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# *56th Annual Report*



*1969*

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

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# *Letter of Transmittal*

**BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM**

Washington, May 6, 1970

**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-Sixth Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during the calendar year 1969.

Yours respectfully,

Arthur F. Burns, *Chairman.*

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*Part I*  
*Review of 1969*

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## *Monetary Policy and the Economy*

During 1969 the Federal Reserve moved to a very restrictive monetary policy in an effort to slow the expansion of aggregate money demands in the economy and to dissipate deeply rooted expectations of continuing inflation. Progress in controlling inflation was sought as a step toward both attaining sustainable noninflationary growth in the domestic economy and improving the relative competitiveness of the United States with other trading nations.

The intensity of monetary restraint is suggested by the marked slowdown that developed in the rates of growth of the money stock and bank credit. During the second half of 1968 these two variables had increased at seasonally adjusted annual rates of 7 and 15 per cent, respectively. But over the corresponding period of 1969 the growth rate for each dropped to less than 1 per cent.

The policy of monetary restraint was conducted against a background of generally taut fiscal policy, although the over-all degree of fiscal restraint slackened somewhat during the year. Moreover, at certain times when the Congress was deliberating over various items of tax legislation—notably in the spring and again near the year-end—prospects for continued fiscal restraint became quite uncertain. Nevertheless, Federal purchases of goods and services were considerably less expansive than in 1968, and a significant slowing in total economic activity developed as the year progressed, even though price and wage increases remained sizable and inflationary psychology persisted.

Constraints on the supply of lendable funds, continued strong demands for funds, and widespread anticipation of further inflation led to very large increases in interest rates. Near the year-end market interest rates generally reached their highs for the year, in most cases from 2 to 3 percentage points above the levels prevailing just before monetary policy began to tighten in late 1968.

### DOMESTIC DEVELOPMENTS

During the first half of 1969 the rate of growth in real gross national product slowed somewhat further, extending the adjustment that had become evident during the second half of 1968. Although the rate of inventory accumulation was reduced in the early months of 1969, however, final demands for goods and services remained strong. There were



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sizable increases in consumer spending, in business outlays for fixed investment, in State and local government purchases, and in residential construction—even though housing starts were beginning to decline. With increases in aggregate spending well maintained, unemployment remained at a low level and upward pressures on costs and prices intensified.

As inflationary pressures and expectations became more pervasive, monetary policy moved toward a more restrictive stance. The initial shift toward restraint had occurred near the end of 1968 with an increase of  $\frac{1}{4}$  of a percentage point in the Federal Reserve discount rate to  $5\frac{1}{2}$  per cent. This change was accompanied by a tightening of open market policy, which was gradually carried further during 1969. In early April the Federal Reserve raised the discount rate again—this time by  $\frac{1}{2}$  percentage point, to 6 per cent—and increased reserve requirements against demand deposits by  $\frac{1}{2}$  percentage point for both reserve city and country banks.

Following the initial tightening in December 1968, yields on market instruments that compete with large negotiable time certificates of deposit (CD's) moved well above the ceiling rates on CD's at major money market banks. Since the Federal Reserve did not raise the rate ceilings, holders of maturing CD's were encouraged to transfer such funds to higher-yielding market securities. This curtailment of their resources induced banks to stiffen credit terms and to engage in portfolio adjustments that tightened financial markets more broadly. At the same time, to cover the heavy attrition in CD's and still remain in a position to accommodate customer takedowns of the large backlog of outstanding loan commitments, major banks moved aggressively to tap alternative sources of funds. These included expanded day-to-day borrowing of Federal funds, somewhat longer-term borrowing of Euro-dollars from foreign branches, sales of assets under repurchase agreements, and the issuance of commercial paper through affiliates.

Net redemptions of CD's in early 1969 had occurred primarily at a small number of large city banks that possessed the capacity to turn readily to nondeposit sources of funds. Since the volume of funds so obtained expanded very rapidly, questions were raised at the time whether the policy of monetary restraint was really being effective. However, the effects of CD attrition were soon reinforced by the tightening of more general monetary controls over the supply of bank reserves. As a result, growth in the money stock moderated; net outflows of time and

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savings deposits and liquidation of securities spread to banks outside the money centers; bank liquidity was reduced; and the costs of obtaining funds from nondeposit sources escalated.

In the face of this squeeze, the rate charged by banks on loans to prime business customers was raised in three steps from 6¾ per cent in late 1968 to 8½ per cent in mid-1969, and banks strengthened their loan-rationing procedures. Over approximately the same period, growth of total loans and investments at banks averaged only 4 per cent at a seasonally adjusted annual rate, and growth of the money stock only 4.3 per cent, down from the corresponding averages of 15 and 7 per cent mentioned above for the second half of 1968.

The increased pressure on the banking system during the first half of 1969 was instrumental in pushing market yields sharply higher. However, upward pressure on rates was also being exerted by increased demands for funds as borrowers sought credit outside the banking system—particularly in the rapidly expanding commercial paper market. While total credit in the economy grew less rapidly over the first 6 months of 1969 than it had in the latter half of 1968, the change was more than accounted for by Federal debt repayments financed out of the large fiscal surplus. Private nonfinancial sectors raised more funds, net, than they had in the second half of 1968.

As monetary restraint was intensified, major banks expanded their use of nondeposit sources of funds. This led the Board of Governors to adopt several regulatory amendments designed to restrict access to these sources. In particular, the Board's actions eliminated the use of loan repurchase agreements and substantially increased the marginal cost of Euro-dollar borrowings (by imposing a 10 per cent reserve requirement on borrowings above a base level, as described in the footnote on page 52). The Board also proposed to narrow the exemption of Federal funds transactions from bank reserve-requirement and rate-ceiling constraints, but final action was not taken on this proposal until early 1970. A further action proposed, but not adopted in 1969, would have applied Regulation Q ceilings to bank sales of commercial paper through their subsidiaries and holding company affiliates, to the extent that these funds were used to finance the banks' own activities.

In the second half of 1969 interest rates showed steep, further advances to new highs as deposit attrition at banks remained large, open market policy continued to maintain a tight rein on bank reserves, and Federal Reserve regulatory proposals and actions indicated the

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possibility of further restraint on bank funds. Moreover, with the effects of persistent monetary restraint on bank lending and investment policies tending to become cumulative, there was virtually no further growth, on balance, in the money and bank credit aggregates. And bank liquidity was reduced to the lowest levels of the post-World-War-II period. At the same time, with loan funds at banks sharply curtailed, nonfinancial businesses were forced to meet an increasing share of their continuing needs for funds through reductions in liquid assets. In the process, corporate liquidity ratios also dropped sharply to new lows for the postwar period.

Liquidity pressures on nonbank thrift institutions (savings and loan associations and mutual savings banks) also increased after mid-1969. During the first half of the year growth in net savings at these institutions had slowed only moderately as compared with the latter half of 1968, despite the sizable further rise in interest rates on market instruments. But as the year wore on and market rates rose still further, holders of claims on nonbank thrift institutions became increasingly sensitive to the widening spread between returns on such claims and returns on securities. Consequently, net savings growth at these institutions deteriorated sharply after midyear.

To help offset the effects of this reduced intermediation on flows of funds to mortgage markets, the Federal National Mortgage Association (FNMA) and the Federal Home Loan Bank Board (FHLBB) continued to channel a large volume of funds into housing finance. In contrast to the first half, however, when FNMA and the FHLBB were also active suppliers of funds, even a sizable further growth in these flows was not sufficient to prevent a net reduction in total funds supplied to mortgage markets.

During the closing months of the year, the severity of the general financial squeeze showed clearly in the performance of the securities markets. At that time, despite continued constraints on the supply of funds and marked advances in interest yields, several types of borrowers whose liquidity positions had come under particular strain pressed actively to sell securities. Expanded market financing by the FNMA and the FHLBB represented one such source of pressure. In addition, nonfinancial corporations were expanding their borrowing in both the commercial paper and the bond markets. And banks were broadening their efforts to sell commercial paper. In the face of these

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general market strains, it was much more difficult than usual for the market to accommodate the volume of both refinancing and net cash borrowing by the Treasury, even though such operations were not especially large.

Strains exerted by the cumulative effects of monetary restraint were perhaps greatest in the market for State and local government securities. In earlier years commercial banks had been by far the dominant investor group in this market. During much of the latter half of 1969, however, banks were net liquidators of a sizable volume of municipal debt. To distribute new municipal issues, it was therefore necessary for underwriters to turn increasingly to individuals. But funds from individuals could be attracted in volume only at sharply higher yields, and as yields rose to levels above the legal rate ceilings of many State and local governments, many such units that wanted to borrow were effectively excluded from the bond market. To cope with this cutback in longer-term financing, units in need of funds drew heavily on their liquid asset positions, expanded their borrowing in short-term markets, and/or sought upward revisions in legal rate ceilings. Even so, a substantial part of the financing that State and local governments had planned was not accommodated, and a significant number of capital projects had to be deferred.

Other sectors of the economy also reflected the effects of restrictive policy more clearly during the latter half of 1969. In fact, in the fourth quarter growth of aggregate output, as measured by real GNP, came to a halt, and for the full year real GNP grew by less than 3 per cent. Slower economic activity was also reflected in the Board's index of industrial production, which declined moderately over the last 5 months of the year; in retail sales, which showed no year-over-year growth after adjustment for price increases; and in housing starts, which declined further.

On the other hand, upward pressures on prices and costs remained generally strong throughout the year. For all of 1969, prices—as measured by the GNP deflator—rose by 4.7 per cent, an exceptionally rapid rate. Along with demand pressures another factor contributing to the sustained advance in prices was the strong upward course of unit labor costs. Growth in output per manhour was small, and upward pressures on wages were strong. With wage and other costs rising and profit margins tending to erode, businesses sought to recoup added costs through higher prices.

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## INTERNATIONAL DEVELOPMENTS

Abroad, 1969 was a year of strongly rising demand in most countries. Consequently U.S. exports increased considerably, despite the adverse effects of a long port strike. But U.S. imports increased at about the same rate as exports, and other current payments grew more than receipts. Therefore, the net export balance of goods and services fell below the already low level to which it had dropped in 1968.

Outflows of U.S. private capital in various forms continued to be restrained by governmental programs, including the foreign credit restraint program administered by the Federal Reserve, and were affected also by the growing pressures on liquidity of banks and businesses in this country. Nevertheless the identified outflows of such capital were somewhat larger than in 1968. Inflows of foreign long-term capital into the United States were smaller than the year before, as financial markets abroad tightened and the U.S. stock market weakened.

Extremely large international flows of liquid capital occurred in 1969. These reflected two very different sets of forces—the one stemming from monetary and credit conditions in the United States, the other growing out of international market expectations of changes in exchange rates between the German mark and other currencies. The borrowing of Euro-dollar funds by U.S. banks, noted above, drew a very large volume of funds out of national money and credit markets in other countries and contributed greatly to strength of the dollar in exchange markets. High interest rates in the Euro-dollar market also attracted some funds of short-term investors, American and foreign, out of holdings in this country into deposits in that market. Until September, anticipation of a revaluation of the German mark caused funds to move into Germany from this country and others. After a new parity for the German mark was established in October, the closing months and weeks of the year saw a reversal of much of these movements.

As 1969 ended, the international monetary system appeared to have entered a period of relative stability. The interplay of several factors contributed to this: the strength of the dollar in foreign exchange markets; the continued successful functioning of the two-tier gold system, and a drop in the private market price of gold back to \$35 an ounce by the year-end; and the preparations for inauguration of a new international reserve instrument, Special Drawing Rights (SDR's).

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Moreover, the realignments in 1969 of the German and French currency parities, the improvement in the British balance of payments in 1969 stemming in part from the devaluation of sterling in November 1967, and expectations that the introduction of SDR's would facilitate balance of payments adjustments in the future, all contributed to growth of confidence in the stability of the international monetary system.

Nevertheless, a large imbalance remained to be corrected between too-small U.S. net exports of goods and services and too-large potential net outflows of capital from this country. In 1969, as a result of Euro-dollar borrowing, the actual U.S. balance of payments measured on the basis of official reserve transactions was comfortably in surplus. Without that borrowing, U.S. international settlements would have been seriously adverse—and in fact the 1969 balance of payments deficit measured on the liquidity basis was exceptionally large. □

# *Principal Federal Reserve Policy Actions, 1969: Digest*

<i>Period, or announcement date</i>	<i>Action</i>	<i>Purpose</i>
January through March	Directed that System open market operations be conducted with a view to maintaining the prevailing firm conditions in money and short-term credit markets that had developed following the mid-December 1968 increase in the discount rate, with provisions 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.
April	Directed that System open market operations be conducted with a view to maintaining firm conditions in money and short-term credit markets, 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.
April 3	Discount rates increased from 5½ to 6 per cent at 11 Reserve Banks, effective April 4. (By April 8, the 6 per cent rate was in effect at all Reserve Banks.)  Increased reserve requirements against net demand deposits at all member banks—from 16½ to 17 per cent on deposits under \$5 million and from 17 to 17½ per cent on deposits over \$5 million at each reserve city bank and from 12 to 12½ per cent on deposits under \$5 million and from 12½ to 13 per cent on deposits over \$5 million at each country bank—effective in the reserve computation period beginning April 17 and applicable to average deposits in the period April 3-9 inclusive.	To contribute to a reduction of inflationary pressures in the economy.  To contribute to a reduction of inflationary pressures in the economy.

April 4	Issued revised 1969 guidelines, effective immediately, covering foreign credits and investments by U.S. banks and other financial institutions, representing a modification of guidelines announced December 23, 1968.	To continue the program of voluntary restraints in effect since 1965, while permitting additional flexibility to finance U.S. exports and resolving some serious equity problems.
Late April through May	Directed that System open market operations be conducted with a view to maintaining the prevailing firm conditions in money and short-term credit markets that had developed following the early-April announcement of increases in the discount rate and reserve requirements, 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.
June through December	Directed that System open market operations be conducted with a view to maintaining the prevailing firm conditions in money and short-term credit markets, 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.
July 24	<p>Amended rules governing member bank reserves (Regulation D), effective July 31, to assure that certain officers' checks issued in connection with transactions with foreign branches were included as deposits for purposes of computing reserve requirements.</p> <p>Amended rules governing member bank reserves (Regulation D) and payment of interest on deposits (Regulation Q), effective July 25, to bring certain member bank liabilities on repurchase agreements within the coverage of such rules.</p>	<p>To limit certain transactions involving member banks and foreign branches that had resulted in what the Board considered an unwarranted reduction in required reserves.</p> <p>To forestall the recent and contemplated use by some member banks of repurchase agreements to avoid reserve requirements and the rules governing payment of interest on deposits.</p>



*Principal Federal Reserve Policy Actions, 1969: Digest—Continued*

<i>Period, or announcement date</i>	<i>Action</i>	<i>Purpose</i>
August 13	Amended rules governing member bank reserves (Regulation D) and foreign branches of member banks (Regulation M), effective September 4, to establish a 10 per cent marginal reserve requirement on certain foreign borrowings, primarily Euro-dollars, by member banks and on the sales of assets by member banks to their foreign branches.	To moderate the flow of foreign funds between U.S. banks and their foreign branches and also between U.S. and foreign banks by removing a special advantage to member banks that had used Euro-dollars not subject to reserve requirements for the purpose of adjusting to domestic credit restraint.
December 17	Announced revised guidelines covering foreign credit and investments by U.S. banks and other financial institutions.	To continue the program of voluntary restraints in effect since 1965, while, in keeping with the Government's efforts to stimulate U.S. exports, giving greater and more explicit recognition to the established priority for export financing.
December 24	Authorized Federal Reserve Banks, effective immediately and until April 1, 1970, to provide, in accordance with certain specified principles, emergency credit facilities to nonmember depository institutions, if the need should arise.	To provide, as a matter of general policy, the procedures for making available emergency credit to nonmember depository institutions in difficulty as to the adequacy of their liquidity reserves as a result of substantial attrition of savings.

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## *Credit Markets and Financial Flows*

Demands for credit remained strong in most sectors of the economy in 1969 as economic activity continued to expand, prices rose rapidly, and business capital investment rose to new record levels. In view of the inflationary character of economic developments and of widespread expectations of further inflation, the Federal Reserve pursued a policy of monetary restraint throughout the year. The resulting constraint on the supply of lendable funds relative to demand led to further sharp increases in interest rates, which were at postwar highs by the year-end. Expansion of total bank credit slowed substantially during the year, even after allowance for expanded use by banks of nondeposit sources of funds, and the money stock grew by only 2.5 per cent, with most of the growth occurring in the first half.

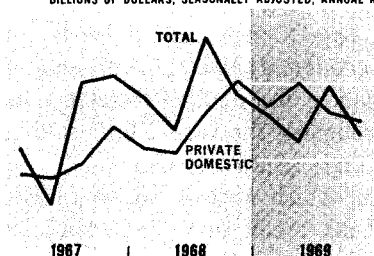
During the year rising interest rates on market securities, in conjunction with regulatory restrictions on rates payable at depositary institutions, progressively limited the availability of institutional credit as funds were shifted out of deposit-type instruments and into higher yielding market securities. Commercial banks in particular were affected by such shifts. Their share of the total flow of credit extended to non-financial borrowers dropped sharply in 1969. Even though their deposit inflows also slowed during the year, other depositary institutions were better able to maintain their share of total credit supplied, because they placed more reliance on nondeposit sources of funds; for example, savings and loan associations borrowed heavily from the Federal home loan banks. As the year progressed, however, the availability of credit directly through the securities markets also became more limited.

In the first half of the year, funds raised by nonfinancial sectors from all sources declined substantially as compared with the total for the latter half of 1968; but this reduction represented a shift from borrowing to repayment of debt by the U.S. Government as the budget moved into surplus. Borrowing by private sectors increased slightly. In the second half of the year, however, demands for funds by private sectors showed a substantial decline in response to the increased cost and reduced availability of credit and to the slower growth in economic activity. But the U.S. Government was a net borrower of funds in this period, and total funds raised by all sectors increased somewhat.

## TOTAL FUNDS RAISED AND SUPPLIED

### 1. Volume raised by nonfinancial sectors

BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, ANNUAL RATES



### 2. Shares in funds supplied by selected institutions

PER CENT

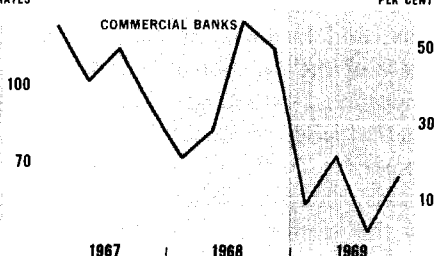


TABLE 1: SELECTED BORROWING BY SECTOR AND TYPE

Flow of funds data, in billions of dollars; half-years at seasonally adjusted annual rates.

Sector, and type of instrument	1967	1968	1969	1968		1969	
				1st H	2nd H	1st H	2nd H
U.S. Government:							
Public debt issues . . . . .	8.9	10.3	-2.8	12.1	8.5	-17.9	7.3
Budget agency issues . . . . .	4.1	3.0	-2.6	2.7	3.5	-4.4	-4.7
Federally sponsored credit agencies. <sup>1</sup> . . . . .	-.6	3.2	8.9	4.5	2.0	6.3	11.6
State and local govt. issues . . . . .	7.7	9.9	8.8	6.7	13.1	9.3	8.3
Nonfinancial corporate business:							
Bonds and stocks . . . . .	17.0	12.1	15.3	12.8	11.3	14.9	15.8
Mortgages . . . . .	4.5	5.8	4.3	4.9	6.8	4.5	4.1
Open market paper . . . . .	1.5	1.6	2.7	.3	3.0	3.8	1.7
Consumers:							
Consumer instalment debt . . . . .	3.4	9.0	8.1	7.7	10.1	8.9	7.4
Mortgages . . . . .	11.7	16.0	16.9	16.0	16.0	17.5	16.5

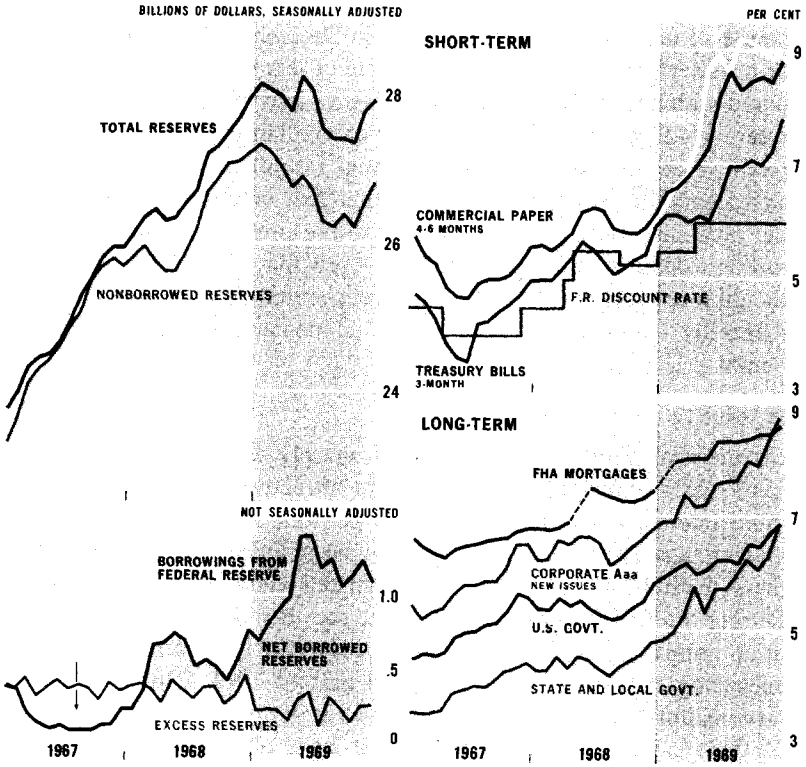
<sup>1</sup> Not included in the budget.

TABLE 2: BANK CREDIT

Seasonally adjusted net changes, in billions of dollars

Item	1967	1968	1969	1968		1969	
				1st H	2nd H	1st H	2nd H
Total loans and investments . . . . .	36.0	38.1	9.2	11.3	26.8	7.9	1.3
U.S. Govt. securities . . . . .	6.1	1.8	-9.8	.7	1.1	-5.3	-4.5
Other securities . . . . .	12.7	10.1	-.8	2.5	7.6	.5	-1.3
Total loans . . . . .	17.2	26.2	19.7	8.1	18.1	12.7	7.0
Business . . . . .	7.7	9.6	9.0	3.3	6.3	6.4	2.6
Real estate . . . . .	4.6	6.6	5.1	3.0	3.6	3.4	1.7
Consumer . . . . .	1.8	4.9	3.3	1.8	3.1	1.8	1.5
Other . . . . .	3.1	5.1	2.3	....	5.1	1.1	1.2

**BANK RESERVES, DEPOSIT FLOWS, AND INTEREST RATES**  
**3. Bank reserves and borrowings 4. Interest rates**



**TABLE 3: SELECTED MONETARY AGGREGATES**  
 Seasonally adjusted annual rate of change, in per cent

Item	1967	1968	1969	1968		1969	
				1st H	2nd H	1st H	2nd H
Member bank deposits.....	11.8	9.0	-4.0	4.4	13.4	-3.5	-4.6
Member bank deposits plus liabilities to foreign branches..	11.7	9.8	-1.7	5.7	13.5	-.2	-3.2
Time and savings deposits at banks.....	15.9	11.5	-5.3	5.3	17.3	-4.0	-6.7
Money stock.....	6.6	7.2	2.5	7.2	7.0	4.3	.6
Savings accounts at nonbank thrift institutions.....	9.4	6.3	3.3	6.1	6.4	5.0	1.7

<sup>1</sup> Beginning on May 28, 1969, the following data were collected: Euro-dollars borrowed directly or through brokers and dealers, liabilities to own branches in U.S. territories and possessions, commercial paper sold by bank holding companies or other bank affiliates, and loans sold under repurchase agreement to the nonbank public. If funds raised from these sources during the second half of 1969 were added to member bank deposits and liabilities to foreign branches, the resultant rate of change would be -1.2 per cent.

