,060	21,524	8,536	6,946	6,482	464	5,269	4,481	788
Number of banks	14,179	13,679	5,978	4,716	1,262	7,701	7,504	197	500	333	167
	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

NOTE.—All banks in the United States.

18. MEMBER BANK INCOME, EXPENSES, AND DIVIDENDS, BY CLASS OF BANK, 1968 AND 1967

Item	Total		Reserve city banks						Country banks	
			New York City		City of Chicago		Other			
	1968	1967	1968	1967	1968	1967	1968	1967	1968	1967
	In millions of dollars									
Revenue	20,819	17,859	3,675	3,080	889	763	7,777	6,673	8,479	7,344
On U.S. Govt. securities	2,208	1,934	268	245	83	69	686	611	1,170	1,009
On other securities	1,929	1,561	280	232	72	60	701	578	875	691
On loans	14,143	12,128	2,599	2,159	612	527	5,389	4,598	5,543	4,843
All other	2,540	2,236	527	444	121	106	1,000	885	898	800
Expenses	15,758	13,507	2,640	2,189	642	558	5,950	5,092	6,525	5,667
Salaries and wages	4,730	4,211	780	666	164	150	1,769	1,572	2,018	1,823
Interest on deposits	7,108	6,091	1,175	1,037	327	274	2,708	2,331	2,899	2,449
All other	3,919	3,205	685	485	152	134	1,474	1,190	1,609	1,396
Net current earnings before income taxes	5,061	4,353	1,035	891	246	205	1,827	1,580	1,953	1,676
Recoveries and profits [1]	359	398	60	36	14	21	119	163	166	179
Losses and charge-offs [2]	1,185	807	253	109	66	25	424	315	442	358
Net increase (or decrease, +) in valuation reserves	377	327	107	98	15	11	124	96	130	123
Net income before related taxes	3,859	3,616	734	721	179	189	1,398	1,332	1,547	1,375
Taxes on net income	1,054	1,007	228	237	55	58	374	362	396	351
Net income	2,805	2,607	506	484	124	131	1,024	970	1,151	1,024
Cash dividends declared [3]	1,385	1,248	320	284	56	52	546	493	463	420
	In per cent									
Ratios:										
Net current earnings before income taxes to—										
Average total capital accounts	17.4	16.0	17.3	16.1	17.8	16.3	17.6	16.2	17.2	15.7
Average total assets	1.30	1.24	1.34	1.31	1.40	1.33	1.29	1.22	1.28	1.21
Net income to—										
Average total capital accounts	9.6	9.6	8.5	8.7	9.0	10.4	9.9	9.9	10.1	9.6
Average total assets	.72	.74	.65	.71	.74	.85	.72	.75	.76	.74
Average return on—										
U.S. Govt. securities	4.78	4.48	4.71	4.60	4.79	4.41	4.81	4.56	4.77	4.41
Loans	6.82	6.39	6.41	5.81	6.38	5.88	6.90	6.45	7.01	6.69

[1] Includes recoveries credited to valuation reserves.
[2] Includes losses charged to valuation reserves.
[3] Includes interest on capital notes and debentures.

19. CHANGES IN NUMBER OF BANKING OFFICES IN THE UNITED STATES DURING 1968[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, 1967	**14,222**	**13,721**	**6,071**	**4,758**	**1,313**	**7,439**	**211**	**331**	**170**
	Changes during 1968								
New banks[3]	89	87	15	14	1	64	8	2	......
Consolidations and absorptions:									
Banks converted into branches	−122	−120	−61	−54	−7	−56	−3	−1	−1
Other	−11	−10	−4	−3	−1	−4	−2	......	−1
Reopening of suspended bank	1	1	......	......	......	......	1	......	......
Interclass changes:									
Nonmember to—									
National	......	......	6	6	......	−6	......	......	......
State member	......	......	3	......	3	−3	......	......	......
State member to—									
National	......	......	......	7	−7	......	......	......	......
Nonmember	......	......	−40	......	−40	40	......	......	......
National to—									
Nonmember	......	......	−12	−12	......	12	......	......	......
Noninsured to insured	......	......	......	......	......	19	−19	1	−1
Insured to noninsured	......	......	......	......	......	−1	1	......	......
Net change	−43	−42	−93	−42	−51	65	−14	2	−3
Number of banks Dec. 31, 1968	**14,179**	**13,679**	**5,978**	**4,716**	**1,262**	**7,504**	**197**	**333**	**167**
Number of branches and additional offices, Dec. 31, 1967[4]	**18,519**	**17,690**	**13,649**	**9,991**	**3,658**	**3,995**	**46**	**669**	**160**
	Changes during 1968								
De novo	1,105	1,036	684	488	196	351	1	60	9
Banks converted	122	120	77	66	11	43	......	1	1
Discontinued	−77	−75	−68	−39	−29	−7	......	−2	......
Interclass changes:									
Nonmember to—									
National	......	......	40	40	......	−40	......	......	......
State member	......	......	14	......	14	−14	......	......	......
State member to—									
National	......	......	......	287	−287	......	......	......	......
Nonmember	......	......	−24	......	−24	24	......	......	......
National to—									
State member	......	......	......	−14	14	......	......	......	......
Nonmember	......	......	−26	−26	......	26	......	......	......
Noninsured to insured	......	......	......	......	......	1	−1	1	−1
Facilities reclassified as branches	6	6	6	4	2	......	......	......	......
Net change	1,156	1,087	703	806	−103	384	......	60	9
Number of branches and additional offices, Dec. 31, 1968[4]	**19,675**	**18,777**	**14,352**	**10,797**	**3,555**	**4,379**	**46**	**729**	**169**

For notes see end of table.

19. CHANGES IN NUMBER OF BANKING OFFICES IN THE UNITED STATES DURING 1968[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, 1967[5]	**238**	**238**	**207**	**192**	**15**	**31**	....	....	....
	Changes during 1968								
Established	10	10	6	5	1	4	....	....	....
Discontinued	−6	−6	−5	−5	....	−1	....	....	....
Interclass changes:									
State member to national	....	....	....	1	−1	....	....	....	....
National to nonmember	....	....	−1	−1	....	1	....	....	....
Facilities reclassified as branches	−6	−6	−6	−4	−2	....	....	....	....
Net change	−2	−2	−6	−4	−2	4	....	....	....
Number of banking facilities, Dec. 31, 1968	**236**	**236**	**201**	**188**	**13**	**35**	....	....	....

[1] Includes a national bank (6 branches) in the Virgin Islands; other banks or branches located in the possessions are excluded.
[2] State member bank figures include, while noninsured bank figures exclude, 1 noninsured trust company without deposits.
[3] Exclusive of new banks organized to succeed operating banks.
[4] Excludes banking facilities.
[5] Provided at military and other Government establishments through arrangements made by the Treasury.

20. NUMBER OF PAR AND NONPAR BANKING OFFICES, DECEMBER 31, 1968

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	380	1,396	380	1,396	243	1,072	137	324	......	....
New York	491	3,104	491	3,104	374	2,722	117	382	......	....
Philadelphia	492	1,303	492	1,303	359	953	133	350	......	....
Cleveland	816	1,742	816	1,742	484	1,476	332	266	......	....
Richmond	777	2,566	715	2,502	378	1,613	337	889	62	64
Atlanta	1,590	1,190	1,164	1,069	536	803	628	266	426	121
Chicago	2,550	2,049	2,550	2,049	974	1,370	1,576	679	......	....
St. Louis	1,506	764	1,309	705	474	432	835	273	197	59
Minneapolis	1,357	256	1,176	194	489	117	687	77	181	62
Kansas City	1,931	250	1,931	250	833	156	1,098	94	......	....
Dallas	1,291	267	1,226	255	651	150	575	105	65	12
San Francisco	417	4,299	416	4,299	182	3,718	234	581	1	....
Total	**13,598**	**19,186**	**12,666**	**18,868**	**5,977**	**14,582**	**6,689**	**4,286**	**932**	**318**
STATE										
Alabama	268	236	205	221	111	182	94	39	63	15
Alaska	12	55	11	55	5	46	6	9	1	....
Arizona	13	278	13	278	4	208	9	70	......	....
Arkansas	248	141	170	124	81	97	89	27	78	17
California	156	2,784	156	2,784	82	2,513	74	271	......	....
Colorado	218	10	218	10	135	6	83	4	......	....
Connecticut	64	376	64	376	35	302	29	74	......	....
Delaware	19	78	19	78	7	37	12	41	......	....
District of Columbia	14	100	14	100	12	93	2	7	......	....
Florida	455	24	430	24	212	13	218	11	25	....
Georgia	428	246	212	230	74	186	138	44	216	16
Hawaii	7	122	7	122	2	43	5	79	......	....
Idaho	26	142	26	142	16	128	10	14	......	....
Illinois	1,071	45	1,071	45	511	36	560	9	......	....
Indiana	414	577	414	577	197	373	217	204	......	....
Iowa	672	281	672	281	159	73	513	208	......	....
Kansas	601	61	601	61	210	37	391	24	......	....
Kentucky	346	286	346	286	94	173	252	113	......	....
Louisiana	229	329	128	273	58	191	70	82	101	56
Maine	40	197	40	197	27	144	13	53	......	....
Maryland	122	469	122	469	55	292	67	177	......	....
Massachusetts	157	682	157	682	103	545	54	137	......	....
Michigan	338	1,099	338	1,099	208	910	130	189	......	....
Minnesota	722	10	722	10	223	6	499	4	......	....
Mississippi	185	296	87	224	46	132	41	92	98	72
Missouri	664	85	632	85	174	40	458	45	32	....
Montana	134	5	134	5	88	5	46	....	......	....
Nebraska	436	37	436	37	139	21	297	16	......	....
Nevada	9	77	9	77	6	67	3	10	......	....
New Hampshire	76	41	76	41	53	35	23	6	......	....
New Jersey	226	796	226	796	183	694	43	102	......	....
New Mexico	63	114	63	114	39	66	24	48	......	....
New York	316	2,208	316	2,208	254	2,097	62	[1]111	......	....
North Carolina	117	933	79	872	26	458	53	414	38	61
North Dakota	168	69	77	29	46	13	31	16	91	40
Ohio	525	1,130	525	1,130	344	974	181	156	......	....
Oklahoma	423	56	423	56	243	45	180	11	......	....
Oregon	50	306	50	306	13	248	37	58	......	....
Pennsylvania	504	1,521	504	1,521	358	1,173	146	348	......	....
Rhode Island	13	158	13	158	5	88	8	70	......	....

For notes see end of table.

20. NUMBER OF PAR AND NONPAR BANKING OFFICES, DECEMBER 31, 1968—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....	118	350	94	347	30	223	64	124	24	3
South Dakota.	165	91	75	69	58	56	17	13	90	22
Tennessee....	302	417	249	401	87	278	162	123	53	16
Texas........	1,149	63	1,127	63	596	28	531	35	22	....
Utah.........	54	115	54	115	20	85	34	30	......	....
Vermont.....	44	71	44	71	27	41	17	30	......	....
Virginia......	237	711	237	711	152	545	85	166	......	....
Washington...	94	487	94	487	35	431	59	56	......	....
West Virginia.	195	4	195	4	114	2	81	2	......	....
Wisconsin....	602	223	602	223	166	66	436	157	......	....
Wyoming.....	70	1	70	1	53	1	17	....	......	....
OTHER AREA										
Puerto Rico[2]..	12	174	12	174	......	17	12	157	......	....
Virgin Islands[2]....	7	19	7	19	1	19	6	....	......	....

[1] Includes 8 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 6 in the Virgin Islands are branches of N.Y.C. banks. Certain branches of Canadian banks (2 in Puerto Rico and 1 in Virgin Islands) are included above as nonmember banks; and nonmember branches in Puerto Rico include 8 other branches of Canadian banks.

NOTE.—Comprises all commercial banking offices on which checks are drawn, including 236 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.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1968

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1968 [1]

Name of bank, and type of transaction [2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices: In operation	Banking offices: To be operated
No. 1—**Wells Fargo Bank,** San Francisco, Calif., *to merge with*	4,274.0	234	236
Bank of Pasadena, Pasadena, Calif.	10.8	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-10-68)

Wells Fargo—the third largest bank in California—proposes to acquire by merger the Bank of Pasadena. The latter is a growing institution in a predominantly suburban community in Los Angeles County.

Until December 1967, Wells Fargo's offices were confined to the northern and central parts of the State, while Bank of Pasadena's were in Los Angeles County in the southern part of the State. However, on December 4, 1967, Wells Fargo officially opened its previously approved *de novo* southern headquarters office on Pershing Square in downtown Los Angeles. This office, manned by a substantial staff (95 employees), is only 10 miles from Bank of Pasadena's main office and 9 miles from its existing branch office. Substantial numbers of people in Pasadena commute to downtown Los Angeles to work; and many of these Pasadena customers may find Wells Fargo's new office a competitive banking alternative. In addition, Wells Fargo already has substantial amounts of trust business and loan participations from customers in the Los Angeles area, and at least some of this existing business is no doubt already directly competitive with the Bank of Pasadena. In sum, the amount of direct competition between Wells Fargo and Bank of Pasadena—while not precisely measurable at the moment—can be expected to increase in the foreseeable future. The increase would be particularly great if Wells Fargo, a new banking entrant into southern California, were to branch *de novo* into Pasadena itself. The Pasadena area (for which market share data is not presently available) is already dominated by branch offices of the large bank networks. The merger would eliminate 1 of only 4 independent banks in the area. Thus, existing and potential competition would be eliminated by the proposed merger.

Banking concentration in the Los Angeles Standard Metropolitan Statistical Area (Los Angeles County) is high; 85.1 per cent of the deposits are held by the 5 largest banks. The effect of this merger on concentration in the Los Angeles SMSA is not yet measurable since the new Wells Fargo Office there has just recently been opened. Bank of Pasadena has about 0.1 per cent of the total deposits in this entire SMSA. The merger's effect on present concentration in the entire SMSA—clearly too broad an area to constitute the appropriate market here—would be small.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-7-68)

Pasadena Bank operates its main office in Pasadena, 10 miles northeast of Los Angeles, and its single branch in South Pasadena, 3.5 miles south. Wells Fargo operates 1 branch (established in December 1967) in Los Angeles, 8 miles southwest of Pasadena Bank's branch. Its remaining 233 offices are all located at a distance of 200 miles or more from Los Angeles.

For notes see p. 413.

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 THE BOARD OF GOVERNORS—Cont.

In the area from which Pasadena Bank derives the preponderance of its business, there are 78 offices of 11 banks, including 58 offices operated by 5 of California's 7 largest banks. These 5 banks hold 83 per cent of the commercial bank deposits and operate 73 per cent of the commercial banking offices in the area. In Los Angeles County they hold 85 per cent of the commercial bank deposits and operate 76 per cent of the commercial banking offices. The 7 largest banks in California hold nearly 85 per cent of all commercial bank deposits in the State; Wells Fargo, with 9.7 per cent of such deposits, ranks third. It seems unlikely that meaningful competition exists between Pasadena Bank and the recently established Los Angeles branch of Wells Fargo.

Pasadena Bank, which began operations on April 22, 1963, has been without a president since April 11, 1967. The task of filling this post, as well as that of attracting other needed management personnel, is perhaps made difficult by other problems of the bank. In 1966 its earnings were comparable to the average for similar sized member banks in California; in 1967, however, its earnings decreased by 8.5 per cent. Pasadena Bank holds a large volume of poor quality loans, and the bank's capital is lower than is desirable.

While the existence of feasible alternative solutions cannot be entirely ruled out, the proposed merger would immediately resolve the managerial and other problems of Pasadena Bank, which is in the interests of the community the bank serves.

No. 2—**The Bank of Virginia,** Richmond, Va. *to merge with*	292.1	33	
The Peoples Bank of Reedville, Reedville, Va., and	8.8	2	36
The Peoples Bank of White Stone, White Stone, Va.	3.5	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-8-68)

The Bank of Virginia, which has total deposits of $259 million, proposes to merge with 2 small banks in eastern Virginia—The Peoples Bank of Reedville (hereinafter Reedville Bank) and The Peoples Bank of White Stone (hereinafter White Stone Bank).

Reedville Bank is located in Reedville in Northumberland County (1960 population 10,185), and has a branch office in Burgess. White Stone Bank is located in the small town of White Stone, Lancaster County (1960 population 9,174). Lancaster and Northumberland are contiguous counties lying on the Chesapeake Bay end of the "Northern Neck," the peninsula between the Potomac and Rappahannock Rivers.

For notes see p. 413.

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 THE ATTORNEY GENERAL—Cont.

Since the nearest office of The Bank of Virginia is about 85 miles from Reedville Bank and 70 miles from White Stone Bank, there would seem to be little or no direct competition between them. However, the 2 proposed mergers taken together would appear to eliminate some competition between White Stone Bank and Reedville Bank. The main offices of White Stone Bank and Reedville Bank are about 25 miles apart. Two Lancaster County banks are located in the intervening area, about 5 miles from White Stone Bank and about 20 miles from Reedville Bank, and they compete with both White Stone Bank and Reedville Bank.

In Lancaster County, White Stone Bank—third largest bank in the county—presently controls 20 per cent of IPC [3] demand deposits; in Northumberland County, Reedville Bank—the largest bank in the county—now holds about 44 per cent of IPC [3] demand deposits.

Virginia law—which permits statewide branching only by merger—would prevent Bank of Virginia from entering either Lancaster or Northumberland County by *de novo* branching. Accordingly, the only adverse effect on potential competition would be the elimination of the possibility that Bank of Virginia would have entered either of these counties by acquisition of a smaller bank; this consideration applies particularly to the merger with Reedville Bank, since all the other banks in Northumberland County are smaller than Reedville Bank.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-15-68)

The head office of Reedville Bank is in Reedville (population 650), which is in the eastern portion of Northumberland County (population 10,000), at the Chesapeake Bay end of the Northern Neck Peninsula. The Bank operates a branch at Burgess, 6 miles west of Reedville. A bank with deposits of $3.3 million is located 5 miles west of Burgess at Heathsville, and a bank (deposits $12.7 million) headquartered in Colonial Beach (Westmoreland County) operates a branch at Callao, 12 miles west of Burgess. There are no other commercial banking facilities in Northumberland County. The sole office of White Stone Bank is in White Stone (population 400), which is about 18 miles directly south of Burgess in southeastern Lancaster County (population 9,000). There are 3 other banks in Lancaster County, including 2 (with deposits of $7 million and $3.3 million) in Kilmarnock, which is on the highway between White Stone and Burgess. The development of meaningful competition between Reedville Bank and White Stone Bank seems unlikely in view of the distances separating their offices and the sparsely settled nature of the intervening area, which contains 2 offices of other banks. Furthermore, under State law, neither bank would be permitted to establish a *de novo* branch outside the county in which it is headquartered.

Virginia Bank, the fifth largest bank in Virginia and a subsidiary of a registered bank holding company, Virginia Commonwealth Bankshares, Inc., is headquartered in Richmond, approximately 70 miles west of White Stone and 85 miles west of Reedville. The nearest office of Virginia Bank

For notes see p. 413.

Name of bank, and type of transaction [2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices: In operation	Banking offices: To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

to the banks proposed to be acquired is about 57 miles south of White Stone and 77 miles south of Reedville. State law would preclude Virginia Bank from entering either Northumberland or Lancaster County by *de novo* branching.

The replacement of Reedville Bank and White Stone Bank by offices of Virginia Bank, with its larger lending limit and broader range of bank services, would afford added convenience for the Reedville–White Stone areas without having significant adverse effects on banking competition.

No. 3—**The Merrill Trust Company,** Bangor, Maine	81.3	17	17
to merge with **Hammond Street Trust Company,** Bangor, Maine	(Newly organized bank; not in operation.)		

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-2-68)

The Merrill Trust Company, organized in 1933, proposes to merge Hammond Street Trust Company, a proposed new bank. Under the merger plan it will be eligible to transact business for only 1 day; its separate existence will cease upon its merger into Merrill Trust.

Merrill Trust will be the only affiliate of Merrill Bankshares Company, a newly organized corporation under the laws of Maine, which will be a 1-bank holding company.

The purpose of organizing the new Hammond Street Trust Company and its merger with Merrill Trust is to offer an opportunity for stockholders of Merrill Trust, who may dissent from the plan to make Merrill Trust the subsidiary of Merrill Bankshares, to surrender their stock and receive cash. Merrill Bankshares plans to become a registered bank holding company by acquiring stock of other banking corporations.

The proposed acquisition will not result in the elimination of any existing competition nor an increase in the concentration of banking.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (6-5-68)

The proposed merger of Merrill Trust and Hammond Trust, the latter being a bank with no operating history, formed solely to facilitate a corporate reorganization plan, is one step in a plan of corporate reorganization whereby Merrill Bankshares Company, Bangor, Maine, a newly organized Maine corporation, would become a 1-bank holding company, owning all of the stock of Merrill Trust. The merger would have no effect on competition, no effect on the banking convenience and needs of the Bangor community, and would not alter the financial and managerial resources and prospects of Merrill Trust.

For notes see p. 413.

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. 4—**Wachovia Bank and Trust Company,** Winston-Salem, N.C.	1,274.0	106	111
to merge with			
The State Bank, Laurinburg, N.C.	11.9	5	

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-4-68)

Wachovia Bank, the largest bank in the State, has acquired 10 other banks since 1956, which, when acquired, had aggregate deposits of $147 million and 42 banking offices.

The State Bank operates 5 offices in portions of 2 adjoining counties on the South Carolina border in the south central part of North Carolina. It is the second largest of 3 banks, with an aggregate of 10 banking offices, operating in Scotland County and a portion of adjoining Robeson County known as the Maxton area; as of June 30, 1966, State Bank held 54 per cent of total IPC [3] deposits in the Scotland County–Maxton area. The Scotland County–Maxton area has recently experienced substantial industrial growth, and its future prospects appear to be excellent, but the number of banks there have remained unchanged since 1959. Wachovia does not operate a banking office in the area; its closest office is some 80 miles distant. It does derive significant amounts of business from larger firms in the area that State Bank, because of its size, could not handle. Hence, little or no existing competition would be eliminated by this proposed merger.

This proposed merger would, however, eliminate Wachovia as a source of potential competition through *de novo* branching in the highly concentrated Scotland County–Maxton area where State Bank is presently the largest competitor. North Carolina law permits statewide *de novo* branching. Wachovia can be considered to be one of the most likely potential entrants through *de novo* branching into the Scotland County–Maxton area in the near future. It has the resources to establish such branches, and it has demonstrated its capacity and willingness to expand through *de novo* branching—over 50 per cent of its 106 existing offices were created *de novo,* and it has recently secured approval to open 10 additional offices.

This proposed merger is another manifestation of a significant trend of acquisition and mergers by North Carolina's largest commercial banks. This acquisition trend, by reducing the establishment of *de novo* branches by the State's largest banks, undoubtedly inhibits the development of a more competitive banking structure not only by eliminating those most able to enter new markets *de novo* as sources of potential competition but also by increasing the barriers to entry *de novo* for smaller institutions. Moreover, acquisitions of this type tend to foreclose the creation, by means of mergers between smaller banks in separate local markets, of banking institutions capable of competing with the largest banks in the State for the business of large industrial customers. In this connection we note that State Bank had an offer to merge from Waccamaw Bank and Trust Company, Whiteville—which has $58.8 million in total deposits and 20 offices and does not now operate in the Scotland County–Maxton area.

We conclude that the proposed merger would cause a significant lessening of potential competition.

For notes see p. 413.

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 THE BOARD OF GOVERNORS (7-11-68)

State Bank operates its head office and branches in Laurinburg (population 8,200), the seat of Scotland County (population 25,200). The bank also operates a branch at the Laurinburg–Maxton industrial park, and a branch in Maxton (population 1,800), which is 7 miles east of Laurinburg in Robeson County. Commercial State Bank (total deposits of $9 million), which is headquartered in Laurinburg, operates 4 offices in this area; the only other banking office in the area is the Laurinburg branch of Southern National Bank of North Carolina (total deposits of $105 million), the State's seventh largest bank. The nearest office of Wachovia to an office of State Bank is its branch in Asheboro, 80 miles north of Laurinburg, but Wachovia derives a sizable dollar amount of business from a few large accounts in the Laurinburg–Maxton area.

While Wachovia, with about 22 per cent of total commercial bank deposits in the State, is the largest bank in North Carolina, its share of deposits has decreased with the largest percentage of deposits ever held by Wachovia being 24.1 per cent, which it held as of December 31, 1961. The acquisition of State Bank would increase Wachovia's share of the State's total commercial bank deposits by about 0.2 per cent. Although it would be preferable for Wachovia to enter this area by establishing a *de novo* branch, the North Carolina Commissioner of Banks informed the Board by letter that he doubted that the State Banking Commission would approve the establishment by Wachovia of a *de novo* branch in the Laurinburg area, which is already served by 3 banks, and that his office certainly would not recommend approval.