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## FIRST HALF OF YEAR

During the first half of 1969 the Federal Reserve continued on the course of monetary restraint initiated in December 1968. Total reserves of member banks rose at an annual rate of less than 1 per cent as compared with nearly 11 per cent in the latter half of 1968. Nonborrowed reserves—those provided by sources other than by member bank borrowing—actually declined at an annual rate of almost 4 per cent, in sharp contrast to a rate of growth that had exceeded 10 per cent in the preceding half year. In addition to the pressure exerted on banks through open market operations, in April the Federal Reserve raised the discount rate from 5½ to 6 per cent and increased reserve requirements by ½ of a percentage point on demand deposits at member banks.

## DEPOSIT FLOWS DECLINE

Commercial bank deposits declined sharply during the first half of 1969. As market yields became more attractive relative to the maximum interest rates that banks were permitted to offer on their time and savings deposits, funds began to be withdrawn or diverted from these instruments for investment in higher yielding market securities. During the first half of the year total member bank deposits declined at an annual rate of 3.5 per cent, as compared with a rate of increase exceeding 13 per cent in the second half of 1968. Nonbank depository institutions were affected to a much lesser extent by such shifts out of their savings accounts in the first half, although deposit inflows at savings and loan associations and mutual savings banks did slow to an annual rate of 5 per cent as compared with more than 6 per cent in the latter part of 1968.

The decline in commercial bank deposits during this period occurred largely in time and savings deposits, most of which reflected outflows of CD's in denominations of \$100,000 or more. By early December 1968 short-term market rates had risen to levels at which maximum offering rates on CD's allowable under Regulation Q ceilings were no longer competitive, and sizable attrition of CD's ensued. Over the first half of 1969, outstanding CD's at large commercial banks declined by \$7.5 billion, seasonally unadjusted, or by about one-third of the amount outstanding at the end of 1968. The bulk of this attrition took place at large banks in the major financial centers where depositors tend to be

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more interest-sensitive; banks in New York City and Chicago, which held about 35 per cent of the outstanding CD's at the end of 1968, accounted for 60 per cent of the run-off of CD's during the first half of 1969. Toward midyear, however, banks outside New York and Chicago began to account for an increased share of the attrition.

Time and savings deposits other than CD's also were influenced by rising market rates of interest. At large banks, time and savings deposits held by individuals and businesses (exclusive of their holdings of large negotiable CD's) grew during the first quarter at about one-half of the rate for the last 6 months of 1968 and then declined on balance over the second quarter. At country banks, net inflows of total time and savings deposits dwindled fairly steadily over the first 6 months of 1969 and for the period the inflow was only about half as large as in the latter half of 1968.

Rising market rates of interest and the growing squeeze on the availability of funds also induced private holders to economize on their cash balances. During the first half of the year the money stock—currency and privately held demand deposits—grew at an annual rate of 4.3 per cent, down sharply from the 7.0 per cent rate in the second half of 1968. Privately held demand deposits rose at an annual rate of 3.7 per cent, about half the rate of growth in the latter part of 1968, whereas currency in the hands of the public continued to expand rapidly—at an annual rate of 6.5 per cent. Demand deposits held by the Federal Government remained essentially unchanged on balance.

#### BANKS SEEK OTHER SOURCES OF FUNDS

In view of these deposit outflows individual banks increased their borrowing at the discount window and in the Federal funds and Euro-dollar markets and issued other nondeposit liabilities. Borrowings from Federal Reserve Banks rose rather steadily over the first half to an average of about \$1.4 billion in June; this was almost double the highest monthly average reached in the latter part of 1968. In the Federal funds market—where excess reserves of banks are bought and sold on a day-to-day basis—the volume of funds traded through New York rose to a daily average of around \$9.0 billion in May and June, as compared with about \$7.5 billion in December 1968. The cost of these funds also rose markedly, reaching an average of 8.90 per cent in June, well above the

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maximum of around 6.00 per cent that banks had paid on such borrowings in the second half of 1968.

Banks also increased sharply their borrowings in the Euro-dollar market. The total of such borrowings doubled in the first half and by the end of June had reached almost \$14.3 billion. Banks had to pay increasingly higher rates to obtain these funds; Euro-dollar rates generally ranged from 10 to 12 per cent in June, depending on maturity, as compared with 6 to 7 per cent in December 1968.

As these sources became more scarce and more costly, banks sought increasingly to raise funds through the sale of commercial paper by bank holding companies, affiliates, and subsidiaries, the proceeds of which were transferred to banks by purchases of bank loans. By mid-year about \$1.2 billion of such paper was outstanding. Banks also borrowed through the sale of loans to the nonbank public, subject to repurchase agreements; by June 30 such outstandings had reached about \$850 million.

During the first half of the year the Board of Governors proposed several amendments to its regulations affecting borrowing in the Euro-dollar and Federal funds markets, most of which became effective later in the year. On June 26 the Board proposed that a 10 per cent reserve requirement be established on borrowings of U.S. banks from their foreign branches to the extent that these borrowings exceed the daily-average amounts outstanding in the 4 weeks ending May 28, 1969; this proposal was designed to moderate the inflow of Euro-dollars to U.S. banks from their foreign branches. On June 27 it issued a proposal to narrow the categories of "Federal funds" transactions that are exempt from Regulations D (governing reserves of member banks) and Q (governing payment of interest on deposits by member banks). On May 29 the Board had also proposed an amendment to Regulation D designed to ensure that checks resulting from transfers involving foreign branches are not used to effect reductions in required reserves.

#### CREDIT RESTRICTED AT DEPOSITARY INSTITUTIONS

With their lendable funds becoming more limited in the face of continued strong demands for credit, depositary institutions undertook substantial adjustments in their investment portfolios. Banks reduced their liquidity; cut back sharply on acquisitions of longer-term U.S. Government, Federal agency, and municipal securities; sold loans out-

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right; and tightened their terms and conditions of lending. Total loans and investments at commercial banks expanded at an annual rate of only 4 per cent during the first half, well below the exceptionally rapid rate—15 per cent—in the previous 6 months.

During the first half banks reduced their holdings of U.S. Government securities by more than \$5 billion—largely Treasury bills and short-term notes and bonds—and virtually ceased their acquisitions of other securities. Large banks, in fact, made substantial reductions in their holdings of municipal issues over the first half. Consequently, by midyear total liquid assets held by banks had dropped sharply, and the ratio of these assets to deposit and other liabilities had fallen to a lower level than at any time during the period of monetary restraint in late 1966. In addition, the accommodation of new loan demands was partially satisfied by outright sale of existing loans by banks; such sales to others than banks and bank-related affiliates and subsidiaries amounted to about \$750 million by midyear.

Banks also began in this period to tighten the terms and conditions of lending. For example, they raised the prime rate three times—from  $6\frac{3}{4}$  per cent to 7 per cent in early January, to  $7\frac{1}{2}$  per cent in mid-March, and to  $8\frac{1}{2}$  per cent in early June. As a result, expansion of total bank loans slowed during the first half of the year. Among the major categories, only loans to businesses continued to expand rapidly. Growth in such loans increased at about the same fast pace as in the latter part of 1968—and even picked up somewhat if loan sales are included—as corporate demands for funds intensified and banks continued to make a large volume of new loan commitments to businesses. The advance in real estate loans began to moderate in the second quarter, accompanied by a decline in housing starts. Expansion of consumer loans slowed, as did growth of total consumer credit from all sources. And security loans, which had expanded rapidly in the autumn of 1968, declined on balance during the first half of 1969 as dealers reduced their positions, in response to the high cost of carrying inventories of securities and to expectations that interest rates would rise further.

Nonbank thrift institutions were able to increase substantially their net acquisitions of credit market instruments in spite of somewhat reduced net inflows of funds to their savings accounts. Savings and loan associations—the dominant residential mortgage lender—relied heavily on borrowings from the Federal home loan banks (FHLB) in order to



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increase their net takings of mortgages. At mutual savings banks net acquisitions continued to grow—but less rapidly than in the latter half of 1968, as both mortgage lending and acquisitions of corporate bonds were reduced. Moreover, the growing pressure on available funds resulted in a slowing of new-commitment activity in the mortgage area as the year progressed. After April the backlog of outstanding mortgage commitments at both types of institutions began to decline.

At life insurance companies, the contractual nature of fund inflows significantly insulated such intermediaries from the type of pressure experienced by depository institutions. But there was a substantial rise in policy loans at insurance companies—as policy holders faced increased costs and reduced availability of credit from other sources. Hence, these companies were able to maintain funds for other investments at the level of the second half of 1968 only by reducing their cash balances. As a result, they became more cautious about making new commitments and about scheduling takedowns of funds.

#### PRESSURES IN SECURITIES MARKETS INTENSIFY

As economic activity remained strong and bank loans came under increasing restraint, nonfinancial businesses turned more and more to the issuance of market securities and shorter-term paper to obtain needed funds. Plant and equipment expenditures were rising sharply and internal funds generation was slowing somewhat; hence, total corporate financing requirements were rising on balance. The volume of funds raised through bond and stock offerings in the first half of 1969 was significantly larger than that in the second half of 1968; stock issues accounted for about two-thirds of the increase, despite the lack of buoyancy in average stock prices—which reached a peak in December 1968 and then declined by 7 per cent through June 1969. Offerings of bonds and stocks by large industrial companies were relatively small, but both public utility and communications companies and small to medium-sized industrial companies issued debt in volume. Corporations borrowed heavily in the commercial paper market as well—raising about \$4 billion at a seasonally adjusted annual rate, or \$1 billion more than in the previous 6 months.

Borrowing by State and local governments was significantly affected by the pressures that developed in securities markets and by the drying up of demand for these securities by commercial banks—ordinarily the

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principal institutional purchasers of municipal debt. Rising market rates of interest on long-term municipal securities resulted in a sizable cut-back in the issuance of such debt in the first quarter; net long-term borrowing in that period amounted to \$4 billion, annual rate, less than one-half the exceptionally high rate in the fourth quarter of 1968. Many governmental units were forced to postpone or cancel planned borrowing because of interest rate ceilings. To a considerable extent, the reduced volume of long-term borrowing was offset by a sharp rise in the flotation of short-term debt by units having authority to enter this market and not subject to restrictive rate ceilings. As a result, total market issues declined only moderately during the first quarter.

Early in the second quarter yields on municipal securities declined, largely as a result of expectational factors, and the volume of long-term borrowing increased significantly from the unusually low first-quarter rate. At the same time, municipal demands on the short-term market dropped from the peak rates of the first quarter, but they were still quite high. However, a renewal of upward pressures on interest rates as the quarter progressed resulted in more cutbacks and postponements of long-term borrowing plans, with short-term or interim financing being substituted in some instances.

Federal Government demands on credit markets were substantially reduced in the first half of 1969 relative to a year earlier. Although the budget showed a deficit of \$2 billion in the first quarter, this was less than one-fourth of that in the comparable quarter a year earlier. Moreover, in the second quarter the budget swung into substantial surplus, reflecting a sharp year-over-year gain in revenues—attributable to receipts from the tax surcharge as well as higher incomes—and constraint on expenditures. Hence, the Federal Government, on balance, repaid debt in volume. At seasonally adjusted annual rates, there was a turnaround from net borrowing of \$12 billion in the latter half of 1968 to net repayment of \$18.3 billion in the first half of 1969.

On the other hand, federally sponsored credit agencies not included in the budget increased their demands on securities markets. Net debt issuance by these agencies aggregated \$6.3 billion, annual rate, in the first half, more than three times the volume in the second half of 1968. The Federal home loan banks and the Federal National Mortgage Association accounted for a substantial portion of this borrowing, as they sought funds to channel to the mortgage market.

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## INTEREST RATES ADVANCE

With demands for credit remaining in excess of the available supply in nearly all financial markets, most market rates of interest rose further. Banks, facing persistent loan demands and reduced availability of lendable funds, not only raised their prime lending rates but also bid up rates paid on Federal funds and Euro-dollars as they aggressively sought funds in these markets.

Other short-term rates also rose substantially. Corporate demands for funds spilled over into the commercial paper market, and bank affiliates began to issue commercial paper, with the result that rates on 4- to 6-month paper had advanced to more than 8.50 per cent by the end of June, an increase of more than 2 percentage points during the first half. Yields on Treasury bills and short-term Federal agency issues changed relatively little through the spring; large sales of Treasury bills by banks were readily absorbed by the market as the demand for bills was increased in large part by the shifting of investor funds out of large CD's and into other market instruments, and also by demands for bills by many investors who wished to increase their liquidity positions because of financial uncertainties. However, as a result of continued sales of bills by banks, as well as reduced demands by some institutional investors, bill yields rose to an average that was about 50 basis points higher in June than the December 1968 average.

In long-term markets upward pressures on interest rates were substantial as banks withdrew from the market and other investors remained cautious in anticipation that tighter market conditions might follow. By the end of June the average yield on municipal bonds had risen more than 80 basis points from the level prevailing in December 1968. Rates on corporate Aaa new issues (with 5-year call protection) and secondary market yields on home mortgages insured by the Federal Housing Administration rose by about 80 and 85 basis points, respectively. Yields on long-term Government bonds, however, increased relatively little, with no bonds being issued by the Treasury because of the 4¼ per cent statutory rate ceiling on such instruments.

## SECOND HALF OF YEAR

During the second half of 1969 both total and nonborrowed reserves of member banks declined slightly—at annual rates of about 4 and 2.5 per cent, respectively—as the policy of restraint in Federal Reserve

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open market operations was continued. Moreover, on July 24 and August 12 the Board of Governors of the Federal Reserve System adopted amendments to its Regulations D and M, proposed earlier in the year; these amendments were designed to moderate borrowing by member banks in the Euro-dollar market and to prevent reductions in required reserves through transfers involving their foreign branches. Also on July 24 the Board took action to narrow the scope of member bank liabilities under repurchase agreements that are exempt from Regulations D and Q. On October 29 it announced that it was considering amendment of its rules governing the payment of interest on deposits (Regulation Q) to apply to funds received by member banks from the issuance of commercial paper or similar obligations by banks' affiliates.

All of these pressures led banks to maintain their borrowings at the Federal Reserve Banks at about the high level reached in the early summer. Banks also relied increasingly on the Federal funds market, and about \$10 billion of these funds were traded through New York on a daily-average basis during December, or about \$1.0 billion more than at midyear. The Federal funds rate in December averaged close to 9 per cent, about the same as in June.

Total borrowing by U.S. banks in the Euro-dollar market rose sharply further in July, but remained essentially unchanged at an average level of about \$15.5 billion during the balance of the second half, probably to some extent in response to Board actions concerning such borrowing. Rates on Euro-dollars dropped slightly from those prevailing in June and averaged from 10 to 11 per cent in December, depending on maturity.

After borrowing through sales of loans under repurchase agreement became subject to Regulations D and Q in late July, such net borrowings from the nonbank public declined steadily to a level of about \$200 million at the end of the year. But outstanding commercial paper issued by bank holding companies or other bank affiliates rose sharply, by an additional \$3 billion in the second half.

#### DEPOSIT FLOWS TO INTERMEDIARIES CURTAILED FURTHER

As market rates of interest continued to increase, the availability of deposit funds at major types of depository institutions became more restricted. The outflow of total deposits at member banks was some-

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what larger than in the first half—at an annual rate of nearly 5 per cent—and funds obtained by these banks from nondeposit sources failed to offset fully this decline; total member bank deposits plus nondeposit funds fell at an annual rate of about 1 per cent during the second half. Net inflows at nonbank thrift institutions were cut sharply during the latter half of the year.

Declines in outstanding time and savings deposits at commercial banks—at an annual rate of more than 6.5 per cent in the second half—continued to account for a large part of the reduction in total deposits after midyear. CD attrition began to moderate from the rapid pace of the first half, however, as the volume of maturing issues declined and deposits of foreign official holders, which are not subject to interest rate ceilings under Regulation Q, increased. The run-off in CD's during the second half was approximately \$4.5 billion, seasonally unadjusted, or about 60 per cent of that earlier in the year. In contrast to the first half, the bulk of this attrition took place outside the major financial centers; banks outside New York City and Chicago experienced more than 90 per cent of the run-off, or more than twice their share earlier in the year. The additions to time deposits of foreign official holders in the fourth quarter, mainly at banks in New York City, appeared to reflect in part a shifting of balances previously held in the form of Euro-dollar deposits with foreign branches of U.S. banks.

Net withdrawals of time and savings deposits other than CD's became increasingly important in the decline in total time and savings deposits at commercial banks. At large banks, seasonally unadjusted outflows of consumer-type time and savings deposits were, on the average, about 20 per cent greater than the total for the second quarter. And at country banks the progressively reduced inflows, seasonally unadjusted, of the first half of the year turned to sizable net outflows during the second half.

Banks also lost demand deposits, on balance, during the second half; the decline in such deposits privately held more than offset the rise in those held by the U.S. Government. Growth in currency in the hands of the public, however, was fairly well sustained, so the reduction in privately held demand deposits was more than offset in the money stock statistics. The total money stock rose slightly—at an annual rate of less than 1 per cent—during the second half of the year.

Net inflows of funds to thrift institutions continued to decline dur-

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ing the second half of the year, as yields on market securities rose further above the rates paid on savings accounts. Both savings and loan associations and mutual savings banks experienced substantial outflows during the July and October interest-crediting periods, and net inflows remained depressed in other months of the second half. As a result, deposits at these institutions grew at a seasonally adjusted annual rate of only 1.7 per cent, about one-third the rate in the first part of the year.

#### RESTRICTION OF INTERMEDIARY CREDIT CUMULATES

With lendable funds becoming increasingly limited and with liquidity already at very low levels by midyear, commercial banks were obliged to curtail their lending activity further. In adjusting their asset portfolios to the reduced supply of funds, they continued to rely on liquidation of securities and on more intense rationing of loans, and after midyear total bank credit rose only slightly further.

Again the bulk of the liquidation of security holdings by banks, which totaled almost \$6 billion, was in U.S. Government securities—mainly Treasury bills and short-term notes and bonds. However, banks did reduce their portfolios of other securities—generally municipal issues—as holdings of short-term U.S. Government securities were probably approaching minimum amounts needed for pledging requirements and other purposes. Outright sales of loans by banks to others than banks or bank-related affiliates and subsidiaries continued, reaching a level of about \$1.2 billion outstanding by the year-end, about \$500 million more than at midyear.

Banks also reported further significant tightening in their lending terms and conditions. There were substantial cutbacks in the dollar amount of new commitments made, and total bank loans rose at an annual rate of only about 5 per cent, about half that of the already reduced pace in the first 6 months. Inclusion of loans sold to bank holding companies, affiliates, and subsidiaries would raise the annual rate to about 6.5 per cent, still well below the pace of expansion earlier in the year.

The further slowing in bank loans was evident in virtually all major loan categories. Business loans, which had risen rapidly in the second half of 1968 and the first half of 1969, grew at a sharply reduced rate

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after midyear. Expansion of real estate loans slowed substantially further—in line with the continued declines in housing starts and in residential construction activity—as did growth in consumer loans.

At nonbank thrift institutions net acquisitions of mortgages declined, but by less than would have been suggested by the reduction in net savings inflows. Flows of funds from mortgage repayments remained moderate, in view of the reduced over-all level of real estate activity and of the limited volume of repayments owing in part to assumptions of outstanding mortgages when existing properties were transferred. Net extensions of mortgage credit by these intermediaries were financed by reductions in liquidity positions, by record borrowing by savings and loan associations from the Federal home loan banks, and in the case of mutual savings banks by putting money into mortgages at the expense of securities. New mortgage commitment activity was cut back further, and outstanding commitments at the year-end were well below the end-of-1968 level.

Growth in total mortgage debt, seasonally adjusted, continued to decline from the record rate reached in the fourth quarter of 1968. However, mortgage credit supplied by FNMA and, to a lesser extent, expanded lending by the Government National Mortgage Association became increasingly important factors in holding total net residential mortgage lending for the full year close to the level in 1968.

#### PRIVATE SECURITY ISSUES MODERATE

Private nonfinancial borrowing in security markets declined in the second half from the advanced pace registered earlier. The reduction was attributable in large part to the further increase in cost and the reduced availability of credit. Net new issues of long-term securities by State and local governments, at an annual rate of \$4.5 billion, were slightly below the already reduced rate for the first half of the year. Many governmental units were forced to defer long-term financing because their ceiling rates were below market levels. Even some units that had had their ceilings raised earlier in the year were limited in the extent to which they could finance programs by borrowing, as reductions in bank holdings of municipal issues and investor concern over provisions in the proposed tax reform bill—related to the tax treatment of interest income on municipal securities—contributed to a substantial further increase in rates on these securities. While some governmental units

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borrowed at short term, or reduced their liquid assets, and/or used other sources of funds, growth in aggregate expenditures of State and local governments nevertheless moderated in the second half of the year.

Flotations of corporate securities in this period were somewhat above the exceptionally high rate of the first half. While public offerings of bonds by corporations rose somewhat, the increase was offset by the developing tightness in private placements. Equity offerings advanced sharply and were unusually large in view of the continued decline, on balance, in average stock prices. Although gross corporate security offerings were a record for the full year, maintenance of a high and rising level of net investment during the second half put added pressure on corporate financial positions. Because declining profits were restraining growth in internal funds and bank loans were increasingly difficult to obtain, corporations relied on further issuance of commercial paper and other sources of funds.

The Federal Government was a net borrower of funds during the second half, whereas it had made net repayment of debt earlier in the year. Three factors in particular caused the budget surplus to decline to a seasonally adjusted annual rate of \$5 billion, or roughly one-half that in the first 6 months; these were enlarged Federal expenditures, the earlier ending of make-up payments on 1968 tax liabilities, and the slower growth in incomes—and consequently, tax receipts. Continuing a pattern evident in the first half, federally sponsored agencies outside the budget offered a sizable volume of debt issues to raise new money, mainly in connection with FHLB and FNMA borrowing in support of the mortgage market. When combined with borrowing in the budget, net funds raised by the Federal sector in total amounted to about \$14 billion at a seasonally adjusted annual rate. This compares with net repayment at an annual rate of \$11 billion in the first half of the year.

#### INTEREST RATES RISE TO POSTWAR HIGHS

Most interest rates in both short- and long-term markets rose substantially further over the second half of the year. Continued large demands for funds by banks kept rates high in the Federal funds market and pushed rates up further in the commercial paper market. Treasury bill yields came under substantial upward pressure as the Treasury raised new cash through additional bill sales at a time when commercial banks and other intermediaries were reducing liquidity positions; yields on



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3-month Treasury bills rose to new highs and averaged about 7.80 per cent in December, 140 basis points above the June level.

Interest rates also continued to press upward in capital markets. With commercial banks reducing their holdings of municipal securities and individual investors concerned over tax reform and the future course of interest rates, municipal yields advanced more than 1 percentage point in the second half—reaching a record average of 6.90 per cent in December. Corporate Aaa new issues (with 5-year call protection) were also marketed at new highs in the latter part of the year—increasing about 120 basis points, to 8.75 per cent in December. Continuing strong demands for construction and the reduced availability of mortgage credit combined to push up interest rates on mortgages in the second half. However, despite upward adjustments in some cases, ceiling constraints on conventional and Government-underwritten mortgages tended to limit the over-all rise in rates on home loans. Long-term U.S. Government bond yields followed the upward trend in interest rates and increased about 60 basis points during the period to a year-end level of approximately 6.80 per cent. □

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## *Demands, Resource Use, and Prices*

Expansion of aggregate output in the United States slowed markedly in 1969 and halted in the fourth quarter. For the full year, growth in real GNP amounted to 2.8 per cent, compared with 4.9 per cent in 1968; except for 1967 this was the smallest increase since the recession year of 1961. In large measure the slowing reflected the sustained pressure exerted by the restrictive fiscal and monetary policies that had been adopted to dampen persistent inflation and inflationary expectations. Nevertheless, inflationary pressures remained strong throughout 1969. Prices, as measured by the implicit GNP deflator, advanced 4.7 per cent, the largest rise since 1951; increases had amounted to 4.0 per cent in 1968 and 3.2 per cent in 1967.