In recent years, the economy of the Laurinburg–Maxton area has been undergoing a transition from agricultural to manufacturing activities. Wachovia has been a factor directly, and indirectly through participations, in financing the larger concerns in this area whose needs are beyond the capacity of an institution the size of State Bank with its low lending limit. Wachovia has extended commercial credit in Laurinburg in amounts approximating $2 million on the average, almost double the amount of deposits it derives from businesses and individuals in the area. Thus, Wachovia's contribution to the area's banking needs would not only be a competently blended range of banking services and a large lending limit but also the access to credit resources beyond those generated locally.

The proposed merger would not result in any significantly adverse consequences for banking competition, and replacement of State Bank by offices of Wachovia would facilitate the economic growth of the Laurinburg–Maxton area by affording a convenient alternative source of credit for medium-sized business concerns, which are to a great extent dependent upon local sources for banking services.

For notes see p. 413.

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. 5—**Girard Trust Company,** Philadelphia, Pa.	1,333.6	61	66
to merge with			
The Doylestown National Bank and Trust Company, Doylestown, Pa.	34.9	5	
No. 6—**The Fidelity Bank,** Philadelphia, Pa.	1,121.4	62	63
to merge with			
Doylestown Trust Company, Doylestown, Pa.	25.8	1	

Summary Report by the Attorney General

(1) Girard Trust Company and The Doylestown National Bank and Trust Company (12-14-67):

Girard Trust Bank (hereinafter Girard) is the third largest commercial bank in Philadelphia, Pennsylvania, and its environs, and the 32nd largest in the United States.

Doylestown National's main office is located in Doylestown, Bucks County, Pennsylvania, which is located approximately 25 miles northwest of Philadelphia. It maintains 4 branches in the immediate vicinity and provides general commercial banking and trust services. During the past 10 years, Doylestown National's deposits have doubled and its gross income has trebled.

The closest offices of the merging banks are less than 2 miles apart in the town of Westminster, in southeastern Bucks County.

We believe that Bucks County in its entirety constitutes the best market within which to assess the competitive effects of the proposed merger. This county, consisting of small towns and rural communities, is a chief area of expansion in the Philadelphia Metropolitan Area; and its commercial, industrial, and suburban features are expected to increase rapidly during the next decade.

Within Bucks County, Girard already holds about 5.5 per cent of total IPC [3] deposits at its 2 established branch offices in Westminster and Riegelsville; its Davisville Shopping Center branch, just opened in November, may be expected to increase this percentage. Doylestown National controls approximately 10.2 per cent of the Bucks County IPC [3] deposit total. As a result of this proposed merger, accordingly, Girard would control a minimum of 16 per cent of total Bucks County IPC [3] deposits.

For notes see p. 413.

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 THE ATTORNEY GENERAL—Cont.

This merger would eliminate considerable existing competition between these banks in Bucks County and would increase concentration in that market to a significant degree. The merger would also eliminate the possibility of additional direct competition between the 2 banks as a result of the probable *de novo* expansion by Girard in central Bucks County. Finally, an especially vigorous and growing independent competitor would be removed from the area. We conclude that the effect of this merger on banking competition within the Bucks County market would, therefore, be significantly adverse.

(2) The Fidelity Bank and Doylestown Trust Company (1-2-68):

Fidelity has 3 branches within a 10-mile radius of Doylestown Trust's only office; its closest office (in Lansdale) is about 6 to 7 miles away. It also has 3 other branches in Bucks County. We believe that the proposed merger would eliminate significant direct competition between Doylestown Trust and 3 Fidelity offices within 10 miles of Doylestown.

Within Bucks County, a market for which published data is available, Fidelity has 6 offices with IPC[3] deposits of $52 million. Doylestown Trust's 1 office has IPC[3] deposits of about $19 million. The 2 banks account for about 19 per cent and 7 per cent, respectively, of total Bucks County IPC[3] deposits which, on June 30, 1966, amounted to $268 million.

The proposed merger is part of a merger trend in central Bucks County. Three proposed mergers involving banks in Doylestown are now pending: (1) Girard Trust Bank ($1.0 billion IPC[3] deposits) and Doylestown National Bank and Trust Company ($26.9 million IPC[3] deposits); (2) Chalfont National Bank ($6.2 million IPC[3] deposits) and The Bucks County Bank and Trust Company ($29.8 million IPC[3] deposits); and (3) Fidelity and Doylestown Trust, which is under consideration here.

If all of these contemplated mergers were consummated, the 3 local banks in central Bucks County—Doylestown National Bank and Trust Company, Doylestown Trust Company, and Chalfont National Bank—would disappear as independent competitors; banking alternatives in central Bucks County would be reduced from 8 competitors to 6. The over-all effect of these 3 mergers would be to alter significantly the Bucks County banking structure, to the serious detriment of competition there.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (8-12-68)

Doylestown National and Doylestown Trust are headquartered in Doylestown Township (1960 population 3,800), which is located about 25 miles north of Philadelphia in the center of Bucks County (1960 population 309,000). An estimated 28,000 people reside in the Doylestown area. Doylestown Trust has no branch offices. Doylestown National operates 4 branch offices: 1 in Doylestown; 1 in Buckingham, 4 miles east of Doylestown; and 1 each in Warrington and Warminster, about 5 miles and 9 miles, respectively, south of Doylestown.

For notes see p. 413.

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 THE BOARD OF GOVERNORS—Cont.

Girard, the third largest bank headquartered in Philadelphia, operates 3 branch offices in Bucks County. Two are 21 and 11 miles, respectively, from the nearest office of Doylestown National, and because of the distances separating these offices from offices of Doylestown National, and the presence of offices of other banks in the intervening and adjacent areas, there is no meaningful existing or potential competition between Girard and Doylestown National through these offices. There is potential for some competition between Girard's other Bucks County office, which is about 3 miles from an office of Doylestown National; however, there are offices of several other large banks nearby. Doylestown National derives about 80 per cent of its deposits and loans from the central area of Bucks County. The deposits Girard derives from this area equal less than 6 per cent of Doylestown National's deposits, if the account of one large corporate customer with Girard is omitted. Similarly, the loans Girard derives from central Bucks County equal about 6 per cent of Doylestown National's loans, if one large-line loan that is far beyond the capacity of Doylestown National is omitted.

Fidelity, the fourth largest bank headquartered in Philadelphia, operates 6 branch offices in Bucks County. Its nearest office to the sole office of Doylestown Trust is more than 14 miles south of Doylestown. There are numerous offices of other banks operating in the area between Doylestown Trust and the offices of Fidelity, and there is very little existing or potential competition between the 2 banks through their present offices. Doylestown Trust derives about 80 per cent of its deposits and loans from the central Bucks County area. The deposits and loans that Fidelity derives from central Bucks County equal about 6 per cent of Doylestown Trust's deposits and loans.

The central Bucks County area is served by 10 offices of 6 banks that have their headquarters in Bucks County. Doylestown National and Doylestown Trust serve as each other's major competitor. The Philadelphia National Bank, the second largest bank headquartered in Philadelphia, has received approval to establish a *de novo* branch office in Doylestown and another in nearby New Britain; in addition, The First Pennsylvania Banking & Trust Co., the largest Philadelphia-based bank, has received approval to establish a *de novo* branch office in Doylestown; and Bucks County Bank and Trust Co. (with deposits of $33.6 million) has received approval to establish a *de novo* branch office about 5 miles north of Doylestown.

The addition of these competitors will, of course, significantly alter the banking structure of central Bucks County; and, although State law, *per se,* would not preclude Fidelity and Girard from establishing *de novo* branch offices in the Doylestown area, there is now a serious question whether the market would support additional *de novo* branch offices until the area undergoes substantial growth.

The effect of the mergers on banking convenience and needs would be limited to the central Bucks County area. The present banking needs of the area are being served reasonably well; and, with the opening of the recently approved *de novo* branch offices, it appears that the area's banking

For notes see p. 413.

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 THE BOARD OF GOVERNORS—Cont.

needs will be met satisfactorily for some time. However, the replacement of the two Doylestown-based banks with offices of Girard and Fidelity would provide for central Bucks County convenient alternative sources of full banking services. Further, Bucks County is the last undeveloped area for outward expansion from Philadelphia; from 1950 to 1960 the county's population increased 113 per cent, and the prospects for continued growth are excellent. While most of the growth thus far has taken place in the southern portion of Bucks County, the central area is obviously due for substantial growth over the next decade or two. The presence of offices of Girard and Fidelity, full-service banks with large lending limits, would facilitate that growth. The net effect of the proposed mergers on competition would not be adverse, and the mergers would benefit the banking convenience and needs of the central Bucks County area and contribute to its economic development.

No. 7—**The Citizens State Bank,** Sturgis, Mich. *to acquire the assets and assume the deposit liabilities of*	22.0	2	3
E. Hill & Sons State Bank & Trust Company, Colon, Mich.	5.5	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (6-21-68)

The merging banks are small, serve relatively limited banking areas in the lower southwest part of Michigan, and are separated by a distance of 14 miles. Thus competition between them appears to be minimal. Since under Michigan law, no bank may open a *de novo* branch in any town other than the town in which it is located, if another bank is already operating there, neither of the merging banks could enter the community of the other; accordingly, this merger would not eliminate potential competition between the 2 banks.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-3-68)

The Citizens State Bank (hereinafter Sturgis Bank) operates its head office and sole branch in Sturgis (population about 8,900); the sole office of E. Hill & Sons State Bank & Trust Company (hereinafter Colon Bank) is about 15 miles north of Sturgis in Colon (population about 1,100). Both Sturgis and Colon are located in St. Joseph County (population about 42,000). Because of the size of Sturgis Bank and Colon Bank and the distances separating their offices, there is little meaningful competition between them. Michigan law does not permit either bank to establish a *de novo* branch in the community of the other. The closest banking office

For notes see p. 413.

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 THE BOARD OF GOVERNORS—Cont.

to Colon Bank is a branch of a much larger bank (headquartered in Battle Creek) located about 6 miles north of Colon. The closest unit bank is located about 7 miles south of Colon and is slightly smaller than Colon Bank. However, that bank is also about 8 miles from Sturgis and currently competes effectively with both banks located there. There are also offices of 6 other banks within approximately 20 miles of either Sturgis or Colon, including offices of 2 substantially larger banks headquartered in Kalamazoo.

The proposed transaction would benefit the banking convenience and needs of the area presently served by Colon Bank and would have no material consequences for banking competition. The lending limit of the Colon office would be increased substantially, the interest rate paid on savings deposits would be increased, and the banking hours of the office would be extended. In addition, the conversion of Colon Bank into an office of Sturgis Bank would provide in the Colon area more convenient access to broader credit accommodations and to a generally wider range of banking services.

No. 8—**Kingston Trust Company,** Kingston, N.Y.	42.6	6	9
to merge with			
The Kerhonkson National Bank, Kerhonkson, N.Y.	7.8	3	

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-3-68)

Both Kingston Trust Company (hereinafter Kingston Trust) and Kerhonkson National Bank (hereinafter National) are located in Ulster County, New York, on the Hudson River midway between New York City and Albany. Kingston Trust has its main office in Kingston and operates 5 branch offices throughout the county. National has its main office in Kerhonkson and operates branch offices at Stone Ridge and Hurley.

National's branch in Hurley is located only 2 to 3 miles from Kingston Trust's main office, and the 2 banks should be active competitors. The proposed merger would eliminate that competition and increase Kingston Trust's share of IPC [3] demand deposits in Ulster County from approximately 28 to 31 per cent and its share of total deposits from approximately 24 to 30 per cent.

While National has experienced some management problems in the past year, its prospects appear to be good since it is located in a rapidly growing area and has almost tripled its net operating income over the past 5 years. National's directors have had several offers to enter into what would appear to be less anticompetitive mergers than the one here proposed, but apparently did not seriously consider those offers.

For notes see p. 413.

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 THE ATTORNEY GENERAL—Cont.

We conclude that the competitive effects of the proposed merger will be adverse and that National has not fully explored the possibility of becoming a partner to a less anticompetitive merger.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (10-3-68)

Kingston Bank operates its head office and 2 of its 5 branches in Kingston (population 20,300); the bank also operates a branch 1 mile north, and 2 others in towns 25 miles from Kingston. Kerhonkson Bank, headquartered in Kerhonkson (population 1,200), about 18 miles southwest of Kingston, operates 2 branches, located 10 and 2 miles, respectively, southwest of Kingston. All offices of the 2 banks are in Ulster County, which is served by 29 offices of 10 banks (excluding 1 office that, due to distance, is not competitive with either bank involved in this proposal). Kingston Bank holds 22 per cent of the deposits held by these 29 offices, and the second and third largest banks in terms of area deposits hold 21 per cent and 19 per cent, respectively. The total deposits of the second-ranking bank exceed those of Kingston Trust by 50 per cent, and the bank is a subsidiary of a bank holding company, the sixth largest banking organization in the State. Kerhonkson Bank is the ninth largest and holds 4 per cent of the area deposits.