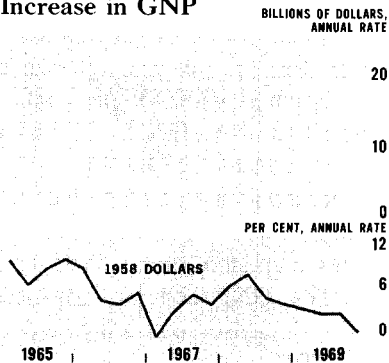
The fourth quarter of 1969 was the first since the spring of 1967 in which real GNP had failed to rise. The diminishing strength of demand for goods, particularly in the second half of the year, was especially evident in the pattern of industrial production. The Board's index averaged about 4.5 per cent higher in 1969 than in 1968, but it declined in every month after July. In December the index was 2 per cent below its summer high and was only about 1.5 per cent above a year earlier. Although some of the decline after midyear was attributable to a major strike in the electrical equipment industry, most of it reflected weakening demands for consumer goods, particularly automobiles and other durable goods, and reductions in output of defense equipment and materials.

As expansion of output diminished, the capacity utilization rate in manufacturing declined appreciably and signs of easing began to appear in the labor market. Growth in employment slowed perceptibly. In manufacturing, employment was lower in December than in June (exclusive of those not working because of the major work stoppage mentioned above) and the average workweek was shorter. Unemployment claims were rising. But the over-all unemployment rate, which had risen in the second and third quarters, changed little in the fourth quarter and in December was only slightly higher than it had been a year earlier.

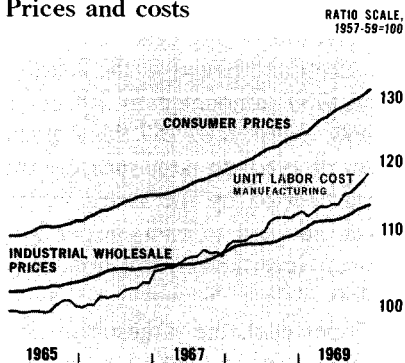
Unit labor costs in the private nonfarm economy rose steeply in 1969—nearly 6.5 per cent according to preliminary estimates, compared with 4 per cent in 1968. The rise in output per manhour for the

# ECONOMIC DEVELOPMENTS

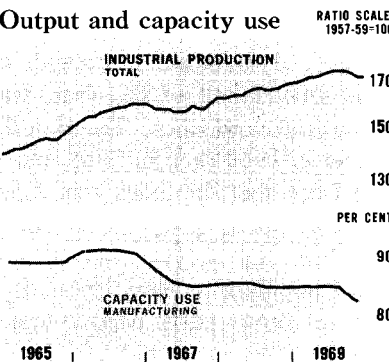
## Increase in GNP



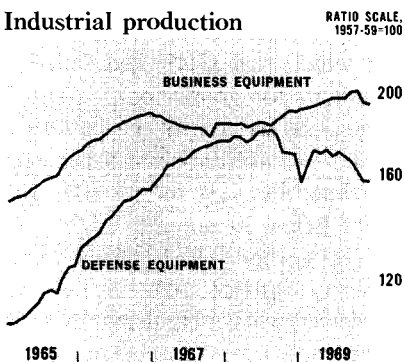
## Prices and costs



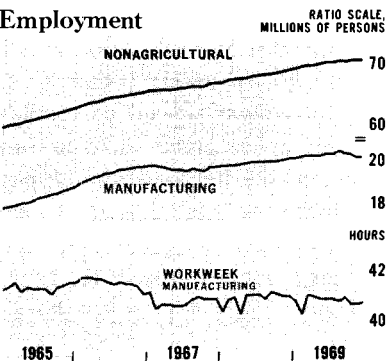
## Output and capacity use



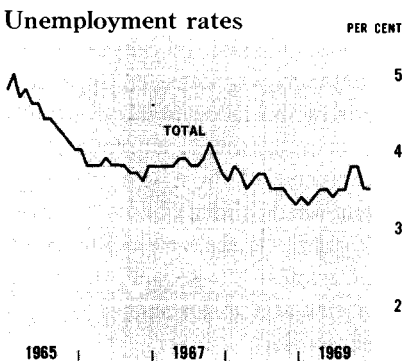
## Industrial production



## Employment



## Unemployment rates



Monthly data, except quarterly for GNP and capacity utilization in manufacturing. Data are seasonally adjusted, except for consumer prices and industrial wholesale prices. Sources: GNP, Dept. of Commerce; prices, employment, workweek, and unemployment rates, Dept. of Labor; unit labor costs, Bureau of Census; industrial production and capacity utilization in manufacturing, Federal Reserve.

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year was small, and average wage rates continued to advance sharply, although a little less so than in 1968. In manufacturing the gain in output per manhour was appreciably larger than for the private nonfarm economy as a whole and the increase in unit labor costs was about the same as in 1968.

The sustained strength of inflationary pressures reflected a number of interacting influences. Demands continued strong in markets for some important goods, particularly for machinery and equipment and for metals. Until late in the year, labor markets were tight, demands for labor were strong, and consumer incomes were rising sharply. Increases in consumer prices were being used as a floor in wage negotiations as workers endeavored not only to catch up with earlier price advances but also to improve their standard of living. Profit margins were under pressure, and producers and distributors made efforts to recoup sharply rising unit labor costs and advancing nonlabor costs—including materials—through higher selling prices. The pervasive nature of inflationary expectations affected labor's wage demands, employer willingness to grant sizable settlements, and business pricing policies. Finally various other factors also affected prices—for the most part tending to raise them. These included such diverse developments as the strength of demands in Western Europe and Japan—which placed pressure on prices of internationally traded commodities—and unexpectedly low U.S. supplies of both beef and pork, which boosted prices of foods.

## DEMANDS

In the first half of 1968 real GNP had increased at an annual rate of 6.3 per cent, an exceptionally rapid pace, but by the fourth quarter of that year expansion was down to a 3.5 per cent rate. This slowing continued during 1969, and in the fourth quarter the expansion halted. Indeed, a prolonged work stoppage in the electrical equipment industry contributed to a slight absolute decline in real GNP (Table 4). The deceleration of expansion in 1969—in both current and constant dollars—reflected successively smaller increases in final sales as the year progressed. The rate of inventory accumulation fluctuated within a relatively moderate range, but it was larger in the second half of the year than in the first.

The slowing in expansion of final sales was evident in most major categories of spending (Table 5). Early in the year sizable increases

in consumer spending, business fixed investment and residential construction, and State and local government purchases added up to a large advance in total final sales. In the second half, on the other hand, the rise in consumer spending was much smaller and so was that in State and local government purchases; business fixed investment was not quite so strong as in the first half; and residential construction activity declined. Federal purchases edged down over the year, except for a rise in the third quarter, when there was a pay increase for both civilian and military personnel.

Exports of goods and services—which had been adversely affected in the first quarter of 1969 by the prolonged strike of longshoremen at East Coast and Gulf ports—gained strength in the second half of the

TABLE 4: GROSS NATIONAL PRODUCT

Item	1967	1968	1969	1969 <sup>1</sup>			
				I	II	III	IV
In billions of dollars							
Total.....	793.5	865.7	932.1	908.7	924.8	942.8	952.2
Inventory change.....	7.4	7.3	8.0	6.6	6.9	10.7	7.7
Final sales.....	786.2	858.4	924.1	902.1	917.9	932.0	944.5
Private <sup>2</sup> .....	695.5	758.9	822.2	800.5	817.3	828.8	842.2
Federal.....	90.7	99.5	101.9	101.6	100.6	103.2	102.3
Change from preceding period: In billions of dollars							
Total.....	43.6	72.2	66.4	16.2	16.1	18.0	9.4
Inventory change.....	-7.4	-.1	.7	-3.9	.3	3.8	-3.0
Final sales.....	51.1	72.2	65.7	20.1	15.8	14.1	12.5
Private <sup>2</sup> .....	38.2	63.4	63.3	20.4	16.8	11.5	13.4
Federal.....	12.9	8.8	2.4	-.3	-1.0	2.6	-.9
In per cent, at annual rates							
GNP in current dollars.....	5.8	9.1	7.7	7.3	7.1	7.8	4.0
GNP in 1958 dollars.....	2.5	4.9	2.8	2.5	2.0	2.1	-.5
GNP implicit deflator (1958=100).....	3.2	4.0	4.7	4.7	5.1	35.6	4.4

<sup>1</sup> Quarterly figures are at seasonally adjusted annual rates.

<sup>2</sup> Adjusted to include State and local governments.

<sup>3</sup> Excluding Federal pay increase, 4.3 per cent.

NOTE.—Basic data from Dept. of Commerce.

**TABLE 5: GROSS NATIONAL PRODUCT: FINAL SALES**

Change from preceding period, in billions of dollars, except for saving rate

Item	1967	1968	1969	1969			
				I	II	III	IV
<b>Total final sales</b> . . . . .	<b>51.2</b>	<b>72.2</b>	<b>65.9</b>	<b>20.1</b>	<b>15.8</b>	<b>14.1</b>	<b>12.5</b>
<b>Personal consumption expenditures</b> . . . . .	<b>26.0</b>	<b>44.3</b>	<b>39.4</b>	<b>11.3</b>	<b>10.8</b>	<b>7.0</b>	<b>9.7</b>
Durable goods . . . . .	2.2	10.3	6.3	2.1	2.2	- .8	.6
Nondurable goods . . . . .	8.2	15.5	13.2	4.3	3.5	3.0	3.6
Services . . . . .	15.6	18.6	19.7	4.9	5.1	4.8	5.4
<i>Addendum: Saving rate (per cent)</i> . . . . .	7.4	6.5	6.0	5.3	5.3	6.7	6.4
<b>Fixed investment</b> . . . . .	<b>2.0</b>	<b>10.4</b>	<b>12.5</b>	<b>5.2</b>	<b>1.9</b>	<b>2.0</b>	<b>1.6</b>
Residential structures . . . . .	.0	5.2	2.0	1.4	- .6	-1.3	.2
Nonresidential . . . . .	2.1	5.1	10.5	3.8	2.5	3.3	1.4
<b>Net exports of goods and services</b> . . . . .	<b>- .1</b>	<b>-2.7</b>	<b>- .4</b>	<b>.3</b>	<b>.1</b>	<b>1.1</b>	<b>.0</b>
Exports . . . . .	2.8	4.4	4.7	-3.0	9.5	.7	.8
Imports . . . . .	2.9	7.1	5.1	-3.3	9.4	- .3	.7
<b>Govt. purchase of goods and services</b> . . . . .	<b>23.3</b>	<b>20.2</b>	<b>14.4</b>	<b>3.3</b>	<b>2.9</b>	<b>4.1</b>	<b>1.3</b>
<i>Federal</i> . . . . .	12.9	8.8	2.5	- .3	-1.0	2.6	- .9
Defense . . . . .	11.7	5.6	1.3	- .3	- .5	1.8	-1.1
Other . . . . .	1.3	3.1	1.3	.1	- .5	.8	.2
State and local . . . . .	10.3	11.4	12.0	3.7	3.8	1.5	2.2

NOTE.—Basic data from Department of Commerce.

year. But imports also advanced until near the end of 1969, and for the year as a whole the merchandise trade surplus barely matched the very small balance of 1968. Over-all net exports of goods and services were smaller than in 1968 because of a reduction of about \$0.5 billion in the surplus on services.

## GOVERNMENT

Federal fiscal developments made a significant contribution to the slowing of economic expansion in 1969. A major turn in fiscal policy had occurred with enactment of the Revenue and Expenditure Control Act of 1968 in late June of that year. This Act imposed a 10 per cent surcharge on corporate income taxes, retroactive to January 1, and on most individual income taxes, retroactive to April 1. In addition, it provided for restraints on some expenditures. The Act was to be in effect until mid-1969.

As a result of those actions, the Federal fiscal position as measured in the national income accounts (NIA) shifted from a large deficit to a large surplus in 1969. In the first half of calendar year 1968 the Federal deficit had amounted to about \$9 billion, annual rate, but by the fourth quarter the Federal fiscal position (NIA basis) was in balance.

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For the full calendar year 1968, the deficit amounted to about \$5 billion, compared with almost \$13 billion in 1967. In calendar year 1969 the surcharges on both corporate and individual income taxes were extended at 10 per cent from midyear to the year-end, spending was subject to further restraint, and a surplus of about \$10 billion emerged. Total receipts for the year increased by \$25 billion while total expenditures rose by \$10 billion.

Another striking development in 1969, apart from the over-all fiscal position, was the virtual cessation of growth in direct Federal demands on resources. Federal purchases of goods and services rose by less than \$3 billion for the calendar year 1969, a far smaller increase than in either of the two preceding years. Moreover, the rise in such purchases from late 1968 to late 1969 amounted to only about \$0.5 billion, annual rate, even including the sizable pay increase in the third quarter (Table 4). Spending for defense, apart from the pay increase for the military, drifted down throughout 1969—reflecting the reduction in activity in Vietnam.

Federal expenditures other than for goods and services increased by about \$8 billion in the calendar year 1969, moderately less than in 1968. More than half of the increase was in transfer payments, mostly social security benefits. Most of the remainder was in interest on the public debt and in grants-in-aid to State and local governments.

State and local government purchases of goods and services increased by \$12 billion in the calendar year 1969; the rate of growth—12 per cent—was a little less than in 1968. But expansion in the July–December period was only about half as large as in the first 6 months (Table 5). In large part this slowdown reflected developments in the capital markets. Commercial banks—which are usually the major institutional purchaser of municipal securities—were net sellers of such securities in the second half of the year and interest rates rose to record highs. Many States and municipalities were impelled to trim borrowing and capital spending either because legal interest rate ceilings were below prevailing market rates or because they were unwilling to borrow at the current market rates.

#### BUSINESS FIXED INVESTMENT

Business spending on fixed investment was the principal stimulus to over-all expansion in 1969. The increase for the year—12 per cent—was double that for 1968 and was the largest for any broad category

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of final demand. Moreover, such spending maintained its upward momentum much better in the second half of 1969 than did other major sectors of demand, and year-end surveys indicated plans for a substantial further rise in 1970, particularly in the first half of the year. More than half of the 1969 increase, however, represented higher prices, both for structures and for producers' durable equipment.

Spending on plant and equipment turned out to be somewhat smaller than had been indicated by an official survey of intentions early in the year. But the shortfall represented mainly the failure of actual spending to match anticipations in the first two quarters, and it probably resulted primarily from delays in construction schedules and in equipment deliveries, given the high rate of resource use in these industries. Tight financial markets and less buoyant views about prospects undoubtedly contributed to some cutbacks, but in the aggregate these cutbacks appear to have been marginal. The President's recommendation—made in late April but not enacted until close to the year-end—that the investment tax credit be repealed as of April 18 apparently exerted only a limited effect on spending in 1969.

Factors underlying the sizable expansion in spending for fixed capital included optimism about sales prospects, rising prices of plant and equipment, and sharply increasing unit labor costs. In some major industries—electric utilities, for example—existing capacity was being pressed, and the need for more capacity was obvious. In others, technological advance was the major stimulus to expenditure programs. Altogether, about half of total capital spending in 1969 was for expansion of capacity and half was for modernization and cost reduction. The strength of these various incentives is underscored by the fact that profits after taxes were up only slightly from 1968 to a total of \$50.5 billion for 1969 and that such profits were declining after the first quarter of the year.

In manufacturing, however, the extent of the rise in outlays—12 per cent—was somewhat surprising in view of the rather moderate rate of capacity utilization in that sector in recent years. This rate in 1969 averaged less than the rate of approximately 85 per cent in 1968, and by the end of the year it had declined to about 81 per cent. Only 3 years earlier, in 1966, manufacturing industries had been using their capacity at an average rate of more than 90 per cent. From the end of 1966 to the end of 1969, manufacturers had increased their capacity about 16 per cent, while their output had risen by only 8 per cent.



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## BUSINESS INVENTORY ACCUMULATION

Businesses accumulated inventories at a relatively moderate rate in 1969, about in line with the historical average relationship of inventory investment to GNP. Nevertheless, by the end of the year—as sales and new orders slowed—inventory levels appeared to be more burdensome than they had been at the beginning of the year. In November and December, the over-all inventory/sales ratio for manufacturing and trade rose to the level of early 1967, which was a period of slowing in inventory accumulation.

Producers of consumer goods began to reduce output in the second half of the year in response to weaker consumer demands. The declines were not sufficient to bring inventories back into line with sales, however, and by late 1969 the inventory/sales ratio for retail establishments had risen to the highest level in many years. Auto stocks relative to sales were at a record high. Inventories of other consumer durable goods—including appliances and television sets—also remained fairly high relative to sales, despite the cuts in production and a strike at a major producer of electrical products.

Additions to inventories of durable goods manufacturers were sizable in 1969. Most of this rise occurred in the machinery and transportation equipment (particularly aerospace) industries, and mainly in work in process. Expansion in stocks of materials was relatively small, as manufacturers appeared to be holding these in line with current output. Even though output of defense equipment was drifting down, stocks in the defense-related industries continued to rise until late in the year.

## RESIDENTIAL CONSTRUCTION

About 1.5 million private farm and nonfarm housing units were started in 1969, approximately the same number as in 1968. The rate of starts had risen irregularly through most of 1968. In 1969, however, after peaking at an unusually high rate—1.7 million units—in the first 3 months, the number moved substantially downward. In the fourth quarter the rate averaged 1.3 million units, more than one-fifth below the first-quarter level.

Outlays for new residential construction, which lag the pattern of starts, declined after the first quarter, but for 1969 as a whole they were about 7 per cent larger than in 1968. The increase reflected

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primarily higher costs and, to some extent, increased activity in additions and alterations—which, along with nonhousekeeping units, account for about one-fourth of the residential construction total. Indeed, the increase in additions and alterations in the fourth quarter offset a further decline in outlays for new dwelling units.

The persistent decline in starts through most of 1969 resulted primarily from the limited availability of mortgage financing. Competing demands for funds were very strong, and monetary policy was restrictive. The limited ability of the thrift institutions—savings and loan associations and mutual savings banks—to compete for funds in a period when interest rates were rising to new highs resulted in greatly reduced inflows of funds in the second half of the year, as described earlier in this REPORT. However, considerable support for residential mortgage markets was provided by FNMA through its free-market commitment auctions, and by the FHLB, which accounted for a record volume of advances to savings and loan associations. Reflecting for the most part such support, the rate of single-family housing starts tended to stabilize in the fourth quarter at the reduced third-quarter rate—at a level that was appreciably above the low in the final quarter of 1966.

One important feature of the year as a whole was a further increase in the number of multifamily units started. Even though these shared in the decline after the early part of the year, they reached a record total for 1969 and accounted for 44 per cent of all housing starts, compared with the previous high of 40 per cent in 1968. Investors in multifamily units were often better able to compete for financing than were purchasers of single-family units, particularly since such financing frequently incorporated various forms of equity-type participations and also because it was generally less restricted by the usury laws of some States. Late in the year, however, the rate of multifamily starts declined sharply.

Demands for housing continued very strong in the face of advancing prices and development costs and record interest rates. Vacancy rates fell to the lowest level in over a decade. The supply of new housing was augmented by a sharp further year-over-year expansion in shipments of mobile homes to a total for the year of nearly 400,000 units. These units, which are factory-produced and are low-priced, are not included in the statistics on housing starts nor reflected in residential construction expenditures.

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## CONSUMER EXPENDITURES AND INCOME

Consumer spending on goods and services increased 7.5 per cent from 1968 to 1969, compared with an increase of 9 per cent the year before. But prices advanced more rapidly in 1969 than in the earlier period, and the physical volume of consumer takings was up only 3 per cent following an increase of more than 5 per cent in 1968. Real takings of durable goods increased 5 per cent for the year, while those of non-durable goods rose only 1.3 per cent and services, 3.8 per cent. In all three cases the 1969 advances were significantly smaller than in 1968.

Consumer spending was relatively strong in the first half of 1969, but growth slowed considerably in the second half, with the third quarter particularly sluggish. Employment gains were large early in the year, and wages and salaries and total personal income continued to increase rapidly. Growth in disposable (after-tax) income slowed in the first quarter, however, when large final settlements began to be made on 1968 income tax liabilities, including retroactive payments on the surcharge for the second quarter of 1968. Nevertheless, the increase in consumer spending was sizable and was made possible in part because consumers reduced their saving rate to 5.3 per cent from the 6.0 per cent level maintained in the second half of 1968. In the second quarter of 1969 consumer spending again increased by a sizable amount, as a large rise in disposable income provided support to consumer demands while the saving rate was unchanged from its first-quarter level.

The third-quarter increase in consumer spending was the smallest of the year, even though disposable income—bolstered by the Federal pay raise and by the earlier ending of large tax payments on 1968 liabilities—showed an exceptionally large rise. The saving rate increased sharply to 6.7 per cent, from 5.3 per cent in the first half of the year. (This increase of 1.4 percentage points in the saving rate represented almost \$9 billion, annual rate, of disposable income and a roughly equivalent amount of consumer spending foregone.) The weakness in the consumer sector in the third quarter is indicated not only by current-dollar figures but also by the fact that there was virtually no rise in the physical volume of purchases. Real takings of durable goods were off a little, those of nondurable goods were unchanged, and growth of services was not so rapid as earlier.

Expansion of both personal and disposable income slowed con-

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siderably in the fourth quarter, largely because gains in employment and in wages and salaries were much smaller than they had been earlier in the year. But the increase in consumer spending was larger than in the third quarter, as the saving rate declined.

For the second half of 1969 as a whole, consumer demands can best be characterized as sluggish. Real takings of durable goods were down a little, with weakness evident in demands for furniture and appliances and particularly for new automobiles late in the year. Although about 8.5 million new domestic autos were sold in 1969, only slightly fewer than in 1968, the sales rate was down to about 8 million units in the fourth quarter; and in December sales were at an annual rate of 7.7 million units. Sales of imported autos continued to rise and for the year totaled more than 1 million units; this number was 6 per cent higher than in 1968 and accounted for 11 per cent of total auto sales.

Weakness of consumer demand in the second half appears to have reflected a combination of influences. Perhaps most important was the pervasive effect of the steep rise in consumer prices; rapid price increases completely offset income gains for many employees—in fact, real average weekly earnings in manufacturing declined slightly over the year—and provoked some consumer resistance to purchases. Growing concern about employment and income prospects in 1970, as indicated in various surveys of consumer attitudes, also tended to limit spending. And a decline in the volume of housing units completed and in sales of existing houses adversely affected demands for furniture and other household durable goods. Finally, declining prices of common stocks probably exerted some dampening influence on the over-all propensity of consumers to spend.

## LABOR MARKET

Demands for labor were very strong early in 1969, reflecting the vigorous expansion of final demand. Increases in employment in the first quarter were the largest since the 1965–66 period, and the unemployment rate reached a post-Korean-war low of 3.3 per cent in February. As the year progressed, however, growth of employment moderated, and in the latter part of 1969 insured unemployment rose as employment in the manufacturing sector declined.

Manufacturing employment rose at a rapid pace in the first 6 months of 1969, but declined between June and December as output of autos

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**TABLE 6: CHANGES IN NONFARM PAYROLL EMPLOYMENT**

Thousands of persons

Period	Total	Manufacturing	Nonmanufacturing
6 months ended:			
December 1968.....	1,059	168	891
June 1969.....	1,425	240	1,185
December 1969.....	356	-185	541

NOTE.—Adjusted for seasonal variation.

and other goods softened, defense-related employment edged down, and a major strike interrupted production in the electrical equipment industry. Reflecting the reduction in demand, the average factory workweek declined to about 40.5 hours in the last quarter of the year, 0.3 hour less than in the same period a year earlier.

Employment also declined after midyear in construction activities and in the Federal Government, but neither sector recorded a large reduction. Growth in employment in trade, services, and State and local government slowed after midyear, but the slowing was moderate and followed a period of relatively large increases.

There were marked differences in the incidence and pattern of unemployment changes in 1969. Easing demand for labor was most noticeable in the industrial sector—where the labor force is made up largely of men. For men aged 25 years and over the jobless rate rose from a post-World-War-II low of 1.6 per cent in the first quarter to 1.8 per cent in the fourth quarter. Reflecting both more layoffs and longer spells of unemployment, the number of persons drawing unemployment insurance benefits began to rise after midyear and in December reached the highest level for any month since the summer of 1967.

Among women and younger workers, unemployment changes were more uneven during the year, and joblessness among such “secondary” workers was not appreciably higher at the year-end than in the first quarter. The decline to relatively low unemployment rates among women and younger workers, after a rise in September, was instrumental in lowering the over-all unemployment rate to 3.5 per cent in November and December after it had risen from 3.4 per cent in the first quarter of the year to 3.6 per cent in the third.

The civilian labor force increased by 2.0 million persons on the average between 1968 and 1969—the largest gain since 1947. The rise was substantially more than might normally be expected from popula-

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tion growth and long-term increases in participation rates and was probably a function of strong demands early in the year, buttressed by the desire of secondary workers to maintain or raise family income at a time of rapid price increases. Reflecting in part the latter factor, the average number of adult women in the labor force increased by nearly 1.2 million; this number accounted for about three-fifths of the net rise in the civilian labor force.

Continuing the large increases of the prior 2 years, another half a million men aged 20 years and over were added to the labor force in 1969. The bulk of this expansion was a result of the continued flow into the labor market of young men born during the post-World-War-II baby boom. The teenage labor force—male and female—rose by 350,000, the largest increase since 1966, when 650,000 teenagers entered. The size of the armed forces changed little from 1968 to 1969.

## WAGES AND COSTS

Hourly earnings rose a little less rapidly in the 12 months ending in December 1969 than over the preceding year. However, increases were still very large—6.8 per cent for production and nonsupervisory workers on private nonfarm payrolls and 5.4 per cent for manufacturing production workers. Despite the large current-dollar increases in wages, the average production worker was no better off in 1969 than in 1968 after allowance for the rise of consumer prices. In fact, average weekly earnings in constant dollars have increased only slightly since 1965, and even these gains have been offset by higher Federal income and social security taxes.

There was a strong emphasis on large and immediate wage increases in collective bargaining settlements during 1969. The renewed emphasis on wage rates was attributable to some extent to the efforts of skilled workers to regain former wage differentials and to the growing influence of younger workers, who tend to be more interested in current income than in retirement pay or other deferred benefits. But the main factor underlying large wage boosts was the continued and, indeed, accelerated rise of consumer prices. Wage settlements were large for both union and nonunion workers and for both public and private employees.

Union contracts signed in 1969 provided a median first-year wage boost in excess of 8 per cent. In some of these instances, of course, wages had lagged behind price increases in earlier years of extended

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contracts, and workers were bargaining for a "catch-up" in wages. It should be noted that collective bargaining activity was at a relatively low level in 1969; the number of workers covered by major contracts negotiated during the year was only 2.4 million, compared with 4.6 million in 1968 and an estimated 5 million expected in 1970. Reflecting in part this reduced level of bargaining activity, there was a slight drop in the rate of growth of compensation per manhour (which includes both wages and fringe benefits). For the private nonfarm economy, compensation per manhour rose by about 7 per cent between 1968 and 1969 compared with nearly 7.5 per cent in the prior year.

Usually, any decline—however slight—in growth of compensation per manhour provides an opportunity for pressures on unit labor costs to subside. However, presently available statistics suggest that in 1969 there was less than a 1 per cent increase in output per manhour in the private nonfarm economy whereas the increase in 1968 in that sector had amounted to 3.3 per cent. Inasmuch as productivity increased only a little in 1969, most of the rise in compensation costs was reflected in higher costs per unit of output. Such costs are estimated to have risen 6.4 per cent in 1969—the largest increase since 1956.

In the manufacturing sector the productivity performance was better, and unit labor costs rose less in 1969 than in the private nonfarm economy as a whole. Output per manhour in manufacturing rose by about 2.5 per cent, about as much as in 1968 but less than the long-term trend.

## PRICES

As already indicated, inflationary pressures were strong throughout 1969, even though expansion of real output was moderating (and at a standstill late in the year) and despite signs of easing in the second half in the demand for manpower and the use of industrial resources. All of the broad measures of prices showed substantially larger increases over the year than during 1968. Indeed, the increases were the largest since 1951 for both consumer prices and the implicit GNP price deflator and were the largest since 1956 for wholesale prices of industrial commodities. For farm products and processed foods and feeds, the increase was the largest since 1950 with the single exception of 1965. Moreover, the advance in comprehensive measures of prices over the fourth quarter was not much different from the pace early in the year (Table 7). The extent of the inflationary upsurge of recent years is indicated by the

fact that the consumer price index—so critical in wage negotiations—rose by more than 18 per cent during the 4 years from December 1965 to December 1969. This was about as large an increase as had occurred over the preceding decade.

Numerous factors contributed to the rapid rise of prices in 1969. Consumers' dollar incomes were rising rapidly during much of the year, and demands in several important sectors of the economy remained strong—strong enough to put pressure on available resources. These sectors included producers' goods, total construction, and—in the consumer sector—such services as medical care, home maintenance services, and other labor-intensive services.

A major contributory factor was the steep rise in unit labor costs for the private nonfarm economy as a whole and the lesser—but still significant—increase in unit labor costs in manufacturing, as discussed earlier in this REPORT. Rising prices of materials and of transportation also affected over-all costs. And booming economies in Western Europe and Japan added to upward pressures on prices of internationally traded materials.

Of the other contributory factors that emerged during the year, the most important related to supplies of foods. In the spring an unexpected decline in cattle marketings relative to demand boosted prices of beef precipitously, and retail prices remained high for the remainder of the year. In the autumn pork was in very short supply as a result of an unexpectedly small pig crop in the spring, and wholesale and retail prices

TABLE 7: PRICE CHANGES

Per cent

Index	Year				1969 annual rate			
	1966	1967	1968	1969	Dec.-Mar.	Mar.-June	June-Sept.	Sept.-Dec.
Wholesale prices, total.....	1.7	.8	2.8	4.8	6.9	5.4	1.4	5.3
Industrial commodities <sup>1</sup> .....	1.8	1.9	2.4	3.8	6.2	.7	3.6	4.6
Foods and foodstuffs <sup>1</sup> .....	1.3	-2.4	4.0	8.1	9.4	18.7	-4.4	8.2
Consumer prices, total.....	3.3	3.1	4.7	6.1	6.1	6.4	5.3	6.2
Foods.....	3.8	1.2	4.3	7.2	4.0	10.1	6.4	7.5
Other commodities.....	1.9	3.2	3.7	4.4	5.6	4.1	2.4	5.4
Services.....	4.9	3.9	6.1	7.4	8.1	6.8	7.5	6.3
GNP implicit deflator <sup>2</sup> .....	3.5	3.5	4.0	5.1	4.8	5.1	5.3	4.7

<sup>1</sup> Federal Reserve groupings.

<sup>2</sup> Quarters compared rather than months; seasonally adjusted data.

NOTE.—Annual changes calculated from December to December.



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of pork moved up sharply. Over the year ending December, wholesale prices of livestock were up 15 per cent. In addition to meats, supplies of eggs and some fresh vegetables were also short late in the year.

### WHOLESALE PRICES

From December 1968 to December 1969 average wholesale prices of industrial commodities increased almost 4 per cent; materials rose more than 4 per cent and finished goods, excluding foods, about 3.5 per cent. Increases over the year were widespread among commodities; only a few showed declines. Prices of producers' goods rose faster than those of consumer goods—reflecting in large part continued strong demand for business equipment.

Costs of producers' goods were affected more than consumer goods by the sharp increase in prices of metals. The index for metals and metal products rose about 10 per cent over the year, by far the largest increase among the 13 major groups of industrial commodities. Within the broad metals group, prices of nonferrous metals rose 22 per cent and those of iron and steel and their products more than 7 per cent.

The price increase for the metals group compares with 4.8 per cent for nonmetallic minerals, which registered the second largest increase of the major industry groups. Prices rose in all of the major industries except lumber and wood products (which fell about 8 per cent after soaring 24 per cent over the preceding year), but some of the increases were relatively small. For example, prices of furniture and household durable goods, textiles and apparel, and chemicals and allied products all rose less than 2.5 per cent.

During the year prices of industrial commodities, as well as those of the normally more volatile farm products, rose at uneven rates. In the first quarter the rise in industrial prices was very rapid—more than 6 per cent at an annual rate—reflecting in part exceptional increases for nonferrous metals and for steel and steel products, and in part a record advance in prices of lumber and plywood caused by a rapid growth in demand coupled with strikes and other supply bottlenecks. In the second quarter the increase slowed to a rate of less than 1 per cent, as plywood and lumber prices plummeted, and steel and nonferrous metals rose more slowly. The rise in average wholesale prices was sustained at a rate of about 5.5 per cent, however, by a surge in prices of foodstuffs.

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In the third quarter there was another general round of steel price increases; nonferrous metals rose more briskly; and the decline in prices of lumber and plywood was smaller than in the second quarter. As a result, the rise in industrial commodity prices accelerated to an annual rate of 3.6 per cent. But wholesale prices of foods and foodstuffs declined from the very high level of June as cattle marketings increased. Wholesale prices of all commodities thus rose at a rate of only 1.5 per cent, which may have conveyed the unwarranted impression that inflationary pressures were already being significantly reduced.

In the fourth quarter, however, a rapid pace of price increase was resumed (Table 7). Prices of farm products and foods were up considerably over the quarter, with pork, eggs, and fresh vegetables all moving up sharply. For industrial commodities the price rise also accelerated, as prices of finished goods—including those of passenger cars and machinery and equipment—moved up faster.

### CONSUMER PRICES

Consumer prices rose more than wholesale prices in 1969 largely because of exceptionally big increases in the prices of foods and services, which together account for more than one-half of the total weight of the consumer price index. Prices of services were about 7.5 per cent higher in December than a year earlier—reflecting sharp increases in costs of mortgage finance, medical care, insurance, and house-keeping services and home-maintenance. Rents and utility costs rose less sharply.

Among commodities, food prices rose faster than other groups and in December were 7.2 per cent above a year earlier; prices of meat, poultry, and fish were up 11 per cent. Apparel and shoe prices also rose rapidly over the year—by more than 5 per cent.

As in other recent years, prices of durable commodities rose less than those of nondurable goods. The increase for new passenger cars was about 2 per cent after adjustment for quality improvement. For household durable goods the increase amounted to about 3.5 per cent—with a much slower rate of advance in the second half of the year, reflecting in part the rather sluggish demand for furniture and appliances.

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# *International Payments and Reserves*

Progress was made in 1969 toward establishing economic conditions in the United States and other countries that would help to reduce imbalances in international payments while fostering economic growth at sustainable rates. Toward the same end, changes in the exchange parities of certain important currencies were made. At the same time there was further development of international arrangements relating to gold, Special Drawing Rights (SDR's), and the traditional operations of the International Monetary Fund, and there was also continuing international discussion of whether a better working of the international monetary system might be promoted by some increase in the flexibility of exchange rates.

## U.S. BALANCE OF PAYMENTS

Despite the persistence of widespread expectations that price inflation in the United States would continue, the slackening of demand pressures in this country during 1969 was an important factor in the moderate improvement that occurred after midyear in the balance of U.S. transactions in goods and services with the rest of the world. The volume of net exports, however, was still much too small to support the flow of resources to developing countries and the growth of U.S. private investments abroad. Balance in the country's international accounts in 1969 was maintained by a further massive inflow of private foreign capital, the major part of which came through the channel of short-term investments by foreigners in the Euro-dollar market linked with borrowings by U.S. banks from their foreign branches operating in that market. The underlying imbalance between the current and the long-term capital transactions of the United States with the rest of the world still remained to be overcome.

The current account of the U.S. balance of payments was adversely affected in the first half of 1969 by a prolonged dock strike at East Coast and Gulf ports, but in the course of the year merchandise exports gained some strength, and income on foreign investments rose considerably. These gains were offset, however, by a persistent albeit slackening rise in imports and by large interest payments on the increasing total of U.S. liabilities to the rest of the world.

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Governmental restrictions on major types of U.S. private capital outflows were eased somewhat in April, and further changes were made in December. The predominant influence on private capital flows, however, was higher interest rates, which attracted foreign liquid funds to the United States and also affected the flow of longer-term capital.

Recorded outflows of U.S. private capital were slightly larger than in the previous year, but there were probably large unrecorded capital outflows in the first three quarters, reflected in the extremely large negative residual item in the balance of payments accounts. These unrecorded outflows were only partly offset by return flows in the last weeks of the year. Some of the recorded and unrecorded outflows, subsequently reversed, were induced by speculation on a revaluation of the German mark, but a large part probably was drawn by high Euro-dollar interest rates. While such flows from the United States added to the supply of funds available to those U.S. banks that were borrowing in the Euro-dollar market, far more important in this respect were the movements of foreign short-term capital provided through this channel. Weakness in the U.S. stock markets, combined with the enhanced advantages of holding investible funds in more liquid forms with high yields, resulted in a reduction in foreign purchases of U.S. corporate stocks and of the corporate securities sold abroad to finance U.S. direct investments. These inflows of capital to acquire securities nevertheless remained very large by the standards of the years before 1968.

Liabilities to foreign monetary authorities were significantly reduced in 1969. In particular, acquisitions by foreign governments of non-liquid claims on the U.S. Treasury and of long-term deposits, which had served in 1968 to reduce the deficit as conventionally measured on the "liquidity" basis, were reversed in 1969, and this shift in direction of transactions accounted for a large part of the deterioration in the liquidity balance for the year.

#### TRANSACTIONS IN GOODS AND SERVICES

The balance on goods and services increased after the middle of 1969, reaching an annual rate of about \$3 billion in the second half. For the year as a whole, net exports of goods and services were only \$2 billion, about \$0.4 billion less than in 1968 (Table 8). This result fell far short of the average surpluses of the earlier 1960's.

Merchandise exports in 1969 continued to perform reasonably well,

**TABLE 8: U.S. BALANCE OF PAYMENTS**

Billions of dollars, seasonally adjusted

Item	1968	1969 <sup>p</sup>	1969			
			I	II	III	IV <sup>p</sup>
Balance on goods and services.....	2.5	2.1	.3	.3	.7	.7
Goods.....	.6	.7	-.1	-(1)	.3	.5
Services, including investment income.....	1.9	1.4	.4	.3	.4	.2
Remittances and pensions.....	-1.2	-1.2	-.3	-.3	-.3	-.3
U.S. Government grants and capital, net.....	-4.0	-3.9	-.8	-1.2	-1.0	-.9
U.S. private capital flows, net.....	-5.2	-5.0	-1.4	-2.1	-1.3	-.3
Foreign capital flows, net, excl. U.S. liquid liabilities...	8.6	3.9	1.6	.4	.3	1.5
Private, incl. international organizations.....	6.3	4.6	1.7	.6	.9	1.4
Foreign governments and central banks.....	2.3	-.7	-(1)	-.3	-.6	.2
Errors and omissions.....	-.6	-3.0	-1.2	-1.0	-1.0	.3
Balance on liquidity basis (deficit, -).....	.2	-7.1	-1.7	-3.9	-2.6	1.1
Balance on liquidity basis, NSA.....	.2	-7.1	-1.3	-3.8	-3.0	1.0
Financed by changes in:						
U.S. reserve assets (increase, -).....	-.9	-1.2	-(1)	-.3	-.7	-.2
Liquid liabilities to foreign commercial banks.....	3.4	9.3	3.1	4.7	1.6	-.1
Liquid liabilities to nonbanks <sup>2</sup> .....	.4	-.5	-.1	-.1	-.1	-.2
Liquid liabilities to reserve holders.....	-3.1	-.5	-1.7	-.5	2.2	-.5
Balance on official reserve transactions basis (deficit, -) <sup>3</sup> .....	1.6	2.7	1.1	1.2	-.9	1.3
Balance on official reserve transactions basis, NSA.....	1.6	2.7	1.7	1.2	-1.0	.8
Financed by changes in:						
U.S. reserve assets (increase, -).....	-.9	-1.2	-(1)	-.3	-.7	-.2
Gold.....	1.2	-1.0	-.1	-.3	-(1)	-.7
Reserve position in IMF.....	-.9	-.8	-(1)	-.2	-.2	-.5
Convertible currencies.....	-1.2	.8	-.1	-.2	-.4	1.1
Liabilities to foreign reserve holders.....	-.8	-1.5	-1.7	-.9	1.7	-.7
Liquid.....	-3.1	-.5	-1.7	-.5	2.2	-.5
Nonliquid.....	2.3	-1.0	+(1)	-.4	-.5	-.2

NSA—Not seasonally adjusted.

<sup>p</sup> Preliminary

<sup>1</sup> Less than \$50 million.

<sup>2</sup> Including international organizations.

<sup>3</sup> In the accounts on this basis, "foreign capital flows" include changes in U.S. liquid liabilities to foreign commercial banks, to other private holders, and to international organizations, and exclude all transactions of foreign reserve holders.

NOTE.—Details may not add to totals because of rounding.

though the U.S. share of world exports of manufactures declined slightly. Exports advanced by about 8 per cent over the 1968 total, despite some loss of sales occasioned by the dock strike, and in the second half of 1969 they were 12 per cent higher than a year before. The year-to-year gain occurred despite a marked reduction in exports of agricultural products during the first half. As the year progressed, exports of machinery were especially strong and exports of coal and steel also advanced sharply. Exports of automotive products to Canada continued to rise as they have since the 1965 U.S.-Canadian automotive pact. Most of the export rise was in response to demands stemming from cyclically rising economic activity in the industrial countries.

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On the import side, there was a marked slowing in 1969 in the rate of intake of foreign goods as compared with the hectic pace of 1968, but the rise of 8 per cent still exceeded the rate of growth of our current-dollar GNP. Imports were rising in many major categories—most notably in capital goods, in autos from Europe and Japan as well as from Canada, and in other consumer goods. Imports of industrial materials and of foods were little changed from the already high levels of 1968. Thus, the momentum of import demand generated by the cyclical upswing appeared to be yielding, but only slowly, to efforts to stabilize the economy. The trade surplus for the year showed scant change from the \$0.6 billion of 1968, though by the second half the annual rate had recovered to about \$1.5 billion.

The decline in the balance on goods and services from 1968 to 1969 occurred principally in investment income flows. Income on U.S. private investments and assets abroad rose by \$1 billion to about \$8 billion, reflecting mainly higher earnings by foreign affiliates of U.S. firms. However, income paid to foreign holders of short-term and other claims rose by \$1.4 billion, as interest rates rose and such holdings increased. Net changes in receipts and payments for other services were relatively minor. Military expenditures abroad rose somewhat faster than receipts from military sales, leaving the net payments balance on these military transactions at well over \$3 billion.

#### TRANSFERS AND U.S. GOVERNMENT CREDITS

Private remittances, net, and U.S. Government pensions and other transfers were little changed in 1969, resulting in net payments of a little over \$1 billion. U.S. Government grants (other than military) held at close to \$1.7 billion. Disbursements under Government credits (including changes in related currency holdings) were down slightly for the year. Scheduled repayments on outstanding credits were about \$0.2 billion higher, partly because the United Kingdom resumed repayment of postwar credits on schedule, but there was a negative shift of some \$0.3 billion in nonscheduled receipts from foreign governments.

#### PRIVATE CAPITAL FLOWS

In 1969, as in the year before, the net flow of private capital was toward the United States and was undergoing marked changes in both size and composition. The net inflow in 1969 reached about \$8 bil-

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lion, which far exceeded the nearly \$5 billion of 1968, and was unparalleled, of course, in any earlier experience.

U.S. direct investors maintained a keen interest in expanding their productive facilities abroad, as evidenced by projections that indicated their expenditures for foreign plant and equipment would rise sharply in 1970. The financing of such investment through capital outflows from the United States, or from earnings retained abroad, has been limited by mandatory regulations since the beginning of 1968, but a great deal of leeway has been built up by the companies that stayed under their ceilings, and there was some loosening of the restraints in April 1969. Net corporate capital outflows associated with direct foreign investments (that is, capital outflows intended for direct investment less funds borrowed abroad) appear to have risen by about \$0.4 billion in 1969. Sales of new issues abroad to finance direct investments were cut in half—from \$2.1 billion to about \$1 billion—but the companies made up for this difference by adding very little to balances held abroad out of the proceeds of such new issues, which they had done in 1968 to the extent of \$1 billion.

U.S. banks increased their claims on foreigners subject to the Federal Reserve's foreign credit restraint program (pages 55–59) by a moderate amount during 1969, whereas they had reduced such claims substantially in the previous year. Claims on foreigners, reported by banks, of types not covered by the Federal Reserve restraint program also increased by a sizable amount in 1969.

U.S. net purchases of foreign securities amounted to about \$1.4 billion in 1969, slightly more than in 1968. New foreign bond issues sold here (very largely by Canadian borrowers and international institutions) remained at about \$1.6 billion, but there was some increase in U.S. purchases of foreign stocks.

While the outflow of U.S. private capital—influenced primarily by restrictions and tight credit conditions in the United States—did not change significantly in 1969, there was a dramatic shift in the behavior of foreign private investors. These investors were affected in several ways by the tightening of credit conditions in the United States and in most other countries during the year. One result was the greater difficulty encountered by U.S. companies seeking financing abroad for direct investments, as mentioned above. Similarly, after the early months of the year there was a reduced inflow into U.S. corporate stocks, resulting in a drop from a \$2.1 billion inflow in 1968 to about

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\$1.5 billion in 1969. Nevertheless, this rate of investment was still very high, and the continuation of the inflow in the winter when U.S. equity markets were declining indicated a persistent underlying demand. One type of long-term foreign capital inflow that grew significantly in 1969 was direct investments, which were estimated at a record high of \$0.7 billion, about double the previous high of 1968. Taking into account all forms of foreign private investments in U.S. long-term assets, the inflow in 1969 was about \$4.5 billion, compared with an extraordinary inflow of \$6 billion in 1968.

The decline in inflows of long-term private foreign capital was far more than offset by an acceleration of the increase in liquid liabilities to foreign commercial banks and other private foreigners as reported by U.S. banks. Additions to such liabilities reached \$8.8 billion in 1969, compared with an already high \$3.8 billion in 1968. About \$7 billion of the inflow took the form of an increase in liabilities of U.S. banks to their foreign branches, representing principally funds obtained in the Euro-dollar market. Liabilities to all commercial banks abroad, including these branches, rose by \$9.3 billion through July, then rose more moderately until the final weeks of the year, when they dropped back to about the midyear level.

Some part of the funds borrowed in the Euro-dollar market may have represented deposits of U.S. residents attracted by the much higher deposit rates paid there than on deposits in banks in the United States. Other parts may have been derived from transfers of private nonbank foreign funds previously held in U.S. banks, which were reduced by \$0.5 billion during the year, and from placements of funds by foreign central banks. However, the major supply factor in the market was the accumulation by private foreigners of dollar-denominated assets, typically purchased from foreign central banks, as an alternative to holding short-term investments or deposits denominated in other currencies.

In the first quarter of the year borrowing in the Euro-dollar market by U.S. banks was facilitated by a reflow of funds previously placed in German mark assets, and Euro-dollar interest rates moved up only moderately. By late April, however, renewed speculative flows into German marks, coupled with strong U.S. bank demand, were rapidly driving Euro-dollar interest rates to unprecedented highs. Although the speculative pressures were reversed in May, after the German authorities reiterated their intention not to revalue the currency upward, the demand



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by U.S. banks became intense in June. By that stage the pressure on reserves of a number of countries had become acute. In the United States there was some concern that large-scale use of Euro-dollars by some banks deflected the impact of domestic credit restraint. To remove the existing advantages with respect to reserve requirements of this means of adjustment, and to moderate the flow of funds between U.S. banks and their foreign branches and other foreign banks, on June 26 the Board of Governors proposed changes in Regulations M and D. The amendments finally adopted, which became effective in September, established a 10 per cent marginal reserve requirement on banks' borrowings from foreign branches and a reserve requirement on borrowings from unaffiliated foreign banks.<sup>1</sup> The banks were required to maintain the required reserves beginning in October.