Kerhonkson Bank has not been a very effective competitor. Ulster County's population of 137,000 represents an increase of 15 per cent since 1960, and a 47 per cent increase since 1950. During the period 1960–66 population growth in the area from which Kerhonkson Bank derives the bulk of its business represented 13 per cent of the population growth in the whole of Ulster County, yet the bank's share of the increase in bank deposits in the county was only 7 per cent. More particularly, the volume of deposits and loans generated by its branch nearest Kingston (established in 1964) is far below what could reasonably be expected for the sole banking office in a community with a population of 6,100 in 1966, a 35 per cent increase since 1960. Further, during 1967, Kerhonkson Bank experienced a decline in deposits of 3 per cent, and in recent months the rate of decline has accelerated to an annual rate of about 12 per cent. In early 1967 Kerhonkson Bank's president, who had served the bank for 20 years, became ill, and in September of that year he died. The directors have made a reasonable effort to deal with the management problem, but have not succeeded. The directors of Kerhonkson Bank initiated discussions regarding a possible merger with 5 banks, including Kingston Bank; 3 other banks expressed an interest in merging with Kerhonkson Bank. In the Board's judgment, the effect on competition of the merger of Kerhonkson Bank with any 1 of these 7 other banks would not differ so significantly from that of its merger with Kingston Bank as to lend much weight to approval or disapproval.

For notes see p. 413.

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 THE BOARD OF GOVERNORS—Cont.

The merger of Kerhonkson Bank and Kingston Bank would eliminate such competition as exists between them, as well as the potential for the development of additional competition, and enhance slightly the position of Kingston Bank. Kerhonkson Bank, however, has not been a vigorous competitor, and the merger would remove home office protection from Kerhonkson, thus opening the community to *de novo* branching by other banks. The replacement of Kerhonkson Bank by offices of Kingston Bank would make a broader range of banking services more conveniently available in the communities presently served by Kerhonkson Bank. The merger would, of course, eliminate Kerhonkson Bank as an alternative source of banking services. However, it is in the interests of the communities served by Kerhonkson Bank that the bank's problems be resolved fairly promptly; the proposed merger would achieve that end.

No. 9—**Bankers Trust Company,** New York, N.Y.	5,462.0	72	80
to merge with			
Northern Westchester National Bank, Chappaqua, N.Y.	33.9	8	

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-5-68)

Bankers Trust Company (hereinafter Bankers Trust), the sixth largest commercial bank in New York City and the seventh largest in the Nation, proposes to acquire Northern Westchester National Bank (hereinafter Northern), the sixth largest of 7 commercial banks with head offices in Westchester County and the only bank headquartered in the northern part of Westchester County.

Bankers Trust has 72 domestic banking offices, all of which are located in New York City and adjoining Nassau County. Through its parent holding company, Bankers Trust New York Corporation, Bankers Trust is affiliated with 3 other New York commercial banks, none of which have Westchester offices.

Northern's head office is in Chappaqua (population 5,000), about 25 miles north of Bronx County and about 9 miles north of White Plains in Westchester County; its 7 branches are located in a number of small and widely separated towns and villages in northern Westchester. Although it is the smallest of the 7 banks doing business in northern Westchester, Northern has the third largest share, 12.3 per cent, of the total IPC [3] demand deposits held by commercial banks in northern Westchester.

Westchester County is a northern suburb of New York City. While southern Westchester contains the bulk of the county's population and in-

For notes see p. 413.

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 THE ATTORNEY GENERAL—Cont.

dustry—it now has about 78 per cent of the total county population of 853,198—the rate of population increase in northern Westchester since 1950 has exceeded that of southern Westchester. As a result of the continuing migration of industry and population from New York City, an increasing number of large firms are moving into northern Westchester, thereby indicating a future business growth commensurate with its projected population increase.

The proposed transaction would not eliminate any significant existing competition between the participating banks or between Northern and any of the holding company affiliates of Bankers Trust. However, it would affect potential competition in northern Westchester since Bankers Trust is one of the most likely potential *de novo* entrants into the area. Bankers Trust has evidenced a desire to branch *de novo* into Westchester County and clearly has the resources and experience to do so. It has recently applied for approval to open an office in southern Westchester, and the fact that one of its largest customers, IBM, has established its headquarters in northern Westchester would give it additional incentives to branch *de novo* in the rapidly growing northern Westchester area.

The proposed merger would eliminate one of the most likely potential *de novo* entrants into northern Westchester and substitute a large New York City bank for the only bank headquartered in northern Westchester. We, therefore, conclude that the proposed transaction would have an adverse competitive effect.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (10-24-68)

In addition to Northern Bank, which operates 8 banking offices, 6 banks operate 36 banking offices in northern Westchester County (estimated population 190,000). Of these banks, 3 are large New York City banks, and the other 3 are also considerably larger than Northern Bank. Northern Bank holds about 13 per cent of the estimated $255 million deposits of the banking offices in northern Westchester County.

Bankers Trust is the key bank of a registered bank holding company, Bankers Trust New York Corporation (hereinafter the Corporation), which controls a total of 4 banks having aggregate deposits of approximately $5.7 billion. Bankers Trust presently has no offices in Westchester County but has received approval to establish a branch in the town of Greenburgh, which is in the southwestern part of Westchester County about 15 miles south of Chappaqua. One of the Corporation's banking subsidiaries, First State Bank of Rockland County, has a branch office located in West Haverstraw, about 4 miles from a branch of Northern Bank, but the Hudson River prevents easy accessibility between the 2 offices. Bankers Trust derives about $2.0 million in deposits and $4.3 million in loans from Northern Bank's service area, a small portion of total area deposits and loans. The 3 other subsidiaries of the Corporation derive only a nominal

For notes see p. 413.

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 THE BOARD OF GOVERNORS—Cont.

amount of deposits and loans from northern Westchester County. Northern Bank derives only a very small amount of loans and deposits from the areas served by the Corporation's subsidiaries.

There is no meaningful existing competition between Bankers Trust and the other holding company subsidiaries and Northern Bank. Competition could be increased through the establishment of *de novo* branches by Bankers Trust in northern Westchester County. However, since 1960 the New York State Banking Board has approved only 4 of 10 applications by State banks headquartered in New York City for *de novo* branches in northern Westchester County, and it is apparent, through an analysis of growth projections for the northern part of the county and of the availability of suitable banking office locations, that the possibility of future competition between Bankers Trust and Northern Bank is not significant. Furthermore, the village of Chappaqua, under State law, is not open for the establishment of branches by any banks other than Northern Bank, which maintains its home office there. Consummation of the merger would thus permit *de novo* branching in the Chappaqua community, and 2 banks have filed applications for branches there contingent upon favorable action on this merger.

The adequacy of the capital structure of Northern Bank has not been regarded as completely satisfactory due to a liberal dividend policy and the high cost of maintaining a large volume of interest-bearing deposits. The merger would eliminate that inadequacy.

In summary, the effect of the merger on competition would be slightly favorable, the banking factors offer some support for approval of the merger, and the banking convenience and needs of northern Westchester County would be benefited through a broader range of banking and trust services.

No. 10—**The Colonial Bank and Trust Company,** Waterbury, Conn.	190.1	16	22
to merge with			
Litchfield County National Bank, New Milford, Conn.	26.1	6	

SUMMARY REPORT BY THE ATTORNEY GENERAL (9-24-68)

The nearest branch offices of the merging banks are 10.5 miles from each other, and there are no banks in the intervening area. It thus appears that there may be some competition between the banks that would be eliminated by this merger.

Connecticut law prohibits branching into a town where there is already the main office of another bank. Thus, Colonial cannot branch *de novo* into

For notes see p. 413.

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 THE ATTORNEY GENERAL—Cont.

New Milford. The towns of Bridgewater (population 1,000), Kent (population 1,686), and Sharon (population 2,141), where Litchfield operates the only banking offices, may be too small to support additional banking operations at this time. However, as this area expands, Colonial could become a potential competitor in the future if this merger were not consummated.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (10-30-68)

Colonial operates 16 offices in Waterbury, which has a population of about 108,000, and several surrounding communities located in the northern part of New Haven County, a heavily industrialized area. Litchfield Bank maintains its head office and 2 branches in New Milford (population 11,600), which is located 28 miles west of Waterbury. It also maintains 3 branches in rural communities surrounding New Milford.

Litchfield Bank operates the only commercial banking offices in the communities in which its offices are located. Competition for some or all of those offices is provided by 4 banks, ranging in deposit size from $4 million to $53 million, and by 2 of the larger banks in the State with headquarters at Bridgeport. The closest offices of Colonial and Litchfield Bank are approximately 11 miles apart over an indirect route. Travel on the roads running east and west connecting the separate areas of Colonial and Litchfield Bank is time-consuming and difficult. The 2 banks derive only a small number of deposit and loan accounts from one another's service area.

With the exception of New Milford, State law permits *de novo* branches in the area served by Litchfield Bank. However, the communities in that area, aside from New Milford, have small populations with no sizable growth anticipated in the foreseeable future. The removal of home office protection from New Milford, therefore, appears likely to increase competition in that area; 2 large banks have applied for permission to establish branches in New Milford contingent upon approval of this merger.

Residents of 2 of the 4 communities served by Litchfield Bank do not have convenient access to a full range of banking services. The merger would bring to those residents expanded trust services, an increased lending limit, and a wider variety of credit and deposit instruments. In addition, through the removal of home office protection in New Milford, residents there will eventually have convenient access to the services of more than 1 commercial bank. Accordingly, the proposed transaction would have a favorable over-all effect on banking competition and would benefit the banking convenience and needs of the area presently served.

For notes see p. 413.

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—**Marine Midland Trust Company of Rockland County,** Nyack, N.Y.	55.2	7	9
to merge with			
Lafayette Bank and Trust Company of Suffern, Suffern, N.Y.	15.1	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-26-68)

Both banks are in Rockland County (population 193,000), immediately west of the Hudson River and near New York City. The eastern part of the county, where Rockland Bank has its offices, is already highly industrialized, and the central part is currently being developed. The western part of the county, where Lafayette has its offices, is still relatively rural, but is the next area for major industrial development.

The main offices of the 2 banks are separated by more than 11 miles. The nearest Rockland branch to Lafayette is 5.8 miles to the east, and there are several other intervening banks in this area. Between 80 per cent and 90 per cent of Lafayette's business comes from the western part of the county, with a relatively small percentage of transactions coming from Rockland Bank's service area. Competition between the 2 banks, therefore, does not appear to be significant.

Seven banks operate 48 offices in Rockland County. As of June 30, 1966, Rockland Bank and Lafayette held about 17 per cent and 5 per cent, respectively, of county IPC [3] demand deposits. As noted above, however, the banks do not appear to be operating in significant direct competition with each other despite location in the same county.

Two company officers, each of whom was being groomed to become president, embezzled more than $700,000 at Lafayette within the last 3 years. The result has been to demoralize the remaining personnel and so undermine the operations of the bank (including loss of insurance and deterioration of public confidence) that general collapse seemed imminent. Thus, there is doubt as to the ability of Lafayette, absent merger, to remain an effective competitor. Considering the possibilities available, Lafayette's merger with Rockland Bank is probably the least anticompetitive merger available to it.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-4-68)

Rockland Bank is a subsidiary of Marine Midland Banks, Inc., Buffalo, New York, a registered bank holding company that has 11 subsidiary banks in the State of New York. Rockland Bank operates 7 offices in 6 communities, all within a 7-mile radius of the town of Nyack, where its main office

For notes see p. 413.

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 THE BOARD OF GOVERNORS—Cont.

is located, in the southeastern part of Rockland County (population 193,-000). Lafayette Bank's main office is located in the town of Suffern (population 5,500) in the southwestern part of Rockland County, and its only branch is 3 miles north of Suffern. The nearest offices of the 2 banks are located 6 miles apart on an east-west line. The flow of local traffic in Rockland County is generally in a north-south direction, and there are a number of other banking offices in the area between the offices of Rockland Bank and Lafayette Bank, but each bank does derive some deposits and loans from the service area of the other. Neither bank can establish branches in the community where the main office of the other is located, and much of the surrounding area is presently not sufficiently developed to support additional banking offices.