Borrowings by U.S. banks through the Euro-dollar market moved within a relatively narrow range from about the end of July until near the year-end. At that time an extraordinarily large flow of funds to the United States produced a sharp drop in U.S. banks' liabilities to foreign branches. At the year-end liabilities to foreign branches were about \$13 billion, which represented—as noted earlier—an increase of \$7 billion for the year.

As a result of the year-end inflows, which apparently included also a considerable movement out of German marks, there was a surplus in the balance of payments measured on the liquidity basis in the fourth quarter, in contrast to very large deficits in the first three quarters when liquid liabilities accumulated. The deficit for the year on the liquidity basis amounted to \$7.0 billion. This was a drastic change from the small surplus for 1968, but the deterioration can be traced in large part to such transient features as the reversal of "special" intergovernmental transactions, which accounted for more than \$3 billion of the change and a net increase of perhaps \$2 billion in unrecorded outflows.

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<sup>1</sup> The marginal reserve requirement under Regulation M applies to a bank's net liabilities to its branches in excess of a reserve-free base amount, initially a May 1969 4-week average but subject to automatic reduction if average liabilities in a reserve-computation period fall below the base. Also covered are assets held by domestic offices at the time of the proposal and later sold to branches, and loans by branches to U.S. residents. An alternative reserve-free base equal to 3 per cent of total deposits subject to ordinary reserve requirements may be used by a bank; this base is not subject to automatic reduction. The special reserve requirement (under Regulation D) on borrowings from unaffiliated foreign banks is 10 per cent on the excess of such borrowings over 4 per cent of a bank's deposits, and 3 per cent up to that.

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As noted above, this probably included a circular flow of U.S. funds to the Euro-dollar market and back to U.S. banks, not entirely unwound at the year-end. The net balance of transactions other than "special" transactions or circular flows apparently worsened by about \$2 billion.

### OFFICIAL RESERVE TRANSACTIONS

As measured on the official settlements basis the U.S. balance of payments registered a surplus of nearly \$3 billion in 1969. The principal factor in the difference between the liquidity deficit and this surplus was the very large inflow of private funds through the borrowings of U.S. banks, described above, which had the effect of reducing U.S. liabilities to foreign official accounts and, at a further stage, of increasing U.S. reserve assets.

During the year U.S. international reserve assets increased by \$1.25 billion. The increase reflected purchases of nearly \$1 billion of gold by the U.S. Treasury from foreign monetary authorities, the addition of \$1 billion to the reserve position in the IMF, and a reduction of \$0.75 billion in holdings of convertible foreign currencies as a result of net repayments of earlier central bank swap drawings, notably by the United Kingdom. The increase in U.S. gold holdings resulted primarily from purchases from France in the first half of the year and from Germany at the year-end. Developments in 1969 affecting gold markets are discussed on pages 62-64.

The net reduction in U.S. liabilities to foreign monetary authorities was \$1.5 billion, compared with a decline of \$0.75 billion in 1968. About \$1 billion of the decline occurred in certain nonliquid claims on the U.S. Treasury and on U.S. commercial banks held by foreign monetary authorities; in 1968 such claims had increased by \$2.3 billion.

### FEDERAL RESERVE OPERATIONS IN FOREIGN CURRENCIES

Serious imbalances in international trade and payments kept the international financial system under strain in 1969—as in most recent years. Along with the developments in the U.S. balance of payments discussed above, particularly noteworthy were the persistence of large current-account surpluses for Germany and Japan and the continuation during part of the year of a large payments deficit for France. The U.K. balance of payments showed marked improvement, as the result of the

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November 1967 devaluation of the pound and subsequent policy actions restraining the British domestic economy.

By the end of the year important tendencies toward better balance had been set in motion by the devaluation of the French franc in August, which was accompanied by measures of domestic restraint, and by the revaluation upward of the German mark in October (following a 4-week period in which the exchange rate for the mark was allowed to float upward). But before these currency adjustments were initiated, massive speculative flows had occurred, especially into German marks—once in the spring and again in September after the French franc devaluation and before the German elections.

The French franc was under substantial selling pressure in the spring and early summer. Some other European currencies also experienced speculative buying and selling then and later, occasioned by expectations or fears that their parities might be adjusted along with that of one or the other of the major currencies. An additional cause of strain on the reserves of many continental European central banks during the first 7 months of 1969 was the massive flow of funds to the United States through the Euro-dollar market discussed above.

After the exchange rate for the mark was allowed to float at the end of September, a reverse flow of funds began—out of the German mark into other European currencies and the dollar. This flow continued to be heavy through the rest of the year.

As in earlier years, the Federal Reserve's foreign currency operations were aimed at cushioning the impact of destabilizing flows of international payments, in cooperation with foreign central banks and the U.S. Treasury. Foreign central banks continued to make substantial use of their swap facilities with the Federal Reserve during 1969. However, their repayments exceeded their drawings by \$1.0 billion, and total drawings outstanding at the end of the year were reduced to \$650 million. The Bank of France drew on the facility during the May speculative crisis, but by the end of June had repaid these and earlier drawings with the proceeds of gold sales and credits from other sources. Drawings were also made at times by the Netherlands Bank, the National Bank of Belgium, the National Bank of Denmark, and the Austrian National Bank, but these were all repaid by October. The Bank of England, which was able to retire a substantial amount of short-term indebtedness to foreign central banks during 1969, reduced its outstanding indebtedness under Federal Reserve swaps from \$1,150

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million to \$650 million. During the year the bank made new drawings on the facility during the periods of speculation on a mark revaluation in early May and in the summer.

The Federal Reserve, for its part, made less use of its network of swap facilities in 1969 than it had in any other year since 1963, the first full year of System foreign currency operations. This resulted from the fact that foreign reserve holdings in dollars were in many cases being reduced.

At the beginning of 1969 the Federal Reserve had about \$430 million of swap drawings outstanding in German marks and Swiss francs. The mark drawings were fully repaid by the end of January as funds continued to flow out of marks in the unwinding of the November 1968 speculative episode. The Swiss franc drawings were sharply reduced in February and were fully liquidated in April with the proceeds of a Swiss franc-denominated U.S. Treasury security issued to the Swiss National Bank. In the spring the System drew again on the facilities with both the Swiss National Bank and the Netherlands Bank, but by September it had repaid all swap drawings.

In October the Federal Reserve drew \$200 million of Swiss francs on the Swiss National Bank to cover increased dollar holdings of that bank resulting from repatriations by Swiss commercial banks as credit conditions tightened in Switzerland. It also drew \$300 million of guilders on the Netherlands Bank as Dutch residents repatriated funds from Germany and speculative funds moved into guilders. By year-end the outstanding amount of these Federal Reserve swap drawings had been reduced to \$330 million.

The Federal Reserve's reciprocal currency arrangements with 14 central banks and the BIS were increased by \$475 million during 1969 to a total of \$10,980 million. Facilities with the Bank of Norway, the National Bank of Denmark, the National Bank of Belgium, and the Austrian National Bank were increased and that with the Netherlands Bank decreased during the year.

#### **FOREIGN CREDIT RESTRAINT PROGRAM**

During 1969 the Board continued to administer that portion of the Government's balance of payments programs that applied to banks and other financial institutions, initially in accordance with guidelines revised on December 23, 1968, which were described in the **ANNUAL REPORT** for 1968.

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In issuing the revised guidelines in December 1968, the Board indicated its intention to review the program again early in 1969, particularly to determine whether additional flexibility for financing U.S. exports might be provided in the guidelines. During the first quarter of 1969, meetings were held in seven Federal Reserve Bank cities by representatives of the Board with officers of the Federal Reserve Banks and with representatives of banks and other financial institutions reporting to the Federal Reserve Banks under the program.

It was concluded that, while there was adequate capacity for the financing of exports under the existing aggregate ceiling, it would be possible to provide greater flexibility by giving relatively larger ceilings to small and medium-sized banks whose major interest in international lending was the financing of exports. At the same time, larger ceilings for these banks would reduce competitive inequities among reporting institutions. Accordingly, revised guidelines were issued by the Board on April 4, 1969.

For about half of the reporting banks, accounting for more than 90 per cent of total foreign assets reported, the ceilings remained at the level suggested by the guidelines issued in December 1968. The remaining banks, whose foreign assets were a relatively small proportion of their total assets, were permitted to calculate their ceilings at 1.5 per cent of total assets as of December 31, 1968. This provision added \$400 million to the aggregate ceiling of the banks.

The guidelines for nonbank financial institutions remained essentially unchanged although the ceiling was increased from 95 per cent of the end-of-1967 base figure to 100 per cent of the base.

A continued restrictive monetary policy and high domestic demand for credit held down the banks' foreign lending and investment during 1969. In fact, these factors may have had a greater impact than the foreign credit restraint program in moderating the foreign activities of financial institutions. As described in the ANNUAL REPORT for 1968, the banks had reduced their foreign claims covered by the guidelines by \$612 million in 1968, or by \$212 million more than the objective set on January 1, 1968. These assets fluctuated during 1969 and at the year-end were \$165 million above the total outstanding on December 31, 1968. At the end of 1969 such assets were about \$75 million below the December 31, 1964, base figure (Table 9).

Nonbank financial institutions reduced their holdings of foreign assets subject to the guideline ceiling by \$174 million in 1969 (Table

10). Such holdings had declined by \$240 million in 1968, considerably more than the targeted reduction of \$100 million. Holdings of foreign assets not subject to the ceiling were increased by \$1,055 million in 1969, compared with an increase of \$632 million in 1968.

TABLE 9: FOREIGN CREDITS OF U.S. BANKS

Item	End of year				1969			
	1965	1966	1967	1968	Mar. 31	June 30	Sept. 30	Dec. 31
Number of reporting banks . . .	161	148	151	161	159	162	167	169
	Millions of dollars							
Total foreign credits subject to								
General Ceiling . . . . .	9,652	9,496	9,865	9,253	9,127	9,502	9,115	19,403
Change from previous date . . . . .	+156	-156	+369	-612	-126	+375	-387	+288
Ceiling . . . . .	9,973	10,360	10,409	9,729	9,706	10,102	10,135	210,092
Net leeway for further expansion of credit . . . . .	321	864	544	476	578	600	1,020	3689
Export term loans subject to ceiling <sup>1</sup> . . . . .								16
Export-Term-Loan Ceiling . . . . .								1,614
Net leeway for further expansion of export term loans . . . . .								1,598

<sup>1</sup> From Dec. 1, 1969, excludes export term loans.

<sup>2</sup> From Dec. 1, 1969, General Ceiling, excluding Export-Term-Loan ceiling.

<sup>3</sup> From Dec. 1, 1969, leeway under General Ceiling.

<sup>4</sup> Foreign credits with maturities of 1 year or longer that finance exports of U.S. goods and services

On December 17, 1969, in connection with a modest modification of the Government's balance of payments programs, the Board issued revised guidelines for banks and nonbank financial institutions. For the first time, a separate Export-Term-Loan Ceiling was established for credits with a maturity of 1 year or longer extended to finance exports of U.S. goods and services shipped or provided on or after December 1, 1969. Banks also were provided with a General Ceiling, equal to their adjusted ceiling as of November 30, 1969, within which they could make loans of any maturity and for any purpose. However, in using the General Ceiling, the banks were requested to continue to observe an absolute priority for export credits, and in making non-export credits, to meet the needs of the developing countries. The General Ceiling continued to be reduced by repayments of nonexport term loans to residents of developed countries of continental Western Europe. In addition, repayments of export term loans outstanding

when the revision was made were to be deducted from the General Ceiling and added to the Export-Term-Loan Ceiling.

The Export-Term-Loan Ceiling was calculated at 0.5 per cent of a bank's total assets as of December 31, 1968. Adoption of this formula

TABLE 10: FOREIGN ASSETS OF REPORTING NONBANK FINANCIAL INSTITUTIONS

Amounts shown in millions of dollars

Type of asset	Amount Dec. 31, 1969	Change from Dec. 31, 1968	
		Amount	Per cent
<b>ASSETS SUBJECT TO GUIDELINE</b>			
Deposits and money market instruments, foreign countries except Canada . . . . .	15	1	9.8
Short- and intermediate-term credits, foreign countries except Canada <sup>1</sup> . . . . .	205	-26	-11.2
Long-term investments, "other" developed countries: <sup>2</sup>			
Investment in financial businesses <sup>3</sup> . . . . .	129	17	15.5
Investment in nonfinancial businesses <sup>3</sup> . . . . .	9	1	12.4
Long-term bonds and credits . . . . .	546	-67	-10.9
Stocks <sup>3</sup> . . . . .	352	-101	-22.3
<b>TOTAL holdings of assets subject to guideline . . . . .</b>	<b>1,257</b>	<b>-174</b>	<b>-12.1</b>
Adjusted base-date holdings <sup>6</sup> . . . . .	1,491	-89	-5.6
<b>ASSETS NOT SUBJECT TO GUIDELINE</b>			
<b>Investments in Canada:</b>			
Deposits and money market instruments . . . . .	220	91	70.9
Short- and intermediate-term credits <sup>1</sup> . . . . .	168	21	14.1
Investment in financial businesses <sup>3</sup> . . . . .	625	34	5.8
Investment in nonfinancial businesses <sup>3</sup> . . . . .	44	(4)	-1
Long-term bonds and credits . . . . .	8,286	374	4.7
Stocks . . . . .	1,319	-18	-1.3
Bonds of international institutions, all maturities . . . . .	1,002	15	1.5
<b>Long-term investments in the developing countries and in Japan:</b>			
Investment in financial businesses <sup>3</sup> . . . . .	26	3	14.6
Investment in nonfinancial businesses <sup>3</sup> . . . . .	12	2	24.2
Long-term bonds and credits . . . . .	787	17	2.2
Stocks . . . . .	503	316	169.4
Stocks, "other" developed countries <sup>7</sup> . . . . .	569	199	53.7
<b>TOTAL holdings of assets not subject to guideline . . . . .</b>	<b>13,563</b>	<b>1,055</b>	<b>8.4</b>

<sup>1</sup> Bonds and credits with final maturities of 10 years or less at date of acquisition.

<sup>2</sup> Developed countries other than Canada and Japan.

<sup>3</sup> Net investment in foreign branches, subsidiaries, or affiliates, in which the U.S. institution has ownership interest of 10 per cent or more.

<sup>4</sup> Less than \$500,000.

<sup>5</sup> Except those acquired after Sept. 30, 1965, in U.S. markets from U.S. investors.

<sup>6</sup> 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.

<sup>7</sup> If acquired after Sept. 30, 1965, in U.S. markets from U.S. investors.

added about \$1.6 billion to the aggregate ceiling and distributed it more widely among banks. Twenty of the Nation's largest banks accounted for about three-quarters of the General Ceiling, which is calculated as a percentage of foreign assets. These banks received slightly

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more than one-half of the new Export-Term-Loan Ceiling. At the year-end reporting banks were about \$700 million below the General Ceiling effective on that date, and they also had a leeway of \$1.6 million within which to make export term loans (Table 9).

The guidelines for nonbank financial institutions contained only one substantive change. In view of Japan's strong reserve and balance of payments position, special treatment accorded to long-term investment in that country was terminated. Long-term loans and investments in Japan after January 1, 1970, were to be counted against the reporting institution's ceiling under the guidelines. Each institution's ceiling was revised to include any such loans and investments held on December 31, 1969.

### INTERNATIONAL MONETARY ARRANGEMENTS AND THE IMF

Important developments in international monetary arrangements in 1969 centered in, or were closely related to, the structure and operations of the International Monetary Fund. The outstanding event, which marked the culmination of years of study and negotiation, was the launching of a system for the deliberate creation of international reserve assets. After completion of the process of amending the IMF Articles of Agreement to establish the legal framework for the system of Special Drawing Rights, the Fund in October made the decision to allocate SDR's for the first period, a period of 3 years beginning January 1, 1970.

The establishment of the SDR system and the decision to begin creation of SDR's were of landmark significance for orderly growth of international liquidity. Also important to the sound growth of international liquidity in the years ahead was the Fund's decision to recommend to its members a substantial increase in quotas.

A development that had immediate stabilizing effects was the settlement of the question of the circumstances under which the Fund will buy gold from South Africa. Toward the year-end, expectations that this question would soon be settled appeared to have reinforced other influences that had already caused a marked easing in free-market prices of gold during the summer and the autumn.

The year was also marked by open discussion of the possible desirability of a limited increase in the flexibility of exchange rates and by a decision of the IMF to continue its study of this subject.



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## AMENDMENT OF THE ARTICLES OF AGREEMENT

In 1969 the IMF Articles of Agreement were amended for the first time since their entry into force on December 27, 1945. The main purpose of the amendment was to establish the legal framework for the system of SDR's. Certain changes in Fund rules and practices relating to its traditional operations were also made.

The Outline Plan for SDR's had been agreed upon at the annual meeting of the Fund's Board of Governors held at Rio de Janeiro in September 1967. At Stockholm, in March 1968, a consensus on controversial issues had been reached by the Ministers and the Governors of the central banks of the Group of Ten. On these bases, the detailed text of the amendment was prepared by the Executive Directors, recommended by them on April 16, 1968, and approved by the Fund's Board of Governors on May 31, 1968. The amendment entered into force on July 28, 1969, following its acceptance—as required under the Articles—by three-fifths of the Fund's member countries representing four-fifths of the total voting power.

The amended Articles of Agreement establish two separate accounts in the Fund, a General Account and a Special Drawing Account. The traditional operations and transactions of the Fund are carried out through the General Account, while the Fund's functions relating to SDR's are carried out through the Special Drawing Account. In order to become a participant in the Special Drawing Account, a member country of the Fund—and only Fund members are eligible to become participants—must deposit with the Fund an instrument setting forth that it undertakes all the obligations of a participant in that Account. But no member could become a participant until instruments of participation had been deposited by members having at least 75 per cent of total quotas in the Fund. This requirement was fulfilled on August 6, 1969.

The main features of the SDR system were summarized in the ANNUAL REPORT of the Board of Governors of the Federal Reserve System for 1968 (pages 329 and 330).

## ALLOCATION OF SPECIAL DRAWING RIGHTS

The main event of the annual meeting of the IMF in 1969 was the approval by the Governors of the proposal by the Managing Director for the allocation of SDR's for the "first basic period."

SDR's come into existence via "allocation" of them to each member

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country that is a participant in the Special Drawing Account and that wishes to receive an allocation. A decision to allocate SDR's is made by the Board of Governors of the Fund on the basis of a proposal of the Managing Director concurred in by the Executive Directors—a decision to cancel SDR's would be made in the same way. A decision to allocate covers a basic period of 5 years (running consecutively), unless the Fund decides otherwise.

Before making any allocation proposal, the Managing Director "shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal." And before making the proposal for the first allocation, the Managing Director had to assure himself: that a collective judgment existed that there was a global need to supplement reserves; that a better balance of payments equilibrium had been attained; and that there was a likelihood of a better working of the balance of payments adjustment process in the future. (All these provisions form part of Article XXIV.)

On September 12 the Managing Director, having conducted the necessary consultations and having assured himself of the existence of the conditions just referred to, made a proposal to the Fund Governors, with the concurrence of the Executive Directors. The essential features of the proposal were as follows: (1) The first basic period would run for 3 years beginning on January 1, 1970; (2) allocations during this basic period would be made on January 1 in each of the years 1970 through 1972, on the basis of quotas on the day before the allocation dates; and (3) the total amounts of SDR's allocated on the three allocation dates would be approximately as follows: \$3.5 billion, \$3 billion, and \$3 billion, respectively, or a total of about \$9.5 billion for the 3 years.

On October 3 the Fund Governors, assembled in their annual meeting, approved the Managing Director's proposal. On January 1, 1970, in accordance with this decision and the terms of the Articles of Agreement as amended, the Fund allocated \$3,414 million of SDR's to 104 participants. Of the total amount allocated the United States received \$866.9 million of SDR's.

#### PROPOSED INCREASE IN QUOTAS

Under Section 2 of Article III of the Fund Agreement, the Fund is required to conduct periodically a general review of quotas and to propose an adjustment of them if it deems such action appropriate.

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Increases made following general reviews in 1958 and 1965 (together with additions of new members and occasional adjustments of individual quotas) raised total quotas from the original \$7 billion to about \$21 billion at the end of 1969.

In 1969, with another general review of quotas due in 1970 at the latest, a new factor was present in the weighing of the pros and cons of quota increases. This was the growing possibility of early activation of the SDR system, which gave rise to new considerations. On the one hand, some countries tended to feel that provision for unconditional liquidity in the form of SDR's (to the extent that SDR use is unconditional) would reduce the need for more conditional liquidity under larger quotas. On the other hand, the fact that SDR allocations are based on the quotas of participants tended to give every participant or potential participant in the SDR system a somewhat greater interest in enlarging its own quota (in the forthcoming new round of quota increases) than it would otherwise have had, although other considerations also strengthened the desire of some countries for larger quotas.

At its 1969 annual meeting the Board of Governors of the Fund requested the Executive Directors to submit an appropriate proposal by December 31 for the adjustment of members' quotas. In December the Executive Directors, having completed the fifth general review of quotas, submitted their proposal. If each member country were to avail itself of the maximum increase proposed for it, total Fund quotas would rise to \$28.9 billion, an increase of 35.5 per cent from total quotas as of the end of December 1969. The U.S. quota could rise to \$6,700 million from its present level of \$5,160, an increase of 30 per cent.

Under the proposal, no increase will take place before October 30, 1970; and members will be able to consent to the proposed increases in their quotas at any time on or before November 15, 1971.

## DEVELOPMENTS RELATING TO GOLD

Under the two-tier system of gold marketing established 2 years ago by the communiqué issued in Washington on March 17, 1968, by the central bank Governors of the seven active member countries of the then existing Gold Pool, central banks generally have neither sold gold in private gold markets nor bought gold there. (For the text of the

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communiqué see the Federal Reserve *Bulletin* for March 1968, page 254. The two-tier system was discussed in the ANNUAL REPORT of the Board of Governors for 1968, pages 331 and 332.) Since that time, and especially in the closing months of 1969, the question of the appropriate handling of newly mined South African gold and reserves within the framework of the two-tier system has been discussed among officials of the United States, South Africa, certain other countries, and the IMF.

On December 16 the U.S. Treasury, in a statement referring to those discussions, suggested that a basis for a satisfactory mutual understanding might be emerging and noted that it was anticipated that the discussions would subsequently be pursued in the framework of the IMF. The question was settled before the end of the year by an arrangement embodied in an IMF decision announced by the Fund on December 30. In its announcement the Fund said it would buy gold offered to it by South Africa whenever the latter indicates that the offer is in accord with the South African policy statement set forth on December 23 in a letter to the Managing Director. In a letter of December 24 to the Managing Director the U.S. authorities indicated their willingness to support IMF decisions to buy gold offered by South Africa under the conditions outlined in the South African letter, assuming that there is an understanding among Fund members generally that they do not intend to initiate official gold purchases directly from South Africa.

In general, the arrangement provides that when the market price of gold is \$35 per ounce or less, the Fund will buy gold from South Africa in amounts related to South Africa's current needs for foreign exchange. In addition, the Fund may buy gold from South Africa in limited amounts when the market price is above \$35 per ounce, under circumstances specified in the South African letter.

The three documents mentioned above—the IMF announcement, the South African letter, and the U.S. letter—were published in the Federal Reserve *Bulletin* for January 1970, pages 107–10.

Throughout the first 3 months of 1969, gold prices in private markets had advanced fairly steadily, reaching \$43.80 per ounce on the London market in early March—the high for the year on that market. Factors contributing significantly to this rise were the general absence of new production coming into the market, increased tensions

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in the Middle East, and purchases by French residents increasingly concerned about the parity of the French franc.

In early June prices dropped to around \$41 per ounce, probably because of the obvious imminence of ratification of the plan for SDR's, the rising cost of holding gold as interest rates advanced rapidly in all major European money markets and in the Euro-dollar market, and an increase in the amount of new gold production coming on the market with the waning of earlier strength in the balance of payments position of South Africa.

After a temporary firming in July to about \$42, gold prices declined more or less steadily from early August to late October, at which time the price on the London market was about \$40. The French devaluation in August, the general relaxation of tensions in foreign exchange markets after the revaluation of the German mark in October, and an increase in market offerings of newly produced gold by South Africa to finance its worsening balance of payments position—all of these contributed to the easing. Downward pressures on market prices of gold were reinforced by a growing belief that the question of South African gold sales to the IMF might be nearing settlement.

In early November gold prices began to decline quite rapidly, and by December 9 the price of gold on the London market had fallen to the official level. During the remainder of December the price ranged between \$35 and about \$35.30.

#### STUDY OF GREATER EXCHANGE-RATE FLEXIBILITY

The question whether somewhat greater flexibility should be introduced into the exchange-rate system has come increasingly to the fore in recent years. Most of the attention has centered on two proposals: one, some increase in the margins within which rates for currencies of IMF member countries may fluctuate in spot markets; and two, a system for parity-rate changes limited in their annual amounts, this system being known by such terms as the crawling peg, the sliding or gliding parity, and the self-adjusting peg. Promulgated initially by some of the academic economists who believe that systems of freely floating exchange rates (favored by many other economists) are undesirable, or unacceptable to government authorities, or both, these proposals have become of increasing interest to some businessmen and bankers, as well as to government officials, in many countries.

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One reason for the rise of interest in greater exchange-rate flexibility has been growing awareness that, under the Bretton Woods system of exchange-rate adjustment as it has evolved thus far, changes in rates are sometimes delayed too long and that such delays frequently result in prolonged periods of economic uncertainty and market disruption. Another reason, particularly influential among the U.S. businessmen and bankers who have become interested in these proposals, has been the belief that some increase in exchange-rate flexibility might from their point of view be preferable to the increase of direct restrictions on international transactions that many of them regard as likely to develop if payments imbalances are not adjusted more smoothly.

In their annual report for 1969 the Executive Directors of the IMF disclosed that in the past year they had discussed extensively the mechanism by which exchange rates can be changed, considering the subject "in the framework of the international adjustment process and with a view to a better working of the international monetary system." They plan to continue to study this subject. At the 1969 annual meeting the question of greater exchange-rate flexibility was touched on for the first time by many of the Fund's Governors. Although most of the speakers stressed the need for caution in considering fundamental changes in the existing exchange-rate system, all in effect endorsed the plan for further study of the subject by the Fund. □

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*Part 2*  
*Records, Operations, and*  
*Organization*

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# *Record of Policy Actions of the Board of Governors*

JANUARY 7, 1969

## **AMENDMENT TO REGULATION K, CORPORATIONS EN- GAGED IN FOREIGN BANKING AND FINANCING UNDER THE FEDERAL RESERVE ACT.**

Effective January 7, 1969, Regulation K was amended to reinstate a general consent for "Edge" and "agreement" corporations to make certain investments in foreign businesses.

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

Votes against this action: None.

A previous general consent was eliminated temporarily from Regulation K in February 1968 in connection with the U.S. balance of payments program then in effect. As a result, all equity investments abroad by member banks and Edge or agreement 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 of Governors. The Board now deemed it appropriate to reinstate its general consent for any Edge or agreement corporation to invest, directly or indirectly, in the shares of foreign corporations not doing business in the United States, provided that no such investment would cause the Edge or agreement corporation to have invested more than \$500,000 in the shares, or to hold more than 25 per cent of the voting shares, of any such foreign corporation.

JANUARY 10, 1969

## **ADOPTION OF REGULATION P, MINIMUM SECURITY DE- VICES AND PROCEDURES FOR FEDERAL RESERVE BANKS AND STATE MEMBER BANKS.**

Effective January 13, 1969, a new Regulation P was adopted to implement the Bank Protection Act of 1968 with respect to Federal Reserve



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Banks and to State chartered banks that are members of the Federal Reserve System.

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

Absent and not voting: Messrs. Daane and Brimmer.

The new regulation: (1) provided minimum standards for security devices and procedures both to discourage robberies, burglaries, and larcenies involving financial institutions and to facilitate the identification and apprehension of persons committing such crimes; (2) established time limits for compliance and procedures for reporting on compliance; and (3) assured flexibility in the application of such standards to accommodate differing circumstances of individual banking offices.

JANUARY 27, 1969

#### DISAPPROVAL OF PROPOSED DISCOUNT RATE INCREASE.

The Board disapproved action taken by the executive committee of the Board of Directors of the Federal Reserve Bank of St. Louis on January 23, 1969, establishing a rate of 6 per cent (rather than 5½ per cent) on discounts for and advances to member banks under Sections 13 and 13a of the Federal Reserve Act, along with appropriately corresponding subsidiary rates on advances under other sections of the Act.

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

Votes against this action: None.

The discount rate of the Federal Reserve Banks had been increased from 5¼ to 5½ per cent in December 1968, at which time the Board had reviewed carefully the arguments in favor of an increase of ½ percentage point, the amount of increase that had originally been

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voted by the directors of two Federal Reserve Banks, including St. Louis. The Board decided that a  $\frac{1}{4}$  point advance, together with the firmer stance in open market policy that had just been adopted by the Federal Open Market Committee, would be sufficient in the economic circumstances then existing.

In proposing now that the discount rate be raised to 6 per cent, the St. Louis directors noted that such a move would place the rate closer to its historical relationship with other money market rates and would reduce the incentive for member banks to borrow from the Federal Reserve Banks. Further, in the opinion of the directors, the recent slowing that had occurred in the rate of growth of commercial bank credit reflected a rechanneling of funds around the banks, with little net effect on total credit extended in the economy, more than it represented evidence of monetary restraint. In their view a realignment of the discount rate with current market rates would indicate to the public that the Federal Reserve was in earnest in combating the prevailing strong inflationary expectations.

After consideration of the proposal the Board of Governors concluded that an increase in the discount rate at this juncture would not be appropriate in light of the imminent Treasury refinancing, the terms of which were to be announced within the next few days. Moreover, apart from the refinancing, the Board had reservations as to whether a discount rate increase, particularly one of as much as  $\frac{1}{2}$  percentage point, was called for by prevailing and prospective economic and financial conditions. The Board advised the St. Louis Bank, however, that its disapproval of the proposed rate increase should not be construed as indicating that the Board would not be prepared at a later date to consider whatever discount rate action the directors might believe to be justified, depending on all of the circumstances then existing. The Board noted that if there appeared to be a need for further monetary tightening, an adjustment could be made through use of one or more of the several instruments of monetary policy, including perhaps the discount rate, and that the Board would be considering these possibilities.

The effect of the Board's action was that the rates on discounts and advances contained in the existing rate schedule of the St. Louis Bank continued in effect.

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JANUARY 29, 1969

**ADOPTION OF REGULATION Z, TRUTH IN LENDING.**

Effective July 1, 1969, a new Regulation Z was adopted to implement Title I (Truth in Lending Act) and Title V (General Provisions) of the Consumer Credit Protection Act.

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

Votes against this action: None.

The new regulation was designed to assure meaningful disclosure so that consumers would be able to compare more readily the various credit terms available to them and avoid the uninformed use of credit. It provided that in most cases the cost of consumer credit must be expressed in the dollar amount of finance charge and as an annual percentage rate computed on the unpaid balance of the amount financed. Other relevant credit information was also required to be disclosed.

The regulation also provided, as required by the Act, that a customer had a right in certain circumstances to cancel a credit transaction that involved a lien on his residence. Advertising of consumer credit terms was required to comply with specific provisions, and credit terms were not permitted to be advertised unless the creditor usually and customarily extended such terms.

Neither the Act nor the regulation was intended to control charges for consumer credit, or to interfere with trade practices except to the extent that such practices might be inconsistent with the purpose of the Act.

MARCH 17, 1969

**AMENDMENTS TO REGULATION H, MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM.**

Effective March 18, 1969, Regulation H was amended in certain technical respects.

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

The effect of these technical amendments was (1) to authorize Federal Reserve Banks, for good cause shown, to extend the time for publishing of reports of condition by State member banks, and (2) to permit or require a published report of condition to differ from the report submitted to the Reserve Bank in various respects. These amendments were necessitated by certain changes in the call report procedures that had recently been approved by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

MARCH 27, 1969

**REVISION OF FOREIGN CREDIT RESTRAINT PROGRAM  
GUIDELINES.**

Effective April 4, 1969, the guidelines covering foreign credits and investments by U.S. banks and other financial institutions were revised.

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

Absent and not voting: Messrs. Robertson,  
Daane, and Maisel.

The voluntary foreign credit restraint program, in force since February 1965, had last been revised in December 1968, when guidelines for 1969 were issued. At that time the Board had concluded that U.S. balance of payments prospects for 1969 did not permit any basic change in the program. However, the Board announced that it was planning to reexamine the program early in 1969 to determine whether additional flexibility for financing U.S. exports might be provided in the guidelines. The current revisions in the guidelines were designed for that purpose and to reduce inequities in the program among banks of different size.

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APRIL 3, 1969

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

Effective April 4, 1969, the Board approved actions that had been taken by the boards of directors of all of the Federal Reserve Banks except Boston establishing a rate of 6 per cent (rather than 5½ per cent) on discounts for and advances to member banks under Sections 13 and 13a of the Federal Reserve Act.

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

Pursuant to the policy established by this action, the Board subsequently approved the same rate for the Federal Reserve Bank of Boston effective April 8, 1969.

Effective the same dates the Board approved for the respective Federal Reserve Banks a rate of 6½ per cent (rather than 6 per cent) on advances to member banks under Section 10(b) of the Federal Reserve Act. In addition the Board approved for most of the Banks increases 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 December 1968, as described on pages 95-97 of the Board's ANNUAL REPORT for 1968.)

**2. AMENDMENT TO REGULATION D, RESERVES OF MEMBER BANKS.**

Effective for the reserve computation period beginning April 17, 1969, and with applicability to average deposits for the period April 3-9, 1969, the Supplement to Regulation D was amended to increase by ½ percentage point the reserve requirement against demand deposits at all member banks.

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

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In December 1968, as recorded in the Records of Policy Actions of the Board of Governors and the Federal Open Market Committee contained in the Board's ANNUAL REPORT for 1968, the Federal Reserve System embarked on a policy of increased monetary restraint, in recognition of the continued excessive strength of economic expansion, the accompanying resurgence of inflationary expectations, and the adverse impact of rapidly rising domestic prices on the country's balance of payments. At that time the Federal Open Market Committee voted to foster firmer conditions in money and short-term credit markets, and the Board of Governors approved an increase in the Federal Reserve Bank discount rate from  $5\frac{1}{4}$  to  $5\frac{1}{2}$  per cent. The Board had also considered the arguments for an increase of  $\frac{1}{2}$  percentage point in the discount rate and for an increase in reserve requirements, but it had concluded that the actions then taken were adequate in the current economic circumstances and that further steps should await an assessment of the impact of those firming actions.

Details of the intervening economic and financial developments may be found in the Record of Policy Actions of the Federal Open Market Committee beginning on page 95 of this ANNUAL REPORT. The actions now taken on the discount rate and on reserve requirements constituted a further move against inflation that was considered necessary in the light of those developments.

The reserve requirement action meant that the nearly 6,000 member banks of the Federal Reserve System had to set aside as reserves an additional \$650 million, approximately \$375 million at reserve city banks and \$275 million at other member banks. The requirement at reserve city banks was raised from  $16\frac{1}{2}$  to 17 per cent on net demand deposits under \$5 million and from 17 to  $17\frac{1}{2}$  per cent on net demand deposits over \$5 million. The top rate of  $17\frac{1}{2}$  per cent was the highest since 1960. The increases for other member banks were from 12 to  $12\frac{1}{2}$  per cent on demand deposits under \$5 million and from  $12\frac{1}{2}$  to 13 per cent on those over \$5 million.

The new discount rate of 6 per cent was the highest in 40 years.

Governor Maisel, who voted for the discount rate increase but against the increase in reserve requirements, stated that he had no disagreement with the majority of the Board on either the ultimate goal being sought for the economy or with the view that demand for

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output and services was continuing to rise at an inflationary pace. However, current money market relationships had, for the preceding 5 months, led to modest growth in most monetary aggregates, a sharp rise in interest rates, and a rapid reduction of bank liquidity, and the existing relationships appeared to him proper to sustain a long period of noninflationary growth of money and credit. He concluded that until evidence arose that the demand for funds was leading to an undesirable upward shift in the rate of monetary expansion, an increase in reserve requirements was not called for.

APRIL 4, 1969

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

Effective April 4, 1969, Regulation A was amended in respect to obligations eligible as collateral for advances.

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

Absent and not voting: Messrs. Martin and Sherrill.

This action eliminated the authorization in Regulation A for Federal Reserve Banks to make 90-day advances to member banks on the security of certificates of interest issued by the Commodity Credit Corporation in a pool of notes evidencing loans made by the Corporation pursuant to a commodity loan program. Simultaneously the Board issued an amended interpretation relating to obligations eligible as collateral for advances, to add CCC certificates of interest in a price-support loan pool to the list of eligible obligations. The list included direct obligations of, and obligations fully guaranteed as to principal and interest by, the United States or any agency thereof.

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MAY 28, 1969

**DISAPPROVAL OF PROPOSED DISCOUNT RATE INCREASE.**

The Board disapproved action taken by the executive committee of the Board of Directors of the Federal Reserve Bank of St. Louis on May 22, 1969, establishing a rate of 7 per cent (rather than 6 per cent) on discounts for and advances to member banks under Sections 13 and 13a of the Federal Reserve Act, along with appropriately corresponding subsidiary rates on advances under other sections of the Act.

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

Votes against this action: None.

The directors of the St. Louis Bank had proposed the action on the grounds that it would bring the discount rate into better alignment with relevant market interest rates and would reduce the incentive for member banks to make excessive use of the Federal Reserve discount window. The directors, who saw little evidence of a change in economic indicators to suggest a lessening of current inflationary pressures, also believed that an increase of 1 percentage point in the discount rate might help to convince the public that the Federal Reserve was serious in resisting the inflation and might therefore help to reduce inflationary expectations and hasten a turnaround in interest rates.

The St. Louis directors again proposed a 7 per cent discount rate on June 9 and June 12, 1969, for substantially the same reasons.

The Board decided to disapprove the proposed rate increase on the basis that it would be untimely in the light of prevailing conditions and uncertainties in financial markets. While the 6 per cent discount rate was generally out of line with short-term market interest rates, the Board noted that no difficulties appeared to have developed in member bank use of the discount window that administrative procedures could not deal with satisfactorily. The Board advised the Reserve Bank, however, that its decision to disapprove the proposed discount



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rate was taken without prejudice to any future consideration of such discount rate action as the Bank's directors might deem appropriate in the prevailing circumstances.

The directors of the following Reserve Banks also submitted proposed discount rate increases to the Board, for reasons generally similar to those given by the St. Louis directors, and these proposed rates were likewise disapproved by the Board, the action in each instance being by unanimous vote of the members present:

Bank	Date of directors' action	Proposed rate
Chicago	June 12	7
Boston	June 16	6½
Chicago	June 26	7
Kansas City	July 10	7
Chicago	July 24	7

The effect of the Board's actions was that the existing discount rate schedules of the respective Banks automatically continued in effect.

**JUNE 2, 1969**

#### **AMENDMENTS TO MARGIN REGULATIONS.**

1. Effective July 8, 1969, Regulations G, T, and U were amended principally to implement the provisions of P.L. 90-437, adopted in 1968, which authorized the Board to expand the margin regulations to cover credit extended for the purchase of over-the-counter stocks.

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

Absent and not voting: Messrs. Daane and Brimmer.

(With these amendments, the regulations were issued under new titles as follows: G, Securities Credit by Persons Other Than Banks, Brokers, or Dealers; T, Credit by Brokers and Dealers; and U, Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks.)

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Margin regulations limit generally the amount of credit that may be obtained to purchase securities. Previously, the requirements imposed by those regulations had applied to stocks that were registered on a national securities exchange. The main purpose of the amendments now adopted by the Board was to extend the margin regulations to cover credit extended for the purchase of certain over-the-counter stocks.

The amendments included the criteria that would be employed in selecting over-the-counter stocks that would become subject to margin requirements, and the Board announced that an initial list of such stocks subject to margin would be published on July 8, 1969, the date the amendments were to become effective.

The amendments also: (1) exempted from margin regulation bank loans to broker-dealers against inventory positions in over-the-counter stocks when such credit was used to make a bona fide market in those stocks; (2) broadened the definition of "creditor" in Regulation T to cover all brokers and dealers and thus bring under the new margin requirements all brokers and dealers handling over-the-counter accounts exclusively; (3) limited the exemption from margin regulation available through a special omnibus account to members of national stock exchanges and brokers and dealers registered with the Securities and Exchange Commission; and (4) clarified the application of Regulations G and U to loans on mutual funds.

Under the announced criteria, over-the-counter stocks subject to margin requirements would have characteristics similar to stocks registered on national exchanges.

The amendments provided that margin requirements would apply only to loans made after July 8, 1969, to purchase or carry over-the-counter stocks on the Federal Reserve list or debt securities convertible into such stocks.

Clarifying changes unrelated to implementing P.L. 90-437 included changes in one section of Regulation G regarding stock option and employee stock purchase plans. Governor Maisel dissented from these particular changes because he regarded them as a tightening rather than a clarification and his inclination was to relax in this area rather than tighten.

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2. Effective September 1, 1969, Regulations G, T, and U were amended to limit the amount of credit permitted to be extended in connection with the purchases of equity funding plans or programs.

Votes for this action: Messrs. Martin, Robertson, Mitchell, and Sherrill. Vote against this action: Mr. Maisel.

Absent and not voting: Messrs. Daane and Brimmer.

Equity funding plans or programs offer a customer a package of mutual fund shares and life insurance, the shares being pledged as collateral for a loan to pay the insurance premium. The Board concluded that there would be a serious potential for a new kind of credit expansion in the securities field if loans made in connection with such plans or programs were left entirely outside the margin regulations. On the other hand, the Board desired to permit the equity funding industry to continue to operate without serious dislocation, which dislocation seemed likely if the same margin requirement (80 per cent) were prescribed as for exchange-listed stocks. Accordingly, after consideration of comments received on proposed changes in the margin regulations, and after an oral presentation at which industry representatives were given an opportunity to present their views, the Board set the margin requirement for such plans or programs sold after August 31, 1969, at 60 per cent. This meant that a lender would be able to finance \$40 in insurance premiums for every \$100 in mutual funds bought by a customer.

Governor Maisel dissented because he felt that the potential for credit expansion and abuse was minor. The Board ought not to feel that it was derelict in its duty if it avoided regulating each possible area of credit use. This was particularly true when programs had desirable aspects and threatened no ill effects to the economy.

JUNE 16, 1969

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

Effective August 1, 1969, Regulation Q was amended to incorporate regulations governing the advertising of interest paid on deposits by member banks of the Federal Reserve System.

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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 adoption by the Board of regulations governing the advertising of interest paid on deposits by member banks of the Federal Reserve System implemented the authority granted to the Board in the Act of September 21, 1968 (P.L. 90-505). Similar regulations were issued by the Federal Deposit Insurance Corporation and by the Federal Home Loan Bank Board with respect to institutions under their supervision.

The new rules, which superseded advertising guidelines set forth in a 1966 statement of policy, provided that any member bank that advertised a percentage yield on deposits based on 1 year was required to include an equally prominent disclosure of the simple interest rate, together with reference to the method of compounding. Advertising of percentage yields based on periods in excess of 1 year was prohibited.

JULY 1, 1969

#### **ADOPTION OF SUPPLEMENT TO REGULATION Z, TRUTH IN LENDING.**

Effective immediately, the Board adopted Supplement II to Regulation Z, which supplement set forth rules and procedures the Board would follow in granting exemption of State-regulated credit disclosures from Federal truth-in-lending requirements.

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

Absent and not voting: Messrs. Daane, Brimmer, and Sherrill.

A section of the Federal Truth in Lending Act provided machinery under which the Board could exempt certain consumer credit transac-

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tions in States that have substantially similar State laws with adequate provision for enforcement. The Board's Regulation Z contained a statement that on or before July 1, 1969, the effective date of the regulation, the Board would promulgate and publish a supplement setting forth the procedures and criteria under which any State could apply for an exemption of certain State-regulated transactions.

The supplement now adopted set forth the rules and procedures the Board would follow in granting exemptions and also informed a State how to apply for such an exemption. It was noted that exemptions could be granted only with respect to the disclosure and rescission requirements of the law and Regulation Z and that advertising of credit must remain subject to the Federal jurisdiction under the Truth in Lending Act.

JULY 24, 1969

**AMENDMENT TO REGULATION D, RESERVES OF  
MEMBER BANKS.**

Effective July 31, 1969, Regulation D was amended to limit certain transactions involving member banks and foreign branches that had resulted in what the Board considered an unwarranted reduction in required reserves.

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

Absent and not voting: Mr. Daane.

The amendment required member banks to include in deposits used to compute reserve requirements all so-called "London checks" and "bills payable checks" used in settling transactions involving foreign branches. Such checks had been used to effect repayments of Euro-dollar borrowings and to settle transactions among foreign branches of different member banks. A number of banks had issued such checks without including them in gross demand deposits, as is required for officers' (for example, cashiers') checks. At the same time, banks receiving such checks were allowed to deduct the amount from demand deposits used to compute reserve requirements. Use of these check

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devices resulted in reduced reserves for the one day the check was in the collection process and had afforded some member banks a special advantage in using Euro-dollars for adjustment to domestic credit restraint.

JULY 24, 1969

**AMENDMENTS TO REGULATION D, RESERVES OF MEMBER BANKS, AND REGULATION Q, PAYMENT OF INTEREST ON DEPOSITS.**

Effective July 25, 1969, Regulations D and Q were amended to narrow the scope of a member bank's liabilities under repurchase agreements (those involving sales of instruments with an agreement for subsequent repurchase) that are exempt from those regulations.

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

Absent and not voting: Mr. Daane.

The previous exemptions from Regulations D and Q had permitted a member bank to exclude from deposits any indebtedness arising from a transfer of any assets under a repurchase agreement. Under the amendments now adopted, beginning August 28, 1969, every bank liability on a repurchase agreement entered into on or after July 25, 1969, with a person other than a bank became a deposit liability subject to Regulations D and Q if it involved: (1) any assets other than direct obligations of the United States or its agencies (and obligations fully guaranteed by them), or (2) a part interest in any obligation or obligations (including U.S. Government obligations).

Limitation of the exemption was considered necessary because of the recent and contemplated use by some banks of repurchase agreements to avoid reserve requirements and the rules governing payment of interest on deposits.

Governor Mitchell dissented on the grounds that repurchase agreements entered into by banks to achieve liquidity in a period of monetary restraint were no more inappropriate to monetary objectives than a

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sale of bank assets. In either case, in his opinion, restraint was not dissipated but was merely shifted in part from the bank and bank customers to market participants. Moreover, in his view the addition of this action to the other amendment to Regulation D announced today ran the risk of putting unduly severe pressures on some sectors of the banking system.

Subsequently, effective August 15, 1969, the Board issued a minor clarifying amendment to Regulations D and Q to permit member banks to continue to execute repurchase agreements on a part interest in U.S. Treasury or Federal agency obligations that are eligible for purchase by Federal Reserve Banks, and to classify their liability thereon as a nondeposit borrowing.

AUGUST 8, 1969

**AMENDMENT TO REGULATION Z, TRUTH IN LENDING.**

Effective immediately, Regulation Z was amended to clarify a provision relating to discounts granted by creditors on sales to their customers for prompt payment of bills.

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

Absent and not voting: Messrs. Daane and Maisel.

Under the amendment, creditors offering discounts for prompt payment of single-payment transactions were required to state the "annual percentage rate" only if the discount exceeded 5 per cent. The amendment also simplified the computation of the "annual percentage rate" when that rate must be stated.

It had come to the Board's attention since Regulation Z went into effect on July 1 that many creditors had discontinued the use of discounts for prompt payment. This was especially true in agricultural types of credit, where there had been special difficulty with compliance. The amendment was designed to alleviate these problems.