Rockland Bank holds about 16 per cent of total deposits in an area slightly larger than Rockland County, and Lafayette Bank holds about 4 per cent. Although the merger would thus result in a bank holding 20 per cent of area deposits, there are 47 offices of 12 other banks competing in that area. One bank holds 29 per cent of total area deposits, and 7 of the other banks competing in the area have total deposits exceeding those of the bank that would result from this merger.

Lafayette Bank is lacking sufficient managerial depth. In recent years the bank has suffered two serious defalcations, which have had a detrimental effect on the confidence of its personnel and customers. In addition, the bank has had difficulty maintaining fidelity insurance coverage.

Consummation of the merger and the resulting affiliation with Marine Midland Banks, Inc. would alleviate the difficulties of Lafayette Bank without having a significant adverse effect on competition. Moreover, the merger would have a slightly favorable effect on the banking convenience and needs of the Suffern community.

No. 12—**The Middle Tennessee Bank,** Columbia, Tenn.	20.1	4	5
to acquire the assets and assume the deposit liabilities of			
The Hampshire Bank, Hampshire, Tenn.	1.1	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (9-20-68)

Columbia (population 18,000), the Maury County seat, is a growing industrial and trading area; 4 banks have offices in this town. Hampshire

For notes see p. 413.

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 THE ATTORNEY GENERAL—Cont.

(population 2,500), with 1 bank, is located 15 miles west of Columbia in a primarily agricultural area.

Although the merging banks are 15 miles apart in a rural area, with no banks in the intervening area, competition between them is probably limited because of the small size and limited range of services of Hampshire Bank. Moreover, 2 banks have offices in Mt. Pleasant, 7 miles southeast of Hampshire.

Furthermore, competition between the merging banks may be even more limited than would ordinarily be the case since a director on the board of Hampshire Bank is also a vice president of Middle Tennessee Bank. This individual and the president of Middle Tennessee Bank, together, own 109 of the 300 outstanding shares of the Hampshire Bank.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-25-68)

Middle Bank operates 3 branches and its main office in Columbia (population 18,000), the seat of Maury County in the central part of the State. Hampshire Bank's single office is the only bank in Hampshire (population 200), which is also located in Maury County, 15 miles west of Columbia. The nearest competing banking offices to Hampshire Bank are offices located in Mt. Pleasant, Tennessee, approximately 7 miles southeast of Hampshire and 10 miles southwest of Columbia. Middle Bank competes to some degree in all of Maury County. However, although there are no banking offices along the direct route from Columbia to Hampshire, Middle Bank has not been an active competitor in the Hampshire and Mt. Pleasant communities. It is estimated that less than 2 per cent of Middle Bank's deposits originate in the service area of Hampshire Bank and a similarly small percentage of its loans originate in that area.

Hampshire Bank has had a serious management problem since the incapacitating illness of its chief executive officer in 1965, and as a result, the bank's general condition is unsatisfactory. It apparently has been unable to improve its condition, and its continued existence as an independent institution is in jeopardy. Consummation of the proposal, therefore, would assure the continued presence of a banking office in the community of Hampshire. Further, this office would provide the area with a substantially larger loan limit and expansion of loan and other banking services. The proposal would not have materially adverse competitive consequences but, instead, would tend to enhance banking competition in the Hampshire area.

For notes see p. 413.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1968 [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
No. 13—**Chemical Bank New York Trust Company,** New York, N.Y.	8,978.2	141	141
to merge with **Chemical Bank,** New York, N.Y.	0.5	0	
and change its title to **Chemical Bank,** New York, N.Y.			

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-12-68)

Chemical Bank was recently organized for the purpose of effecting a plan of reorganization whereby Chemical Bank New York Trust Company, a New York banking organization, will become, through merger with Chemical Bank, a wholly owned subsidiary of Chemical New York Corporation, a business organization newly organized under the laws of Delaware.

The proposed transaction would appear to have no adverse effects on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-29-68)

The proposed merger is one step in a plan of corporate reorganization whereby Chemical New York Corporation, New York, New York, a newly organized Delaware corporation, would become a 1-bank holding company. Chemical New York Corporation presently owns all of the stock of Chemical Bank; upon the merger of applicant bank with Chemical Bank, stock of Chemical New York Corporation will be exchanged for the stock of applicant bank. The proposed merger of applicant bank and Chemical Bank—the latter being a bank with no operating history—would itself have no effect on either competition or the banking convenience and needs of any relevant area. Nor would it appear that the proposal would have any adverse consequences relative to the financial and managerial resources and prospects of applicant bank or Chemical Bank.

For notes see facing page.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1968 [1]—Continued

Name of bank, and type of transaction [2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices: In operation	Banking offices: To be operated
No. 14—**The First Pennsylvania Banking and Trust Company,** Philadelphia, Pa.	2,141.7	64	64
to merge with			
Chestnut Street Trust Company, Philadelphia, Pa.	0.6	0	

SUMMARY REPORT BY THE ATTORNEY GENERAL (12-18-68)

This merger is merely part of a corporate reorganization which will make The First Pennsylvania Banking and Trust Company a wholly owned subsidiary of a 1-bank holding company and as such will have no effect on competition.

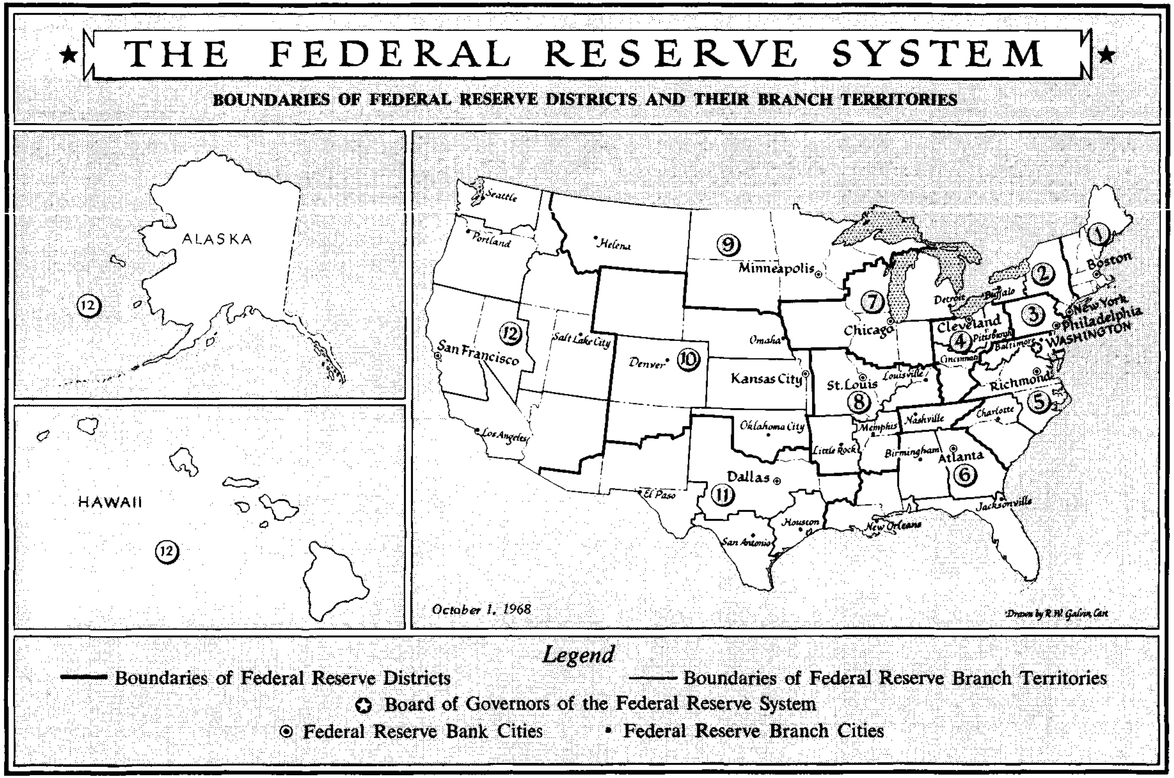
BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (12-26-68)

The proposed merger is one step in a plan of corporate reorganization whereby First Pennsylvania Corporation, Philadelphia, Pennsylvania, a newly organized Pennsylvania corporation, would become a 1-bank holding company. First Pennsylvania Corporation presently owns all of the stock of Chestnut Street Bank; upon the merger of applicant bank with Chestnut Street Bank, stock of First Pennsylvania Corporation will be exchanged for stock of applicant bank. The proposed merger of applicant bank and Chestnut Street Bank—the latter being a bank with no operating history—would itself have no effect on either competition or the banking convenience and needs of any relevant area. Nor would it appear that the proposal would have any adverse consequences relative to the financial and managerial resources and prospects of applicant bank or Chestnut Street Bank.

[1] During 1968 the Board disapproved 1 merger application. 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, except transactions numbered 13 and 14, which were under the charter of the second-named bank.

[3] The abbreviation "IPC" designates deposits of individuals, partnerships, and corporations.



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.

Federal Reserve Directories and Meetings

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(December 31, 1968)

	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, 1982

ROBERT C. HOLLAND, *Secretary of the Board*
DANIEL H. BRILL, *Senior Adviser to the Board*
ROBERT SOLOMON, *Adviser to the Board*
MERRITT SHERMAN, *Assistant to the Board*
CHARLES MOLONY, *Assistant to the Board*
HOWARD H. HACKLEY, *Assistant to the Board*
ROBERT L. CARDON, *Assistant to the Board*
JOSEPH R. COYNE, *Special Assistant to the Board*
ROBERT E. NICHOLS, *Special Assistant to the Board*

OFFICE OF THE SECRETARY

ROBERT C. HOLLAND, *Secretary*
KENNETH A. KENYON, *Deputy Secretary*
ELIZABETH L. CARMICHAEL, *Assistant Secretary*
ARTHUR L. BROIDA, *Assistant Secretary*
ROBERT P. FORRESTAL, *Assistant Secretary*

LEGAL DIVISION

DAVID B. HEXTER, *General Counsel*
THOMAS J. O'CONNELL, *Deputy General Counsel*
JEROME W. SHAY, *Assistant General Counsel*

DIVISION OF RESEARCH AND STATISTICS

DANIEL H. BRILL, *Director*
J. CHARLES PARTEE, *Associate Director*
STEPHEN H. AXILROD, *Adviser*
LYLE E. GRAMLEY, *Adviser*
KENNETH B. WILLIAMS, *Adviser*
STANLEY J. SIGEL, *Associate Adviser*
TYNAN SMITH, *Associate Adviser*
MURRAY S. WERNICK, *Associate Adviser*
JAMES B. ECKERT, *Assistant Adviser*
PETER M. KEIR, *Assistant Adviser*
BERNARD SHULL, *Assistant Adviser*
LOUIS WEINER, *Assistant Adviser*

Division of International Finance

Robert Solomon, *Director*
Robert L. Sammons, *Associate Director*
John E. Reynolds, *Associate Director*
John F. L. Ghiardi, *Adviser*
A. B. Hersey, *Adviser*
Reed J. Irvine, *Adviser*
*Samuel I. Katz, *Adviser*
Bernard Norwood, *Adviser*
Ralph C. Wood, *Adviser*

Division of Federal Reserve Bank Operations

John R. Farrell, *Director*
John N. Kiley, Jr., *Associate Director*
James A. McIntosh, *Assistant Director*
P. D. Ring, *Assistant Director*
Charles C. Walcutt, *Assistant Director*
Lloyd M. Schaeffer, *Chief Federal Reserve Examiner*

Division of Supervision and Regulation

Frederic Solomon, *Director*
Brenton C. Leavitt, *Deputy Director*
Frederick R. Dahl, *Assistant Director*
Jack M. Egertson, *Assistant Director*
Janet O. Hart, *Assistant Director*
John N. Lyon, *Assistant Director*
Thomas A. Sidman, *Assistant Director*
Tynan Smith, *Acting Assistant Director*

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*

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* On leave of absence.