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AUGUST 12, 1969

**AMENDMENTS TO REGULATION D, RESERVES OF MEMBER BANKS, AND REGULATION M, FOREIGN ACTIVITIES OF NATIONAL BANKS.**

Effective September 4, 1969, a 10 per cent marginal reserve requirement was established on certain foreign borrowings, primarily Euro-dollars, by member banks and on the sale of assets to their foreign branches.

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

Liabilities of U.S. banks to their foreign branches had more than doubled since the beginning of 1969—reaching a record of \$14.6 billion during the week ending July 30. The purpose of the action now taken by the Board was to moderate the flow of foreign funds between U.S. banks and their foreign branches and also between U.S. banks and foreign banks by removing a special advantage to member banks that had used Euro-dollars not subject to reserve requirements to adjust to domestic credit restraint.

The amendments to Regulation M established a 10 per cent reserve requirement on net borrowings of member banks from their foreign branches to the extent that these borrowings exceeded the daily-average amounts outstanding in the 4 weeks ending May 28, 1969. This marginal requirement also applied to assets acquired by foreign branches from U.S. head offices of banks except for assets representing credits extended by head offices to nonresidents after June 26. To reduce potential inequities, the Board established a minimum base equal to 3 per cent of deposits subject to reserve requirements for any bank with a foreign branch regardless of its previous use of Euro-dollars.

The amendments to Regulation M also established a 10 per cent reserve requirement on branch loans to U.S. residents to the extent that such loans exceeded either the amount outstanding on June 25 or 26, 1969, or the daily-average amounts outstanding in the 4 weeks ending May 28, 1969. The choice of the base was at the option of the member bank. This amendment included three exemptions, as follows: It did not apply to any foreign branch with \$5 million or less in credit



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outstanding to U.S. residents; to credit extended to enable a borrower to comply with requirements of the Office of Foreign Direct Investments, Department of Commerce; and to credit extended under lending commitments entered into before June 27, 1969.

The amendment to Regulation D established a 10 per cent reserve requirement on borrowings by member banks from foreign banks, with one exception: only a 3 per cent reserve was required against such deposits that did not exceed 4 per cent of a member bank's daily-average deposits subject to reserve requirements. This latter provision was designed to reduce inequities for banks without foreign branches that would have no reserve-free base under the Regulation M amendments.

The Board provided that the reserve-free base under the amendment establishing a reserve requirement on borrowings of U.S. banks from their foreign branches would be reduced when and to the extent that the liabilities of any bank to its foreign branches dropped below the original base during any period used to compute the reserve requirement.

Governors Mitchell and Daane dissented because they felt that the flows were attributable to tight monetary policy in the United States rather than to the Euro-dollar mechanism and that such flows would occur despite the regulation. Furthermore, in the absence of any evidence that the Euro-dollar flow was weakening over-all monetary policy, they objected to regulating unnecessarily one of the non-deposit sources of funds for banks.

AUGUST 15, 1969

**AMENDMENT TO REGULATION J, COLLECTION OF CHECKS AND OTHER ITEMS BY FEDERAL RESERVE BANKS.**

Effective October 1, 1969, Regulation J was amended in respect to tenders of defense in litigation involving Federal Reserve 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 purpose of the amendment was to provide a procedure under which a Federal Reserve Bank that is sued in connection with a cash

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item collected by it may recover from the sending bank expenses of such litigation and the amount of any adverse judgment by charging the account of the sending bank if the Reserve Bank has tendered defense of the suit to the sending bank and such tender has not been accepted.

OCTOBER 27, 1969

**AMENDMENT TO REGULATION V, LOAN GUARANTEES FOR DEFENSE PRODUCTION.**

Effective October 27, 1969, the Supplement to Regulation V was amended to provide that an agency guaranteeing a particular loan may from time to time prescribe a rate higher than 7½ per cent if it determines the loan to be necessary in financing an essential defense production contract.

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

Absent and not voting: Mr. Mitchell.

The regulation had prescribed that the interest rate charged a borrower by a financing institution with respect to a guaranteed loan may not exceed 7½ per cent per annum. It had come to the Board's attention, however, that under existing conditions it might sometimes be impossible to arrange V-loan financing even at the prescribed maximum rate. The purpose of the amendment, therefore, was to permit a Government agency guaranteeing a loan under the Defense Production Act, as amended, to prescribe from time to time an interest rate higher than 7½ per cent if the guaranteeing agency determined that the higher rate was necessary to obtain V-loan financing of an essential defense production contract.

NOVEMBER 5, 1969

**AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS.**

Effective November 5, 1969, Regulation Q was amended: (1) to expand the categories of organizations on whose time deposits member banks

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of the Federal Reserve System may pay rates of interest in excess of those permitted generally, and (2) to provide an alternative method by which any exempt organization may transfer a certificate of deposit to a non-exempt holder.

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

Votes against this action: None.

Previously a time deposit of a foreign government, a monetary or financial authority of a foreign government when acting as such, or an international financial institution of which the United States is a member was exempt from the interest rate limitations. The amendment exempted time deposits having a maturity of 2 years or less and representing funds deposited and owned by: (1) a foreign government, or an agency or instrumentality thereof engaged principally in activities that are ordinarily performed in the United States by governmental entities, (2) an international entity of which the United States is a member, or (3) any other foreign, international, or supranational entity specifically designated by the Board as exempt. This broadening of the categories of exempt organizations was consistent with the purposes of the underlying statute, that is, to encourage the maintenance of foreign governmental time deposits in American banks.

An alternative method of transferring to a nonexempt holder a certificate of deposit issued to an exempt organization also was provided. The alternative method carried the same safeguards as the method theretofore prescribed.

NOVEMBER 5, 1969

## REVISION OF FOREIGN CREDIT RESTRAINT PROGRAM GUIDELINES.

Effective December 1, 1969, the guidelines covering foreign credits and investments by U.S. banks and other financial institutions were revised.

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

Votes against this action: None.

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The revised guidelines continued the program of voluntary restraint that had been in effect since 1965. However, in keeping with the Government's efforts to help stimulate U.S. exports, the guidelines were now changed to give greater and more explicit recognition to the established priority for export financing.

Under the revised program each participating bank was to have a ceiling, separate from its general ceiling, exclusively for loans of 1 year or longer that financed U.S. goods exported on or after December 1, 1969. The guidelines for nonbank financial institutions continued to provide for a single ceiling. However, such an institution could exceed its ceiling moderately if the excess reflected new export credits that could not be accommodated under the ceiling. In addition, a nonbank institution that had had either a low ceiling or none at all could now hold certain covered foreign assets up to a total of \$500,000.

The current modifications of the program had two objectives. The first was to direct greater attention to the existing priority for export financing, particularly long-term export loans, within the limits of total lending restraints. The second was to enhance the opportunities among U.S. financial institutions to compete for foreign lending business.

Announcement of the revised guidelines was made on December 17, 1969, to permit coordination with other parts of the Government interested in the U.S. balance of payments program.

NOVEMBER 6, 1969

**AMENDMENT TO REGULATION Z, TRUTH IN LENDING.**

Effective immediately, Regulation Z was amended to facilitate meaningful disclosure of credit terms in certain types of agricultural credit extensions.

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

Absent and not voting: Mr. Mitchell.

The amendment provided that where the dates or amounts of payments or advances cannot be determined at the time of a credit trans-

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action because they are tied to the needs of the farmer—which change during the year—the creditor may disclose the method of computing the amount of the finance charge rather than a total dollar figure. At the same time the creditor may omit disclosure of the annual percentage rate, but he must disclose the number, amount, and due dates of the payments and the total amount to be repaid to the extent known.

A problem had arisen because some agricultural loans are made on terms governed by production and seasonal needs that cannot be determined at the time a credit transaction is arranged. In such cases the dates or amounts of advances or payments cannot be ascertained and consequently the amount of the finance charge, the repayment schedule, and sometimes the annual percentage rate must be estimated. These estimates are at best crude and often misleading, and in some cases physically impossible to make. The amendment was designed to meet these problems, reduce the burden on agricultural lenders, and insure the customer a clear and full description of his credit transaction.

NOVEMBER 10, 1969

**AMENDMENT TO REGULATION R, RELATIONSHIPS WITH DEALERS IN SECURITIES UNDER SECTION 32 OF THE BANKING ACT OF 1933.**

Effective January 1, 1970, Regulation R was amended to permit an officer, director, or employee of a member bank of the Federal Reserve System to be an officer, director, or employee of a securities company that confined itself to underwriting and dealing in securities a member bank itself may lawfully underwrite.

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

Votes against this action: None.

Section 32 of the Banking Act of 1933, which prohibits interlocking personnel relationships between member banks and securities companies, authorizes the Board of Governors to provide exemptions upon determining that such exemptions would not unduly influence the investment policies of the banks or the investment advice given to bank

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customers. Regulation R had provided an exemption for relationships between member banks and those securities companies that confined their business to types of obligations listed in the regulation. The effect of the amendment was to bring within the regulatory exemption general obligations of a State or political subdivision, obligations of the Government National Mortgage Association, and obligations issued by a State or political subdivision (or their agencies) for housing, university, or dormitory purposes. The first class of obligations had long been eligible for underwriting and dealing in by member banks, and the latter two classes became eligible upon the enactment of the Housing and Urban Development Act of 1968.

DECEMBER 18, 1969

**AMENDMENT TO REGULATION F, SECURITIES OF  
MEMBER STATE BANKS.**

Effective December 31, 1969, Regulation F was amended in a number of respects relating to the form and content of bank financial statements and proxy solicitation provisions.

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 major purpose of the amendments was to implement the "net income" concept in bank income reports. The revisions were intended to make financial reports required by the regulation consistent with the format and instructions for the preparation of other financial reports that banks are required to publish.

Extensive revisions of the regulatory provisions relating to proxy solicitations were also included in the amendments. These were intended mainly to clarify the applicability of the various provisions of the regulation and to incorporate administrative practices adopted in the 5 years since Regulation F was first issued.

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DECEMBER 24, 1969

**EMERGENCY CREDIT FACILITIES FOR NONMEMBER  
DEPOSITARY INSTITUTIONS.**

Effective immediately and until April 1, 1970, Federal Reserve Banks were authorized to provide, in accordance with certain specified principles, emergency credit facilities to nonmember depositary institutions.

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

Absent and not voting: Messrs. Martin and Robertson.

The sharp further advance in market yields during the fourth quarter, unusually large net savings withdrawals at depositary institutions in the October quarterly reinvestment period, and preliminary reports of rather poor savings experience in some areas thus far in December had all created some concern about the possibility of substantially enlarged savings attrition at such institutions during late December and January. In those circumstances the Board believed that as a matter of general policy the Reserve Banks should be prepared, as in the summer of 1966, to provide emergency credit facilities to nonmember depositary institutions in difficulty as to the adequacy of their liquidity reserves.

Because the Federal Home Loan Bank System is responsible for providing a lender-of-last-resort accommodation to its members, the Board believed that it was more efficient for the Federal home loan banks to continue to exercise full responsibility for providing such assistance as long as their resources permitted. Accordingly, pending further exploration with the Federal Home Loan Bank Board, the Board advised the Federal Reserve Banks that they need be prepared to provide emergency credit assistance only to mutual savings banks, other banks, and savings and loan associations that are members of neither the Federal Reserve nor the Federal Home Loan Bank Sys-

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tems. Emergency credit to those types of institutions was to be provided in accordance with certain principles specified by the Board.

To provide for prompt implementation of such a program of emergency credit facilities, the Board advised the Federal Reserve Banks that, effective immediately and until April 1, 1970:

- (a) member banks are permitted, pursuant to Section 19(e) of the Federal Reserve Act and Section 201.5 of Regulation A, to use as security for advances from your Bank, whether under Section 13 or Section 10(b) of the Act, assets acquired from mutual savings banks, other banks, and savings and loan associations that are members of neither the Federal Reserve nor the Federal Home Loan Bank Systems, but only in accordance with, and subject to, limitations specified by the Board; and
- (b) your Bank is authorized, in accordance with the third paragraph of Section 13 of the Federal Reserve Act, in unusual and exigent circumstances to discount for the same types of non-member institutions paper of the kinds described in that paragraph, subject, however, to the limitation therein contained and in accordance with, and subject to, limitations specified by the Board.



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## *Record of Policy Actions of the Federal Open Market Committee*

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

In the pages that follow, there are entries with respect to the policy actions taken at the meetings of the Federal Open Market Committee held during the calendar year 1969, 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

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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 1969. No revisions were made in the foreign currency 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, 1969)*

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

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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  $\frac{1}{4}$  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, 1969)

The information reviewed at this meeting suggests that over-all economic activity is expanding rapidly and that upward pressures on prices and costs

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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.

#### AUTHORIZATION FOR SYSTEM FOREIGN CURRENCY OPERATIONS

(in effect January 1, 1969)

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

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Mexican pesos  
Netherlands guilders  
Norwegian kroner  
Swedish kronor  
Swiss francs

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

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

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

(3) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to \$300 million equivalent.

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

(1) Commitments to deliver foreign currencies to the Stabilization Fund, up to \$1 billion 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:

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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
Bank for International Settlements:	
System drawings in Swiss francs	600
System drawings in authorized European currencies other than Swiss francs	1,000

3. 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.

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

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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, 1969)

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

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

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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 re-establish supply and demand balance at a level more consistent with the prevailing flow of underlying



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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, 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.

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## MEETING HELD ON JANUARY 14, 1969

### **Authority to effect transactions in System Account.**

According to the preliminary Commerce Department estimates, expansion in real gross national product moderated to an annual rate of 3.8 per cent in the fourth quarter of 1968 from 5.0 per cent in the third quarter and more than 6 per cent in the first half of the year. However, the pace of advance in average prices—as measured by the GNP deflator—increased in the fourth quarter. Staff projections suggested that the rate of expansion in economic activity would slacken further in the first half of 1969.

Growth in consumer spending slowed sharply in the fourth quarter as the increase in disposable income remained moderate and the rate of personal saving rose. Growth in Federal outlays on goods and services continued to slacken. At the same time, the rate of business inventory accumulation increased substantially, and both business spending on plant and equipment and residential construction outlays advanced considerably.

In December retail sales declined markedly—perhaps partly because of an influenza epidemic—and reached their lowest level since the spring of 1968. However, industrial production and nonfarm payroll employment continued to rise rapidly, and the unemployment rate remained at the low level of 3.3 per cent to which it had fallen in November. With tight conditions persisting in labor markets, average wage rates in all major industry groups advanced considerably further.

Average wholesale prices of industrial commodities rose during the month ending in mid-December to a level 2.5 per cent above a year earlier, and an unusually large number of increases in such prices were announced subsequently. The consumer price index advanced substantially further in November and was 4.8 per cent above its year-earlier level—the largest increase in any 12-month period since 1951.

The staff projections for the first half of 1969 suggested that increases in consumer spending would remain moderate—partly because of the effects on disposable income of higher social security taxes and retroactive payments on 1968 income taxes—and that the rate of inventory accumulation would decline as businesses adjusted

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to the slower growth in final sales. It appeared likely that there would be little further rise in Federal outlays, with a sizable surplus emerging in the fiscal position of the Government, and that residential construction activity would be increasingly limited by the reduced availability of mortgage funds. On the other hand, prospects were for continued rapid growth in business capital outlays.

With respect to the U.S. balance of payments, in the last week of December there was an exceptionally large volume both of foreign official transactions that reduced U.S. liquid liabilities and of inflows of private funds, including a sizable volume of funds drawn from the Euro-dollar market by direct-investment affiliates of U.S. corporations. These inflows were large enough to produce a substantial, although probably temporary, surplus in the fourth quarter in the payments balance on the liquidity basis of calculation.<sup>1</sup> The surplus on the official reserve transactions basis was lower in the fourth quarter than in the third, in part because there was a year-end decline in Euro-dollar liabilities of U.S. banks to their foreign branches as a counterpart of the private capital inflows. In early January liabilities to foreign branches increased sharply and interest rates in the Euro-dollar market, which had reached record levels in late 1968, rose further.

For the full year 1968, despite a sharp deterioration in the merchandise trade balance, there was a small surplus in the over-all payments balance on the liquidity basis and a larger one on the official settlements basis; on both bases, substantial deficits had been incurred in 1967. While data were still preliminary and incomplete, it appeared that the elements making for the shift to surplus in 1968 included a heavy volume of foreign private long-term investment in the United States, particularly in equity securities; a reduction in net use of U.S. funds for direct investment abroad that was apparently larger than

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<sup>1</sup> 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.

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the \$1 billion required by the Commerce Department guidelines; and a larger net inflow of bank-reported claims than was required under the Federal Reserve guidelines, in contrast to the outflow of 1967. Also affecting the liquidity balance was a substantial volume of special transactions with foreign governments; and affecting the official settlements balance was a large net inflow of liquid funds through foreign branches of U.S. banks and other foreign banks. With respect to U.S. merchandise trade, the surplus for the first 11 months of 1968 totaled only about \$300 million, compared with about \$3.5 billion for the full year 1967.

On the day of this meeting the Treasury was auctioning \$1.75 billion of tax-anticipation bills due in June for payment on January 20. The Treasury was expected to announce around the end of January the terms on which it would refund notes and bonds maturing in mid-February, of which about \$5.4 billion were held by the public.

Open market operations since the December 17, 1968, meeting of the Committee had been directed toward attaining firmer conditions in money and short-term credit markets, while taking account of the increase from  $5\frac{1}{4}$  to  $5\frac{1}{2}$  per cent in Federal Reserve Bank discount rates announced on the day of that meeting. The System absorbed reserves early in the interval and again near the close. But in the intervening period it supplied reserves to cushion an unduly sharp market reaction to the increase in restraint and to cope with substantial year-end strains. The effective rate on Federal funds fluctuated widely—with some trading at rates as high as  $7\frac{1}{8}$  per cent, a new record, at the end of December—but was mostly in a range of  $6\frac{1}{4}$  to  $6\frac{5}{8}$  per cent, considerably above the range of previous weeks. In the single week ending January 1 member bank borrowings averaged \$1.3 billion, a 16-year high; and in the 4 weeks ending January 8 they averaged \$815 million, compared with an average of \$515 million in the preceding 4 weeks. Average excess reserves also increased substantially in the interval, however, so that the rise in net borrowed reserves was relatively moderate.

Interest rates on both short- and long-term Treasury securities rose to new highs in the week following the mid-December meeting of the Committee, and although these yields subsequently declined somewhat, they remained well above earlier levels. The market rate on 3-

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month Treasury bills, for example, advanced from 5.94 per cent on December 16 to a peak of 6.29 per cent on December 24 and then declined irregularly to 6.13 per cent on the day before this meeting. Yields on other short-term market instruments also rose considerably on balance. In markets for corporate and municipal bonds, yields fluctuated in a rather narrow range around the highs reached in mid-December. New-issue volume in December was unusually small for corporate bonds; for municipal bonds, it was below the monthly average for the year largely because of the withdrawal of several scheduled offerings.

Net inflows of deposits to nonbank financial intermediaries slackened somewhat in November and apparently also in December. Yields on home mortgages in the secondary market continued to advance and by early January were close to the high that had been reached in the preceding June.

Since late November most major banks had been offering the maximum permissible rates under Regulation Q for large-denomination negotiable certificates of deposit (CD's) of all maturities. But as short-term market rates of interest continued to rise, CD's became progressively less competitive, and during December and early January there were declines in the volume outstanding—particularly at large money market banks—of considerably greater than seasonal dimensions. However, inflows of consumer-type time and savings deposits remained substantial during much of December, and on the average total time and savings deposits at banks increased at about the relatively rapid rate of November. The money stock expanded in December at an estimated annual rate of about 6 per cent—roughly half the November rate—although it bulged sharply around the turn of the year.

The prime lending rate of commercial banks, which had been raised to 6½ per cent on December 2, was advanced to 6¾ per cent on December 18—the day after the increase in discount rates was announced—and then to a record 7 per cent on January 7. In December, according to preliminary estimates, growth in business loans slowed considerably, as did bank acquisitions of municipal securities. However, the sharp decline in bank holdings of Treasury securities that had occurred in November was not repeated in December. Total

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bank credit, as measured by the bank credit proxy—daily-average member bank deposits<sup>2</sup>—rose from November to December at an annual rate of about 13 per cent, compared with 11 per cent in the previous month and 13 per cent in the second half of 1968. After adjustment for changes in the daily average of U.S. bank liabilities to foreign branches—which increased slightly in November but fell sharply in December—the proxy series expanded at an annual rate of about 11.5 per cent in both months.

Staff projections suggested that if existing Regulation Q ceilings and prevailing money market conditions were maintained there would be further large declines in the volume of CD's outstanding and a marked slowing of inflows of consumer-type time and savings deposits. The average level of the money stock was expected to be considerably higher in January than in December because of the sharp but largely temporary increase in late December and early January. With respect to bank credit, the staff projections suggested that the proxy series would expand in January at an annual rate in the range of zero to 3 per cent. After adjustment for the marked increase in U.S. bank liabilities to foreign branches that had already occurred in early January, growth in the credit proxy was projected in a range of 2 to 5 per cent. For February, prospects were for continued run-offs of CD's and no significant increase in the rate of bank credit growth.

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<sup>2</sup> In recent years the Committee has 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 table in the statistical section of the Federal Reserve BULLETIN (on page A-17 of the January 1969 issue). 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.

As indicated in that note, movements in total member bank deposits and in commercial bank credit can diverge for various reasons, including changes in nondeposit liabilities of banks. Because changes in U.S. bank liabilities to foreign branches recently have been an important source of divergence from time to time, an "adjusted" proxy series, taking approximate account of such changes, is now also being calculated for Committee use.

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In the Committee's discussion it was noted that, despite the indications of slowing in the rate of economic expansion, upward pressures on prices persisted and inflationary expectations remained widespread. It also was noted that the recent improvement in the U.S. balance of payments, while encouraging, did not imply that a sustainable equilibrium had been achieved, particularly in view of the marked deterioration in the U.S. trade surplus during 1968.

The Committee agreed that under these circumstances it would be desirable at present to maintain the existing degree of monetary restraint. The fact that the Treasury would be announcing a refunding around the end of January also was mentioned as militating in favor of an unchanged policy. The sharp slowing of growth in bank credit projected for January and February was generally considered to be appropriate, especially in light of the high growth rates of recent months. The view was expressed, however, that it would be undesirable to curtail bank credit drastically for an extended period.

The Committee decided that open market operations should be directed at maintaining the prevailing firm conditions in money and short-term credit markets, with the proviso that operations should be modified—to the extent permitted by the forthcoming Treasury refunding—if bank credit expansion appeared to be deviating significantly in either direction from current projections. Comments were made as to the desirability, on the one hand, of moderating any undue liquidity pressures that might develop and, on the other hand, of also moderating any tendency toward easing of money market conditions that might be brought about by seasonal forces.

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

The information reviewed at this meeting suggests that expansion in real economic activity has been moderating, with slower growth in consumer outlays but higher rates of business inventory accumulation and capital expenditures. Upward pressures on prices and costs, however, are persisting. Since the mid-December firming of monetary policy, most interest rates have risen further and, with the outstanding volume of large-denomination CD's declining sharply, bank credit expansion has slowed. Growth in the money supply moderated somewhat on average in December from its rapid November pace. The U.S. foreign trade surplus remains very small but near

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the end of the year unusual capital inflows had a markedly favorable effect on the over-all balance of payments. 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 maintaining the prevailing firm conditions in money and short-term credit markets; provided, however, that operations shall be modified, to the extent permitted by the forthcoming Treasury refunding, if bank credit expansion appears to be deviating significantly from current projections.

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

Absent and not voting: Mr. Hayes. (Mr. Treiber voted as his alternate.)

Mr. Morris dissented from this action because he thought the directive as adopted could be consistent with an unduly restrictive monetary policy. In his judgment the current state of the economy called for a substantial moderation of bank credit growth from the 13 per cent rate that had prevailed over the second half of 1968, but not for so sharp a change as was implied by the projections for January and February.