FEDERAL OPEN MARKET COMMITTEE

(December 31, 1968)

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)
HUGH D. GALUSHA, JR. (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)
W. BRADDOCK HICKMAN (Elected by Federal Reserve Banks of Cleveland and Chicago)
MONROE KIMBREL (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
SHERMAN J. MAISEL (Board of Governors)
GEORGE W. MITCHELL (Board of Governors)
FRANK E. MORRIS (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)
J. L. ROBERTSON (Board of Governors)
WILLIAM W. SHERRILL (Board of Governors)

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*
STEPHEN H. AXILROD, *Associate Economist*
A. B. HERSEY, *Associate Economist*

JOHN H. KAREKEN, *Associate Economist*
ROBERT G. LINK, *Associate Economist*
MAURICE MANN, *Associate Economist*
J. CHARLES PARTEE, *Associate Economist*
JOHN E. REYNOLDS, *Associate Economist*
ROBERT SOLOMON, *Associate Economist*
CHARLES T. TAYLOR, *Associate Economist*
PARKER B. WILLIS, *Associate Economist*

ALAN R. HOLMES, *Manager, System Open Market Account*
CHARLES A. COOMBS, *Special Manager, System Open Market Account*

During 1968 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. 99-225 of this Report).

FEDERAL ADVISORY COUNCIL

(December 31, 1968)

MEMBERS

District No. 1—John Simmen, Chairman of the Board, Industrial National Bank of Rhode Island, Providence, R. I.

District No. 2—George S. Moore, Chairman of the Board, First National City Bank, New York, N.Y.

District No. 3—Harold F. Still, Jr., President, Central-Penn National Bank of Philadelphia, Philadelphia, Pa.

District No. 4—John A. Mayer, Chairman of the Board and Chief Executive Officer, Mellon National Bank and Trust Company, Pittsburgh, Pa.

District No. 5—J. Harvie Wilkinson, Jr., Chairman of the Board, State-Planters Bank of Commerce and Trusts, Richmond, Va.

District No. 6—George S. Craft, Chairman, Trust Company of Georgia, Atlanta, Ga.

District No. 7—David M. Kennedy, Chairman of the Board, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Ill.

District No. 8—John Fox, Chairman of the Board and Chief Executive Officer, Mercantile Trust Company National Association, St. Louis, Mo.

District No. 9—Philip H. Nason, President, First National Bank, St. Paul, Minn.

District No. 10—Jack T. Conn, Chairman of the Board, The Fidelity National Bank and Trust Company of Oklahoma City, Oklahoma City, Okla.

District No. 11—Robert H. Stewart, III, Chairman of the Board, First National Bank in Dallas, Dallas, Tex.

District No. 12—Frederick G. Larkin, Jr., President and Chief Executive Officer, Security Pacific National Bank, Los Angeles, Calif.

OFFICERS

JOHN A. MAYER, *President* — J. HARVIE WILKINSON, JR., *Vice President*

HERBERT V. PROCHNOW, *Secretary*

WILLIAM J. KORSVIK, *Assistant Secretary*

EXECUTIVE COMMMITTEE

JOHN A. MAYER, *ex officio* — J. HARVIE WILKINSON, JR., *ex officio*

JOHN SIMMEN — HAROLD F. STILL, JR.

ROBERT H. STEWART, III

Meetings of the Federal Advisory Council were held on February 19–20, June 3–4, September 16–17, and November 18–19, 1968. The Board of Governors met with the Council on February 20, June 4, September 17, and November 19. 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.

FEDERAL RESERVE BANKS and BRANCHES

(December 31, 1968)

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston	Howard W. Johnson	Charles W. Cole
New York	Everett N. Case	Kenneth H. Hannan
Philadelphia	Willis J. Winn	Bayard L. England
Cleveland	Albert G. Clay	Logan T. Johnston
Richmond	Wilson H. Elkins	Robert W. Lawson, Jr.
Atlanta	Edwin I. Hatch	John C. Wilson
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	O. Meredith Wilson	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 December 5–6, 1968.

Mr. Thomsen, Chairman of the Federal Reserve Bank of Dallas, who was elected Chairman of the Conference and of the Executive Committee in December 1967, served in that capacity until the close of the 1968 meeting. Mr. Peirce, Chairman of the Federal Reserve Bank of St. Louis, and Mr. Winn, Chairman of the Federal Reserve Bank of Philadelphia, served with Mr. Thomsen as members of the Executive Committee; Mr. Peirce also served as Vice Chairman of the Conference.

On December 6, 1968, Mr. Peirce, Chairman of the St. Louis Bank, was elected Chairman of the Conference and of the Executive Committee to serve for the succeeding year; Mr. Winn, Chairman of the Philadelphia Bank, was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. Clay, Chairman of the Federal Reserve Bank of Cleveland, was elected as the other member of the Executive Committee.

DIRECTORS

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Federal Reserve Bank branches have either 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:		
Lawrence H. Martin	Chairman of the Board and Chief Executive Officer, The National Shawmut Bank of Boston, Mass.	1968
Charles A. Beaujon, Jr.	President, The Canaan National Bank, Canaan, Conn.	1969
William R. Kennedy	President, Merrimack Valley National Bank, Haverhill, Mass.	1970
Class B:		
W. Gordon Robertson	Chairman of the Executive Committee and Chief Executive Officer, Bangor Punta Corporation, Bangor, Maine	1968
F. Ray Keyser, Jr.	Vice President, Vermont Marble Company, Proctor, Vt.	1969
James R. Carter	President, Nashua Corporation, Nashua, N.H.	1970
Class C:		
Charles W. Cole	President Emeritus, Amherst College, Amherst, Mass.	1968
Howard W. Johnson	President, Massachusetts Institute of Technology, Cambridge, Mass.	1969
John M. Fox	Chairman of the Board, United Fruit Company, Boston, Mass.	1970

DIRECTORS—Cont.	District 2 — New York	*Term expires Dec. 31*
Class A:		
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
R. E. McNeill, Jr.	Chairman of the Board, Manufacturers Hanover Trust Company, New York, N.Y.	1970
Class B:		
Milton C. Mumford	Chairman of the Board, Lever Brothers Company, Inc., New York, N.Y.	1968
Maurice R. Forman	President, B. Forman Co., Inc., Rochester, N.Y.	1969
Arthur K. Watson	Chairman of the Board, IBM World Trade Corporation, and Vice Chairman of the Board, International Business Machines Corporation, Armonk, N.Y.	1970
Class C:		
Kenneth H. Hannan	Executive Vice President, Union Carbide Corporation, New York, N.Y.	1968
Everett N. Case	Former President, Alfred P. Sloan Foundation, Van Hornesville, N.Y.	1969
James M. Hester	President, New York University, New York, N.Y.	1970

Buffalo Branch

Appointed by Federal Reserve Bank:		
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
Wilmot R. Craig	Chairman of the Board and Chief Executive Officer, Lincoln Rochester Trust Company, Rochester, N.Y.	1970
Charles L. Hughes	President, The Silver Creek National Bank, Silver Creek, N.Y.	1970
Appointed by Board of Governors:		
Norman F. Beach	Vice President and General Manager, Kodak Park Division, Eastman Kodak Company, Rochester, N.Y.	1968
Gerald F. Britt	President, L-Brooke Farms, Inc., Byron, N.Y.	1969
Robert S. Bennett	General Manager, Lackawanna Plant, Bethlehem Steel Corporation, Buffalo, N.Y.	1970

DIRECTORS—Cont.

District 3 — Philadelphia

		Term expires Dec. 31
Class A:		
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
H. Lyle Duffey	Executive Vice President, The First National Bank of McConnellsburg, Pa.	1970
Class B:		
Henry A. Thouron	President, Hercules, Incorporated, Wilmington, Del.	1968
Edward J. Dwyer	President, ESB Incorporated, Philadelphia, Pa.	1969
Philip H. Glatfelter, III	President, P. H. Glatfelter Co., Spring Grove, Pa.	1970
Class C:		
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
Willis J. Winn	Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pa.	1970

District 4 — Cleveland

Class A:		
Everett D. Reese	Director, former Chairman of the Board, The City National Bank and Trust Company of Columbus, Ohio	1968
Richard R. Hollington	President, The Ohio Bank and Savings Company, Findlay, Ohio	1969
Seward D. Schooler	President, Coshocton National Bank, Coshocton, Ohio	1970
Class B:		
Walter K. Bailey	Director, former Chairman of the Board, The Warner and Swasey Company, Cleveland, Ohio	1968
R. Stanley Laing	President, The National Cash Register Company, Dayton, Ohio	1969
John L. Gushman	President and Chief Executive Officer, Anchor Hocking Glass Corporation, Lancaster, Ohio	1970

DIRECTORS—Cont. **District 4 — Cleveland — Cont.** *Term expires Dec. 31*

Class C:

Logan T. Johnston	Chairman of the Board, Armco Steel Corporation, Middletown, Ohio	1968
Albert G. Clay	President, Clay Tobacco Company, Mt. Sterling, Ky	1969
J. Ward Keener	Chairman of the Board and Chief Executive Officer, The B. F. Goodrich Company, Akron, Ohio	1970

Cincinnati Branch

Appointed by Federal Reserve Bank:

Jacob H. Graves	President, The Second National Bank and Trust Company of Lexington, Ky	1968
John W. Humphrey	Chairman of the Board, The Philip Carey Manufacturing Company, Cincinnati, Ohio	1969
Robert J. Barth	President, The First National Bank, Dayton, Ohio	1969
Fletcher E. Nyce	President, The Central Trust Company, Cincinnati, Ohio	1970

Appointed by Board of Governors:

Graham E. Marx	President and General Manager, The G. A. Gray Company, Cincinnati, Ohio	1968
Phillip R. Shriver	President, Miami University, Oxford, Ohio	1969
Orin E. Atkins	President, Ashland Oil & Refining Company, Ashland, Ky	1970

Pittsburgh Branch

Appointed by Federal Reserve Bank:

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
George S. Cook	President, Somerset Trust Company, Somerset, Pa	1970

DIRECTORS—Cont.	District 4 — Cleveland — Cont.	Term expires Dec. 31
	Pittsburgh Branch — Cont.	
Appointed by Board of Governors:		
F. L. Byrom	President and Chief Executive Officer, Koppers Company, Inc., Pittsburgh, Pa.	1968
Lawrence E. Walkley	President, Westinghouse Air Brake Company, Pittsburgh, Pa.	1969
B. R. Dorsey	President, Gulf Oil Corporation, Pittsburgh, Pa.	1970
	District 5 — Richmond	
Class A:		
William A. Davis	President, The Peoples Bank of Mullens, W. Va.	1968
Robert C. Baker	President and Chairman of the Board, American Security and Trust Company, Washington, D.C.	1969
Giles H. Miller	President, The Culpeper National Bank, Culpeper, Va.	1970
Class B:		
Charles D. Lyon	President, The Potomac Edison Company, Hagerstown, Md.	1968
Thaddeus Street	President, Carolina Shipping Company, Charleston, S.C.	1969
H. Dail Holderness	President, Carolina Telephone and Telegraph Company, Tarboro, N.C.	1970
Class C:		
Wilson H. Elkins	President, University of Maryland, College Park, Md.	1968
Robert W. Lawson, Jr.	Managing Partner of Charleston Office, Steptoe & Johnson, Charleston, W. Va.	1969
Stuart Shumate	President, Richmond, Fredericksburg and Potomac Railroad Company, Richmond, Va.	1970
	Baltimore Branch	
Appointed by Federal Reserve Bank:		
Joseph B. Browne	President, Union Trust Company of Maryland, Baltimore, Md.	1968
John P. Sippel	President, The Citizens National Bank, Laurel, Md.	1969
Adrian L. McCardell	Chairman of the Board, First National Bank of Maryland, Baltimore, Md.	1970
James J. Robinson	Executive Vice President and Cashier, Bank of Ripley, W. Va.	1970

DIRECTORS—Cont. **District 5 — Richmond — Cont.** *Term expires Dec. 31*

Baltimore Branch — Cont.

Appointed by Board of Governors:

		Term expires Dec. 31
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
John H. Fetting, Jr.	President, A. H. Fetting Company, Baltimore, Md.	1970

Charlotte Branch

Appointed by Federal Reserve Bank:

		Term expires Dec. 31
G. Harold Myrick	President, First National Bank, Lincolnton, N.C.	1968
J. Willis Cantey	President, The Citizens and Southern National Bank of South Carolina, Columbia, S.C.	1969
C. C. Cameron	Chairman of the Board and President, First Union National Bank of North Carolina, Charlotte, N.C.	1970
H. Phelps Brooks, Jr.	President, The Peoples National Bank, Chester, S.C.	1970

Appointed by Board of Governors:

		Term expires Dec. 31
John L. Fraley	Executive Vice President, Carolina Freight Carriers Corporation, Cherryville, N.C.	1968
James A. Morris	Commissioner of Higher Education, Columbia, S.C.	1969
William B. McGuire	President, Duke Power Company, Charlotte, N.C.	1970

District 6 — Atlanta

Class A:

		Term expires Dec. 31
John W. Gay	President, The First National Bank, Scottsboro, Ala.	1968
William B. Mills	President, The Florida National Bank of Jacksonville, Fla.	1969
A. L. Ellis	Chairman of the Board, First National Bank in Tarpon Springs, Fla.	1970

DIRECTORS—Cont. **District 6 — Atlanta — Cont.** *Term expires Dec. 31*

Class B:

Harry T. Vaughn	President, United States Sugar Corporation, Clewiston, Fla.	1968
Philip J. Lee	Vice President, Tropicana Products, Inc., Tampa, Fla.	1969
Hoskins A. Shadow	President, Tennessee Valley Nursery, Inc., Winchester, Tenn.	1970

Class C:

Edwin I. Hatch	President, Georgia Power Company, Atlanta, Ga.	1968
John A. Hunter	President, Louisiana State University, Baton Rouge, La.	1969
John C. Wilson	President, Horne-Wilson, Inc., Atlanta, Ga.	1970

Birmingham Branch

Appointed by Federal Reserve Bank:

Major W. Espy	Chairman of the Board, The Headland National Bank, Headland, Ala.	1968
Will T. Cothran	President, Birmingham Trust National Bank, Birmingham, Ala.	1969
Arthur L. Johnson	President, Camden National Bank, Camden, Ala.	1970
George A. LeMaistre	President, City National Bank of Tuscaloosa, Ala.	1970

Appointed by Board of Governors:

Eugene C. Gwaltney, Jr.	President, Russell Mills, Inc., Alexander City, Ala.	1968
Mays E. Montgomery	General Manager, Dixie Home Feeds Company, Athens, Ala.	1969
C. Caldwell Marks	Chairman of the Board, Owen-Richards Company, Inc., Birmingham, Ala.	1970

DIRECTORS—Cont. **District 6 — Atlanta — Cont.** *Term expires Dec. 31*

Jacksonville Branch

Appointed by Federal Reserve Bank:

Andrew P. Ireland	Chairman of the Board and Senior Vice President, The Barnett First National Bank and Trust Co., Jacksonville, Fla.	1968
L. V. Chappell	President, First National Bank of Clearwater, Fla.	1969
Harry Hood Bassett	Chairman of the Board, The First National Bank of Miami, Fla.	1970
John Y. Humphress	Executive Vice President, Capital City First National Bank, Tallahassee, Fla.	1970

Appointed by Board of Governors:

Castle W. Jordan	President, Associated Oil and Gas Company, Coral Gables, Fla.	1968
Henry King Stanford	President, University of Miami, Coral Gables, Fla.	1969
Henry Cragg	Chairman of the Board and Chief Executive Officer, Minute Maid Company, Orlando, Fla.	1970

Nashville Branch

Appointed by Federal Reserve Bank:

Moses E. Dorton	President, The First National Bank of Crossville, Tenn.	1968
Andrew Benedict	President, First American National Bank, Nashville, Tenn.	1969
H. A. Crouch, Jr.	President, The First National Bank, Tullahoma, Tenn.	1970
W. H. Swain	President, First National Bank, Oneida, Tenn.	1970

Appointed by Board of Governors:

Alexander Heard	Chancellor, Vanderbilt University, Nashville, Tenn.	1968
James E. Ward	Chairman of the Board, Baird-Ward Printing Company, Nashville, Tenn.	1969
Robert M. Williams	President, ARO, Inc., Tullahoma, Tenn.	1970

DIRECTORS—Cont. **District 6 — Atlanta — Cont.** *Term expires Dec. 31*

New Orleans Branch

Appointed by Federal Reserve Bank:

Donald L. Delcambre	President, The State National Bank, New Iberia, La.	1968
A. L. Gottsche	President, First National Bank, Biloxi, Miss.	1969
Lucien J. Hebert, Jr.	Executive Vice President, Lafourche National Bank of Thibodaux, La.	1970
Morgan Whitney	Vice President, Whitney National Bank of New Orleans, La.	1970

Appointed by Board of Governors:

Frank G. Smith	Vice President, Mississippi Power & Light Company, Jackson, Miss.	1968
George B. Blair	General Manager, American Rice Growers Cooperative Association, Lake Charles, La.	1969
Robert H. Radcliff, Jr.	President, Southern Industries Corporation, Mobile, Ala.	1970

District 7 — Chicago

Class A:

Harry W. Schaller	President, The Citizens First National Bank of Storm Lake, Iowa	1968
Kenneth V. Zwiener	Chairman of the Board, Harris Trust and Savings Bank, Chicago, Ill.	1969
Melvin C. Lockard	President, First National Bank, Mattoon, Ill.	1970

Class B:

Joseph O. Waymire	Vice President for Finance, Eli Lilly and Company, Indianapolis, Ind.	1968
William H. Davidson	President, Harley-Davidson Motor Company, Milwaukee, Wis.	1969
Howard M. Packard	Chairman of the Finance Committee, S. C. Johnson & Son, Inc., Racine, Wis.	1970

Class C:

Elvis J. Stahr	Past President, Indiana University, Bloomington, Ind.	1968
Emerson G. Higdon	President and Treasurer, The Maytag Company, Newton, Iowa	1969
Franklin J. Lunding	Chairman of the Finance Committee, Jewel Companies, Inc., Melrose Park, Ill.	1970

DIRECTORS—Cont.	**District 7 — Chicago — Cont.**	*Term expires Dec. 31*
	Detroit Branch	
Appointed by Federal Reserve Bank:		
B. P. Sherwood, Jr.	President, Security First Bank and Trust Company, Grand Haven, Mich.	1968
John H. French, Jr.	President, City National Bank of Detroit, Mich.	1969
George L. Whyel	President, Genesee Merchants Bank and Trust Company, Flint, Mich.	1969
Raymond T. Perring	Chairman of the Board, The Detroit Bank and Trust Company, Detroit, Mich.	1970
Appointed by Board of Governors:		
Guy S. Peppiatt	Chairman of the Board, Federal-Mogul Corporation, Detroit, Mich.	1968
Max P. Heavenrich, Jr.	President, Heavenrich Bros. & Company, Saginaw, Mich.	1969
L. Wm. Seidman	Resident Partner, Seidman & Seidman, Grand Rapids, Mich.	1970

District 8 — St. Louis

Class A:		
Harry F. Harrington	Chairman of the Board, The Boatmen's National Bank of Saint Louis, Mo.	1968
Cecil W. Cupp, Jr.	President, Arkansas Bank and Trust Company, Hot Springs, Ark.	1969
Bradford Brett	President, The First National Bank of Mexico, Mo.	1970
Class B:		
Sherwood J. Smith	Industrialist, Evansville, Ind.	1968
Roland W. Richards	Senior Vice President, Laclede Steel Company, St. Louis, Mo.	1969
Mark Townsend	Chairman of the Board, Townsend Lumber Company, Inc., Stuttgart, Ark.	1970
Class C:		
Frederic M. Peirce	President, General American Life Insurance Company, St. Louis, Mo.	1968
William King Self	President, Riverside Industries, Marks, Miss.	1969
Smith D. Broadbent, Jr.	Owner, Broadbent Hybrid Seed Co., Cadiz, Ky.	1970

DIRECTORS—Cont. **District 8 — St. Louis — Cont.** *Term expires Dec. 31*

Little Rock Branch

Appointed by Federal Reserve Bank:

Louis E. Hurley	President, The Exchange Bank & Trust Company, El Dorado, Ark.	1968
Ellis E. Shelton	President, The First National Bank of Fayetteville, Ark.	1969
Wayne A. Stone	President, Simmons First National Bank of Pine Bluff, Ark.	1969
Edward M. Penick	President, Worthen Bank & Trust Company, Little Rock, Ark.	1970

Appointed by Board of Governors:

Carey V. Stabler	President, Little Rock University, Little Rock, Ark.	1968
Jake Hartz, Jr.	President, Jacob Hartz Seed Co., Inc., Stuttgart, Ark.	1969
Ralph M. Sloan, Jr.	President, Terminal Van and Storage Company, Little Rock, Ark.	1970

Louisville Branch

Appointed by Federal Reserve Bank:

John H. Hardwick	Chairman of the Board, 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
J. E. Miller	Executive Vice President, Sellersburg State Bank, Sellersburg, Ind.	1970

Appointed by Board of Governors:

C. Hunter Green	Vice President, South Central Bell Telephone Company, Louisville, Ky.	1968
Lisle Baker, Jr.	Chairman of the Finance Committee, The Courier-Journal & Louisville Times Company, Louisville, Ky.	1969
Harry M. Young, Jr.	Farmer, Herndon, Ky.	1970

DIRECTORS—Cont.

District 8 — St. Louis — Cont.

Term expires Dec. 31

Memphis Branch

Appointed by Federal Reserve Bank:

		Term expires Dec. 31
Wade W. Hollowell	President, The First National Bank of Greenville, Miss.	1968
Allen Morgan	President, The First National Bank of Memphis, Tenn.	1969
Con T. Welch	President, Citizens Bank, Savannah, Tenn.	1969
J. J. White	President, Helena National Bank, Helena, Ark.	1970

Appointed by Board of Governors:

		Term expires Dec. 31
Sam Cooper	President, HumKo Products Division, National Dairy Products Corporation, Memphis, Tenn.	1968
William L. Giles	President, Mississippi State University, State College, Miss.	1969
Alvin Huffman, Jr.	President, Huffman Brothers Lumber Company, Blytheville, Ark.	1970

District 9 — Minneapolis

		Term expires Dec. 31
Class A:		
Curtis B. Mateer	Executive Vice President, The Pierre National Bank, Pierre, S. Dak.	1968
John Bosshard	Executive Vice President, First National Bank of Bangor, Wis.	1969
Warren F. Vaughan	President, Security Trust & Savings Bank, Billings, Mont.	1970
Class B:		
John H. Toole	President, Toole and Easter Company, Missoula, Mont.	1968
Leo C. Studness	Manager, Studness Company, Devils Lake, N. Dak.	1969
Neil G. Simpson	President, Black Hills Power and Light Company, Rapid City, S. Dak.	1970
Class C:		
Robert F. Leach	Attorney, Oppenheimer, Hodgson, Brown, Wolff and Leach, St. Paul, Minn.	1968
Joyce A. Swan	Vice Chairman of the Board, Minneapolis Star and Tribune, Minneapolis, Minn.	1969
Byron W. Reeve	President, Lake Shore, Inc., Iron Mountain, Mich.	1970

DIRECTORS—Cont.	District 9 — Minneapolis — Cont.	*Term expires Dec. 31*

Helena Branch

Appointed by Federal Reserve Bank:

Charles H. Brocksmith	President, First Security Bank of Glasgow N.A., Glasgow, Mont.	1968
Glenn H. Larson	President, First State Bank of Thompson Falls, Mont.	1968
B. Meyer Harris	President, The Yellowstone Bank, Laurel, Mont.	1969

Appointed by Board of Governors:

C. G. McClave	President, Montana Flour Mills Company, Great Falls, Mont.	1968
Edwin G. Koch	President, Montana College of Mineral Science and Technology, Butte, Mont.	1969

District 10 — Kansas City

Class A:

Burton L. Lohmuller	Chairman of the Board, The First Natioanl Bank of Centralia, Kans.	1968
Eugene H. Adams	President, The First National Bank of Denver, Colo.	1969
C. M. Miller	President, The Farmers and Merchants State Bank, Colby, Kans.	1970

Class B:

Stanley Learned	Director and member of Finance Committee, Phillips Petroleum Company, Bartlesville, Okla.	1968
Cecil O. Emrich	Manager, Norfolk Livestock Market, Inc., Norfolk, Nebr.	1969
Alfred E. Jordan	Vice President, Trans World Airlines, Inc., Kansas City, Mo.	1970

Class C:

Dean A. McGee	Chairman of the Board, Kerr-McGee Corporation, Oklahoma City, Okla.	1968
William D. Hosford, Jr.	Vice President and General Manager, John Deere Company, Omaha, Nebr.	1969
Dolph Simons	Editor and President, The Lawrence Daily Journal-World, Lawrence, Kans.	1970

DIRECTORS—Cont. **District 10 — Kansas City — Cont.** *Term expires Dec. 31*

Denver Branch

Appointed by Federal Reserve Bank:

J. P. Brandenburg	President, The First State Bank of Taos, N. Mex.	1968
Theodore D. Brown	President, The Security State Bank of Sterling, Colo.	1968
Armin B. Barney	Chairman of the Board, Colorado Springs National Bank, Colorado Springs, Colo.	1969

Appointed by Board of Governors:

D. R. C. Brown	President, The Aspen Skiing Corporation, Aspen, Colo.	1968
Cris Dobbins	Chairman of the Board, Ideal Basic Industries, Inc., Denver, Colo.	1969

Oklahoma City Branch

Appointed by Federal Reserve Bank:

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
Howard J. Bozarth	President, City National Bank and Trust Company, Oklahoma City, Okla.	1969

Appointed by Board of Governors:

F. W. Zaloudek	Manager, J. I. Case Equipment Agency, Kremlin, Okla.	1968
C. W. Flint, Jr.	Chairman of the Board, Flint Steel Corporation, Tulsa, Okla.	1969

Omaha Branch

Appointed by Federal Reserve Bank:

W. B. Millard, Jr.	Chairman of the Board, Omaha National Bank, Omaha, Nebr.	1968
John W. Hay, Jr.	President, Rock Springs National Bank, Rock Springs, Wyo.	1969
S. N. Wolbach	President, First National Bank of Grand Island, Nebr.	1969

Appointed by Board of Governors:

Henry Y. Kleinkauf	President, Natkin & Company, Omaha, Nebr.	1968
A. James Ebel	Vice President and General Manager, Cornhusker Television Corporation, Lincoln, Nebr.	1969

DIRECTORS—Cont.	**District 11 — Dallas**	*Term expires Dec. 31*
Class A:		
Ralph A. Porter	President, The State National Bank of Denison, Tex.	1968
Murray Kyger	Chairman of the Board, The First National Bank of Fort Worth, Tex.	1969
J. V. Kelly	President, Peoples National Bank, Belton, Tex.	1970
Class B:		
J. B. Perry, Jr.	Real Estate Investments and Development, Lufkin, Tex.	1968
C. A. Tatum, Jr.	President and Chief Executive Officer, Texas Utilities Company, Dallas, Tex.	1969
Carl D. Newton	President, Fox-Stanley Photo Products, Inc., San Antonio, Tex.	1970
Class C:		
Chas. F. Jones	President, Humble Oil & Refining Company, Houston, Tex.	1968
Max Levine	Retired Chairman of the Board, Foley's, Houston, Tex.	1969
Carl J. Thomsen	Senior Vice President, Texas Instruments Incorporated, Dallas, Tex.	1970

El Paso Branch

Appointed by Federal Reserve Bank:		
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 of Pecos, Tex.	1969
Robert F. Lockhart	President, The State National Bank of El Paso, Tex.	1970
Appointed by Board of Governors:		
Joseph M. Ray	H. Y. Benedict Professor, Department of Political Science, The University of Texas at El Paso, Tex.	1968
C. Robert McNally, Jr.	Rancher, Roswell, N. Mex.	1969
Gordon W. Foster	Vice President, Farah Manufacturing Company, Inc., El Paso, Tex.	1970

DIRECTORS—Cont. **District 11 — Dallas — Cont.** *Term expires Dec. 31*

Houston Branch

Appointed by Federal Reserve Bank:

Henry B. Clay	President, First Bank & Trust, Bryan, Tex.	1968
W. G. Thornell	President, The First National Bank of Port Arthur, Tex.	1969
John E. Whitmore	President, Texas National Bank of Commerce of Houston, Tex.	1969
A. G. McNeese, Jr.	Chairman of the Board, Bank of the Southwest National Association, Houston, Tex.	1970

Appointed by Board of Governors:

R. M. Buckley	President and Director, Eastex Incorporated, Silsbee, Tex.	1968
Geo. T. Morse, Jr.	President and General Manager, Peden Iron & Steel Company, Houston, Tex.	1969
M. Steele Wright, Jr.	President and General Manager, Texas Farm Products Company, Nacogdoches, Tex.	1970

San Antonio Branch

Appointed by Federal Reserve Bank:

James T. Denton, Jr.	President, Corpus Christi Bank and Trust, Corpus Christi, Tex.	1968
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 of San Antonio, Tex.	1969
Ray M. Keck, Jr.	President, Union National Bank, Laredo, Tex.	1970

Appointed by the Board of Governors:

Francis B. May	Professor of Business Statistics, Department of General Business, The University of Texas at Austin, Tex.	1968
W. A. Belcher	Veterinarian and rancher, Brackettville, Tex.	1969
Lloyd M. Knowlton	General Manager and Partner, Knowlton's Creamery, San Antonio, Tex.	1970

DIRECTORS—Cont. **District 12 — San Francisco** *Term expires Dec. 31*

Class A:

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 of Willows, Calif.	1969
Charles F. Frankland	Chairman of the Board and Chief Executive Officer, The Pacific National Bank of Seattle, Wash.	1970

Class B:

Herbert D. Armstrong	Treasurer, Standard Oil Company of California, San Francisco, Calif.	1968
Joseph Rosenblatt	Honorary Chairman, The Eimco Corporation, Salt Lake City, Utah	1969
Marron Kendrick	President, Schlage Lock Company, San Francisco, Calif.	1970

Class C:

Bernard T. Rocca, Jr.	Chairman of the Board, Pacific Vegetable Oil Corporation, San Francisco, Calif.	1968
S. Alfred Halgren	Senior Vice President and Director, Carnation Company, Los Angeles, Calif.	1969
O. Meredith Wilson	President and Director, Center for Advanced Study in the Behavioral Sciences, Stanford, Calif.	1970

Los Angeles Branch

Appointed by Federal Reserve Bank:

Harry J. Volk	President, Union Bank, Los Angeles, Calif.	1968
Carl E. Schroeder	President, The First National Bank of Orange County, Orange, Calif.	1968
Sherman Hazeltine	Chairman of the Board and Chief Executive Officer, First National Bank of Arizona, Phoenix, Ariz.	1969
T. H. Shearin	President, Community National Bank, Bakersfield, Calif.	1970

DIRECTORS—Cont. **District 12 — San Francisco — Cont.** *Term expires Dec. 31*

Los Angeles Branch — Cont.

Appointed by the Board of Governors:

J. L. Atwood	President and Chief Executive Officer, North American Rockwell Corporation, El Segundo, Calif.	1968
Leland D. Pratt	Executive Vice President, Kelco Company, San Diego, Calif.	1969
Norman B. Houston	Senior Vice President and Treasurer, Golden State Mutual Life Insurance Company, Los Angeles, Calif.	1970

Portland Branch

Appointed by Federal Reserve Bank:

E. W. Firstenburg	Chairman of the Board and President, First Independent Bank, Vancouver, Wash.	1968
Charles F. Adams	President, The Oregon Bank, Portland, Oreg.	1968
Ralph J. Voss	President, First National Bank of Oregon, Portland, Oreg.	1969

Appointed by Board of Governors:

Robert F. Dwyer	Dwyer Forest Products Company, Portland, Oreg.	1968
Frank Anderson	Rancher, Heppner, Oreg.	1969

Salt Lake City Branch

Appointed by Federal Reserve Bank:

Alan B. Blood	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
William E. Irvin	President, The Idaho First National Bank, Boise, Idaho	1969

Appointed by Board of Governors:

Peter E. Marble	Rancher, Deeth, Nev.	1968
Royden G. Derrick	President and General Manager, Western Steel Company, Salt Lake City, Utah	1969

DIRECTORS—Cont. **District 12 — San Francisco — Cont.** *Term expires Dec. 31*

Seattle Branch

Appointed by Federal Reserve Bank:

		Term expires Dec. 31
A. E. Saunders	President, The Puget Sound National Bank, Tacoma, Wash.	1968
Philip H. Stanton	President, Washington Trust Bank, Spokane, Wash.	1968
Maxwell Carlson	President, The National Bank of Commerce of Seattle, Wash.	1969

Appointed by Board of Governors:

		Term expires Dec. 31
Robert D. O'Brien	Chairman of the Board and Chief Executive Officer, Pacific Car and Foundry Company, Renton, Wash.	1968
William McGregor	Vice President, McGregor Land and Livestock Company, Hooper, Wash.	1969

PRESIDENTS and VICE PRESIDENTS

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Boston	Frank E. Morris E. O. Latham	D. Harry Angney Ansgar R. Berge L. M. Hoyle, Jr. Laurence H. Stone Parker B. Willis	Daniel Aquilino R. W. Eisenmenger Harry R. Mitiguy G. Gordon Watts
New York	Alfred Hayes William F. Treiber	Harold A. Bilby John J. Clarke Felix T. Davis Edward G. Guy Alan R. Holmes Bruce K. MacLaury Peter D. Sternlight Thomas O. Waage	William H. Braun, Jr. Charles A. Coombs Peter Fousek Marcus A. Harris Robert G. Link Fred W. Piderit, Jr. T. M. Timlen, Jr.
Buffalo		Angus A. MacInnes, Jr.	
Philadelphia	Karl R. Bopp Robert N. Hilkert	Edward A. Aff Joseph R. Campbell David P. Eastburn David C. Melnicoff L. C. Murdoch, Jr. James V. Vergari	Hugh Barrie Norman G. Dash William A. James G. William Metz Harry W. Roeder
Cleveland	W. Braddock Hickman Walter H. MacDonald	George E. Booth, Jr. Roger R. Clouse William H. Hendricks Harry W. Huning Maurice Mann	Paul Breidenbach Elmer F. Fricek John J. Hoy Frederick S. Kelly Clifford G. Miller
Cincinnati		Fred O. Kiel	
Pittsburgh		Clyde E. Harrell	
Richmond	Aubrey N. Heflin Robert P. Black	J. G. Dickerson, Jr. Upton S. Martin John L. Nosker R. E. Sanders, Jr.	W. S. Farmer Arthur V. Myers, Jr. James Parthemos Joseph F. Viverette
Baltimore		D. F. Hagner	
Charlotte		E. F. MacDonald Stuart P. Fishburne	

PRESIDENTS and VICE PRESIDENTS—Cont.

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Atlanta	Monroe Kimbrel Robert E. Moody, Jr.	Harry Brandt J. E. McCorvey Richard A. Sanders Charles T. Taylor	Billy H. Hargett Brown R. Rawlings R. M. Stephenson
*Birmingham			
Jacksonville		Edward C. Rainey	
Nashville		Jeffrey J. Wells	
New Orleans		Arthur H. Kantner	
Chicago	Charles J. Scanlon Hugh J. Helmer	Ernest T. Baughman Elbert O. Fults L. H. Jones Richard A. Moffatt Harry S. Schultz Jack P. Thompson	Daniel M. Doyle A. M. Gustavson Ward J. Larson James R. Morrison Bruce L. Smyth
Detroit		Russel A. Swaney	
St. Louis	Darryl R. Francis Dale M. Lewis	Leonall C. Andersen Gerald T. Dunne Wilbur H. Isbell Stephen Koptis Howard H. Weigel	Marvin L. Bennett W. W. Gilmore Homer Jones John W. Menges Joseph C. Wotawa
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 Clarence W. Nelson	F. J. Cramer L. G. Gable Douglas R. Hellweg John A. MacDonald
Helena		Clement A. Van Nice	

*Has no Vice President at this time.

PRESIDENTS and VICE PRESIDENTS—Cont.

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
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	
Dallas	Philip E. Coldwell T. W. Plant	R. E. Bohne James L. Cauthen James A. Parker Thomas R. Sullivan	Robert H. Boykin Ralph T. Green W. M. Pritchett
El Paso		Frederic W. Reed	
Houston		J. Lee Cook	
San Antonio		Carl H. Moore	
San Francisco...	Eliot J. Swan A. B. Merritt	J. Howard Craven Irwin L. Jennings E. J. Martens W. F. Scott	D. M. Davenport Gerald R. Kelly R. Maurer, Jr. J. B. Williams
Los Angeles		P. W. Cavan W. G. DeVries	
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. Ellis, President of the Federal Reserve Bank of Boston, and Mr. Clay, President of the Federal Reserve Bank of Kansas City, were elected Chairman of the Conference and Vice Chairman, respectively, in March 1968, and served in those capacities through June 1968. At the June meeting Mr. Clay and Mr. Scanlon, President of the Federal Reserve Bank of Chicago, were elected Chairman and Vice Chairman, respectively, and served in those capacities during the remainder of the year.

Mr. Philip A. Shaver of the Federal Reserve Bank of Boston and Mr. J. David Hamilton of the Federal Reserve Bank of Kansas City were appointed Secretary of the Conference and Assistant Secretary, respectively, in March 1968. Mr. Hamilton was appointed Secretary, and Mr. William J. Hocter of the Federal Reserve Bank of Chicago was appointed Assistant Secretary in June 1968, in which capacities they served during the remainder of the year.

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