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## MEETING HELD ON FEBRUARY 4, 1969

### Authority to effect transactions in System Account.

According to the information reviewed at this meeting, expansion in real economic activity had been moderating but upward pressures on prices and costs were persisting. Staff projections continued to suggest that the rate of expansion in economic activity would slow further in the first half of 1969.

Available weekly figures indicated that retail sales, which had declined in December, rose in January to about the November level. Tentative estimates implied that industrial production increased further in January but at a slower rate than in late 1968. The labor market continued tight, and the number of persons receiving unemployment compensation remained small.

There were widespread increases in wholesale prices of industrial commodities from mid-December to mid-January, and the average of such prices rose considerably further. The rate of advance in the consumer price index slowed somewhat in December, partly for seasonal reasons, but the index for that month was 4.7 per cent above its year-earlier level.

Growth in real GNP had moderated to an annual rate of 3.8 per cent in the fourth quarter of 1968 from 5.0 per cent in the third quarter. Expansion in consumer and Federal Government expenditures on goods and services slowed, but there were substantial increases in business capital outlays, residential construction activity, and inventory accumulation. The staff projections for the first half of 1969 suggested that consumer spending would expand only moderately faster than in the fourth quarter, partly because growth in disposable income would be limited by higher social security taxes and retroactive income tax payments. In line with the recently released Federal budget figures, Government purchases of goods and services were projected to remain at the fourth-quarter level. The projections also implied that residential construction activity would be increasingly restricted by the reduced availability of mortgage funds; that the current surge in business capital outlays would slow by the second

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quarter; and that the rate of inventory accumulation would level off in the first quarter and then decline.

Longer-range staff projections prepared for this meeting suggested that in the second half of 1969 growth in real GNP would remain at a reduced rate and inflationary pressures would diminish. These projections incorporated the budget estimates of Federal expenditures and assumed that the income tax surcharge, which under existing legislation was scheduled to expire on June 30, 1969, would be continued at least through the end of the year. They also assumed that a substantial degree of monetary restraint would be maintained. It was noted that the budget estimates implied that fiscal policy would become less restrictive after midyear even if the surtax were continued.

Preliminary data indicated that the U. S. balance of payments on the liquidity basis had reverted to deficit in January, following the substantial surplus recorded in the fourth quarter of 1968. Although little detailed information was available, it appeared likely that the strike of longshoremen, which had begun with the expiration of the Taft-Hartley Act injunction on December 20, was one factor affecting the January balance adversely. In December the balance on merchandise trade was in deficit, and for 1968 as a whole there was a trade surplus of only about \$100 million, compared with about \$3.5 billion in 1967. Exports were 10 per cent higher in 1968 than in 1967, but imports increased by nearly 25 per cent.

The over-all payments balance on the official settlements basis was in substantial surplus in January as a result of a sharp increase in liabilities of U.S. banks to their foreign branches, which more than offset the marked decline that had occurred just before the year-end. To a large extent this heavy inflow of liquid funds through the Euro-dollar market reflected outflows from Germany that were encouraged by the policies of the German Federal Bank and by the ebbing of speculation on a revaluation of the mark.

On January 29 the Treasury announced that in exchange for securities maturing in mid-February, of which about \$5.4 billion were held by the public, it would offer two new issues—a 15-month, 6 $\frac{3}{8}$  per cent note and a 7-year, 6 $\frac{1}{4}$  per cent note, priced to yield 6.42 and 6.29 per cent, respectively. The initial market reaction to the offering was mixed and trading activity associated with the new issues was relatively limited.

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System open market operations since the January 14 meeting of the Committee had been directed toward maintaining the firmer conditions achieved in money and short-term credit markets following the mid-December increase in Federal Reserve discount rates. Federal funds continued to trade mostly in a range of  $6\frac{1}{4}$  to  $6\frac{5}{8}$  per cent. Borrowings by large banks in the major money centers were relatively light in the 3 weeks ending January 29, both because seasonal forces tended to shift reserves toward these centers and because the sizable inflows of Eurodollars were concentrated at such banks. For all member banks borrowings averaged about \$790 million, not much changed from the \$810 million average of the previous 4 weeks. Average excess reserves fell sharply, however, and net borrowed reserves increased considerably.

Interest rates on various types of short-term securities, which had declined somewhat from their late-December highs in the first half of January, subsequently changed little on balance. The market rate on 3-month Treasury bills moved down from 6.13 per cent on the day before the previous meeting to 6.01 per cent a week later and then advanced to 6.19 per cent on the day before this meeting. Yields on long-term securities fluctuated near their recent highs during most of the period, although lately they had come under renewed upward pressure as a result of limited investor interest in new corporate and municipal bond offerings. The volume of new bond issues was relatively large in January, but a smaller volume appeared to be in prospect for February.

Yields on home mortgages in the secondary market rose further in January and late in the month exceeded the high that had been recorded in the preceding June. Average contract interest rates on conventional mortgages had reached postwar record levels in December, the latest month for which data were available. Effective January 24 the regulatory maximum contract rate on federally underwritten home mortgages was increased from  $6\frac{3}{4}$  to  $7\frac{1}{2}$  per cent. Net inflows of deposits to nonbank financial intermediaries had moderated further in December, and withdrawals during the turn-of-the-year interest-crediting period were somewhat larger than a year earlier.

The volume of large-denomination CD's outstanding at banks continued to decline sharply in January as short-term market interest rates remained at levels relative to the Regulation Q ceilings that placed

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banks at a competitive disadvantage in their efforts to replace maturing CD's. The CD attrition was heaviest at large money market banks. Net inflows of other time and savings deposits weakened, partly because of withdrawals after the year-end interest-crediting date, and total time and savings deposits declined at an annual rate of about 10.5 per cent from December to January. Expansion in private demand deposits and the money stock moderated—the latter to an annual rate of about 4.5 per cent from 7.5 per cent in the previous month—as U.S. Government deposits rose.

Business loans at banks increased markedly in January. However, other loans declined slightly, net acquisitions of municipal securities remained at a reduced rate, and holdings of Treasury securities declined considerably. Total bank credit, as measured by the proxy series—daily-average member bank deposits—was estimated to have declined at an annual rate of 4.5 per cent from December to January, compared with growth at about a 13 per cent rate in the previous month and also over the second half of 1968 as a whole. After adjustment for changes in the daily average of U.S. bank liabilities to foreign branches—which, as noted earlier, increased substantially in January—the proxy series declined at an annual rate of about 1.5 per cent.

Some slowing of the growth of business loans from the rapid January pace was expected in February. Staff projections suggested that if existing Regulation Q ceilings and prevailing money market conditions were maintained, the run-off of CD's outstanding would continue at a rapid rate—although not so rapid as in January, mainly because it appeared that the volume of CD's maturing would be smaller than in that month—and that inflows of other time and savings deposits would improve only moderately from January. The projections for February implied that U.S. Government deposits would rise substantially further and that private demand deposits and the money stock would decline somewhat. The bank credit proxy was projected to decline from January to February at an annual rate of 3 to 6 per cent. After adjustment for the increase in U.S. bank liabilities to foreign branches that had occurred over the course of January, the decline in the proxy series was projected to fall in a range of zero to 3 per cent.

The Committee agreed that current and prospective economic conditions did not call for a change in monetary policy at this time, and that

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in any case the Treasury refunding now under way militated against a change in policy. Some members, noting the decline in the bank credit proxy experienced in January and the small further decline projected for February, expressed concern about the risk that the current stance of policy might have unduly restrictive consequences and thus might have to be reversed shortly. While others thought that current bank credit developments were not unduly restrictive, particularly in light of the rapid expansion in the latter part of 1968, there was general agreement that a resumption of bank credit growth, although at a moderate rate, would be desirable before long.

The Committee decided that open market operations should be directed at maintaining the prevailing firm conditions in money and short-term credit markets. The proviso was added that operations should be modified, to the extent permitted by the Treasury refunding, if bank credit appeared to be deviating significantly from current projections. It was suggested that the allowable deviation in bank credit before the proviso was to be implemented should be smaller if the deviation were in a downward direction than in the opposite case. It also was suggested that, if the proviso clause were implemented in the direction of less firm money market conditions, care should be taken to avoid giving misleading signals about the basic stance of monetary policy.

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

The information reviewed at this meeting suggests that expansion in real economic activity has been moderating, but that upward pressures on prices and costs are persisting. Prospects are for some further slowing in economic expansion in the period ahead. Market interest rates recently have fluctuated near the highs reached around the turn of the year. Bank credit contracted slightly in January on average, as the outstanding volume of large-denomination CD's continued to decline sharply, inflows of other time and savings deposits slowed, and growth in the money supply moderated. The U.S. balance of payments on the liquidity basis appears to have reverted to deficit in early 1969, but large inflows of Euro-dollars have had the effect of keeping the official settlements balance in surplus. 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

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growth and attaining reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of the current Treasury refunding, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining the prevailing firm conditions in money and short-term credit markets; provided, however, that operations shall be modified, to the extent permitted by the Treasury refunding, 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.

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## MEETING HELD ON MARCH 4, 1969

### 1. Authority to effect transactions in System Account.

Growth in real GNP was now estimated by the Commerce Department to have moderated somewhat more in the fourth quarter of 1968 than indicated earlier, and staff projections suggested that it would moderate further in the first half of 1969. However, upward pressures on prices and costs were persisting, and it appeared that expectations of continuing inflation were still an important factor underlying business spending decisions.

In February, according to available weekly data, retail sales were about unchanged from January—when, in turn, they had risen to a level close to that of the preceding November. Tentative estimates indicated that industrial production continued to increase at a slower rate than in late 1968. In January nonfarm employment rose substantially further, and the unemployment rate was unchanged at the low level of 3.3 per cent. The labor market remained tight, and average hourly earnings of production workers continued upward at a rapid rate.

Average wholesale prices of industrial commodities increased considerably further from mid-January to mid-February, but by less than in the preceding month when, according to revised data, the largest monthly increase in more than 13 years had been recorded. In January average consumer prices continued to advance at a rapid pace, particularly after allowance for the usual seasonal declines in prices of some major commodities.

Revised Commerce Department estimates indicated that growth in real GNP had moderated from an annual rate of 5.0 per cent in the third quarter of 1968 to 3.4 per cent in the fourth quarter, rather than to 3.8 per cent as had been shown in the preliminary report. The slackening in the fourth quarter was attributable largely to a marked slowing of the rise in consumer and Federal expenditures on goods and services; business outlays on plant and equipment and on inventory accumulation had increased considerably, as had residential construction activity.

The staff projections for the first half of 1969 suggested that growth in disposable income would be held down by the increase in social

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security tax rates that became effective January 1 and by retroactive payments on 1968 personal income tax liabilities. It was expected that the rate of personal saving would decline from its high fourth-quarter level and that consumer spending would rise at a pace moderately faster than in the fourth quarter. Federal purchases were projected to remain close to the fourth-quarter level. The projections also implied that as the first half of the year progressed residential construction activity would be increasingly limited by the reduced availability of mortgage funds; that the rapid current expansion in business capital outlays would slow; and that the rate of inventory accumulation would be reduced.

Preliminary data indicated that there had been a substantial deficit in the U.S. balance of payments on the liquidity basis in the first 2 months of 1969. But the extent to which both payments and receipts had been affected by the longshoremen's strike—which began on December 20 and ended in mid-February in New York and later at certain other Atlantic and Gulf Coast ports—was not clear. On the official settlements basis a large surplus was recorded in January, as liabilities of U.S. banks to their foreign branches rose sharply to a new high. In February, however, a deficit apparently developed on the official settlements basis, as net inflows of Euro-dollars through foreign branches were substantially smaller. Interest rates in the Euro-dollar market advanced considerably further to new record levels in February.

On February 27 the Bank of England raised its discount rate by 1 percentage point to the 8 per cent level that had been maintained for about 4 months after the devaluation of sterling in November 1967. This action was taken to reinforce Britain's policy of severe domestic credit restraint and was officially described as consistent with the recent marked increases in short-term interest rates in international financial markets. Shortly thereafter, discount rates were raised by the Bank of Sweden from 5 to 6 per cent, and by the Bank of Canada from 6½ to 7 per cent.

The Treasury refunding of notes and bonds maturing in mid-February was accorded an unenthusiastic reception by the market. Of the \$5.4 billion of maturing issues held by the public, about \$2 billion, or 36 per cent, were redeemed for cash; \$2.6 billion were exchanged for the new 15-month, 6¾ per cent note; and \$885 million were exchanged



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for the new 7-year,  $6\frac{1}{4}$  per cent note. Subsequently, on February 25, the Treasury auctioned a \$1 billion strip of bills consisting of five issues maturing in 1 to 5 months. Banks, which were allowed to pay for the new bills through credits to Treasury tax and loan accounts, successfully bid for the bulk of the issue.

Most interest rates had risen on balance since the previous meeting of the Committee. To a large extent the advances reflected growing expectations—particularly after recent congressional testimony by Federal Reserve and administration officials—that monetary restraint would be maintained in an effort to contain inflationary pressures. The higher rates also reflected anticipations of a possible near-term increase in the prime lending rate of banks and perhaps also in the Federal Reserve discount rate. Yields in capital markets moved up to or above their earlier peaks, despite the somewhat smaller volumes of new corporate and municipal issues offered in February and scheduled for March. In the mortgage market interest rates rose further to new post-war highs, as demands for mortgage loans remained strong and, according to available data for early February, net inflows of funds to thrift institutions continued to moderate.

Most short-term interest rates also rose in the period, but rates on Treasury bills maturing within 6 months changed little on balance. For example, the market rate on 3-month Treasury bills was 6.17 per cent on the day before this meeting, compared with 6.19 per cent 4 weeks earlier. During the interval the 3-month bill rate had declined to around 6.00 per cent—reflecting substantial liquidity demands for shorter-term bills and relatively limited dealer inventories—but it subsequently rose again, particularly after the increase in the discount rate of the Bank of England.

System open market operations since the previous meeting of the Committee had been directed at maintaining firm conditions in the money and short-term credit markets. Conditions in the money market tended to tighten during the period as a result of the cumulative reduction in bank liquidity and a seasonal shift in reserves away from the major money market banks. This tendency was not fully offset by System action, however, because shorter-term bill rates were under downward pressure for much of the period. Federal funds traded mainly in a range around  $6\frac{3}{4}$  per cent, up from a range centering closer to  $6\frac{1}{2}$

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per cent in the previous period. Member bank borrowings averaged \$835 million in the 4 weeks ending February 26, compared with about \$790 million in the previous 3 weeks. Average excess reserves were little changed, so net borrowed reserves also increased.

With short-term market interest rates remaining high relative to maximum rates payable by banks on large-denomination CD's, the volume of such CD's outstanding declined considerably further in February—although by less than in January when the amount maturing was larger. During the first 2 months of the year the rate of expansion in consumer-type time and savings deposits was well below that in comparable periods of other recent years, and in both months total time and savings deposits contracted at an annual rate in the neighborhood of 10 per cent. Growth in private demand deposits and in the money stock moderated further in February; for January and February together the money stock rose at an annual rate of less than 3 per cent, about half the rate of the second half of 1968. U.S. Government deposits increased sharply further in February to their highest average level in several months.

Although moderating in February, growth in business loans remained rapid. Other loans, which had declined slightly in January, increased substantially. In accommodating the large loan demand, banks stepped up the rate at which they had been liquidating holdings of Treasury securities, and for the first time since April 1968, they failed to increase their holdings of municipal securities. In February total bank credit, as measured by the adjusted proxy series—daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches—rose 2 per cent from January, at an annual rate, and was about unchanged from December.

Staff projections suggested that if prevailing money market conditions and existing Regulation Q ceilings were maintained the volume of large-denomination CD's outstanding was likely to decline at about the same pace in March as in February. It was expected that total time and savings deposits would contract further from February to March, but at a slower rate than in the previous month. Growth in the money stock was projected to accelerate temporarily on the average in March, when it was anticipated that U.S. Government deposits would be drawn down sharply.

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With respect to bank credit, the projections suggested that the adjusted proxy series would decline at an annual rate of 3 to 6 per cent from February to March, if U.S. bank liabilities to foreign branches were unchanged on the average in March from the level to which they had risen by the end of February. It appeared likely that loan demands would remain strong, and banks were expected to continue to liquidate holdings of U.S. Government securities and to limit their participation in the market for municipal securities.

The Committee agreed that, in light of the persistence of inflationary pressures and expectations, the existing degree of monetary restraint should be continued at present. The members decided that open market operations should be directed at maintaining on balance about the prevailing firm conditions in money and short-term credit markets, subject to the proviso that operations should be modified if bank credit appeared to be deviating significantly from current projections.

Some concern was expressed about the projection that the bank credit proxy would decline in March after 2 months of no net growth, and about the risks that undue liquidity pressures might develop. The Committee agreed that the proviso clause should be implemented in the direction of firmer money market conditions only if bank credit appeared to be growing at more than a moderate rate. It also agreed that the clause should be implemented in the direction of less firm conditions if bank credit appeared to be contracting any more rapidly than projected, so long as such action did not tend to create the impression that the basic stance of monetary policy had been relaxed.

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

The information reviewed at this meeting suggests that expansion in real economic activity has been moderating, but that upward pressures on prices and costs are persisting. Prospects are for some further slowing in economic expansion in the period ahead. Most market interest rates have edged up on balance in recent weeks. In the first 2 months of the year bank credit changed little on average, as investments contracted while loan demands, especially from businesses, remained strong. The outstanding volume of large-denomination CD's continued to decline sharply and inflows of other time and savings deposits slowed. Growth in the money supply moderated as U.S.

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Government deposits rose considerably. It appears that a sizable deficit re-emerged in the U.S. balance of payments on the liquidity basis in January and February and, with Euro-dollar inflows moderating, a deficit also reappeared in the balance on the official settlements basis in February. 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 maintaining on balance about the prevailing firm 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, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Mitchell, Robertson, Scanlon, and Sherrill. Votes against this action: None.

## **2. Amendments to authorization for System foreign currency operations.**

The Committee amended paragraphs 1 and 2 of the authorization for System foreign currency operations in a number of respects at this meeting. On recommendation of the Special Manager, the limit on outright holdings by the System of authorized foreign currencies specified in the paragraph previously numbered as 1B(2)—but, after other amendments made at this meeting, renumbered as 1B(3)—was increased from \$150 million to \$250 million equivalent. In addition, clarifying amendments were made in the introductory text to paragraph 1, in paragraphs 1B and 1C(1), and in paragraph 2. Except for the changes resulting from these amendments, the Committee renewed the authorization in the form outstanding at the beginning of the year 1969.

As amended, paragraphs 1 and 2 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

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Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto:

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 purchased spot, including currencies purchased from the Stabilization Fund, and sold forward to the Stabilization Fund, up to \$1 billion equivalent;

(2) Currencies purchased spot or forward, up to the amounts necessary to fulfill other forward commitments;

(3) Additional currencies purchased spot or forward, up to the amount necessary for System operations to exert a market influence but not exceeding \$250 million equivalent; and

(4) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to \$300 million equivalent.

C. To have outstanding forward commitments undertaken under

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paragraph A above to deliver foreign currencies, up to the following limits:

(1) Commitments to deliver foreign currencies to the Stabilization Fund, up to the limit specified in paragraph 1B(1) above;

(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 . . . . .	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

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

Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Mitchell, Robertson, Scanlon, and Sherrill. Votes against this action: None.

With respect to the increase in the limit on outright holdings of foreign currencies, the System's current holdings were close to the previous limit of \$150 million. That limit had been established in 1963, at a time when the foreign exchange operations of the Federal Reserve had not yet assumed the scale of more recent years. The Committee concurred in the judgment of the Special Manager that more leeway was now desirable to permit acquisitions from time to time of foreign currencies that were likely to prove useful in future operations.

The amendment to the introductory text of paragraph 1 consisted of the addition, after the words "to the extent necessary to carry out the Committee's foreign currency directive," of the phrase "and express authorizations by the Committee pursuant thereto." This amendment was for the purpose of making clear that the language of the authorization extended not only to operations undertaken under the specific language of the foreign currency directive but also to those undertaken under express authorities given by the Committee, for which provision was made at a number of points in the directive.

The main amendment to paragraph 1B involved a clarification of the form of authorization for foreign currency transactions undertaken in connection with System "warehousing" operations for the Stabilization Fund. While the forward commitments associated with such ware-

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housing operations were separately authorized in paragraph 1C(1), the spot holdings had been subsumed under general language in 1B authorizing holdings "up to the amounts necessary to fulfill outstanding forward commitments." As amended, the authorization contained a new paragraph 1B(1) separately covering the spot holdings in question. Concurrently, a number of other conforming and clarifying changes were made in 1B and in 1C(1).

The amendment to paragraph 2, which affected the table contained in that paragraph listing authorized swap arrangements, involved the incorporation of more precise descriptions of the System's two swap arrangements with the Bank for International Settlements.

### **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, 1969, 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 1969.

Votes for these actions: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Mitchell, Robertson, Scanlon, and Sherrill. Votes against these actions: None.



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## MEETING HELD ON APRIL 1, 1969

### Authority to effect transactions in System Account.

According to the information reviewed at this meeting, expansion in real GNP had moderated somewhat further in the first quarter from the 3.4 per cent annual rate of increase recorded in the fourth quarter of 1968. It appeared, however, that the expansion had slowed less than had been anticipated in earlier projections, and that the slowing was attributable to a decline in the rate of business inventory accumulation; the pace of advance in final sales was estimated to have increased. Moreover, it now appeared that activity in coming months also would be stronger than expected earlier. Substantial upward pressures on prices and costs persisted, and inflationary expectations remained widespread.

Previous projections of economic activity had been revised upward largely because a Commerce-SEC survey, taken in February, indicated that businesses planned a large increase in their outlays on new plant and equipment in 1969—to a total about 14 per cent above 1968. In addition, retail sales data for February and revised figures for earlier months suggested that growth in consumer expenditures had stepped up more from the low fourth-quarter rate than anticipated. The most recent data, in which new seasonal adjustment factors had been incorporated, indicated that retail sales had reached a new record level in January and that they had continued at about that level in February.

Nonfarm employment again expanded sharply in February, and unemployment remained at the low rate of 3.3 per cent which it had reached in December. Average hourly earnings of production workers continued to increase at a rapid pace. The consumer price index rose considerably further in February, to a level about 4.7 per cent above a year earlier. From mid-February to mid-March average wholesale prices of industrial commodities increased substantially; since mid-December such prices had advanced at an annual rate of more than 6 per cent.

Projections for the second quarter suggested that growth in real GNP would remain at about the first-quarter pace. Another decline in

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the rate of business inventory accumulation—such as had held down over-all growth in the first quarter—was not expected, but it appeared likely that the expansion in various major categories of final sales would slow. According to the Commerce-SEC survey, a sizable part of the anticipated 1969 increase in plant and equipment outlays would be concentrated in the first quarter. Moreover, it seemed likely that consumer spending would rise less rapidly in the second quarter than in the first, when a sharp decline in the rate of personal saving apparently had occurred. Federal purchases of goods and services were projected to remain relatively stable in the second quarter, and residential construction activity was expected to turn down as a result of reduced availability of mortgage credit.

Data available through mid-March suggested that a very large deficit had been incurred in the first quarter in the U.S. balance of payments on the liquidity basis. One major contributing factor was a substantial deficit in the merchandise trade balance for February, as imports began to recover more rapidly than export shipments after the dock strike ended in New York in mid-February. Also, it seemed likely that outflows of corporate capital funds, data for which were not yet available, were substantial. On the other hand, in the first 2 months of the year foreign net purchases of U.S. equity securities were sizable, and bank-reported claims on foreigners were reduced more than seasonally.

In contrast to the deficit on the liquidity basis, it appeared that a large surplus would be recorded for the first quarter on the official settlements basis, as a result of substantial inflows of liquid funds through banks abroad. Liabilities of U.S. banks to their foreign branches again expanded rapidly in the first half of March, after increasing only slightly in February. Interest rates in the Euro-dollar market advanced to a new high in early March but subsequently changed little.

Most major foreign currencies were under some selling pressure during March. Financial markets in most industrial countries had tightened in recent months, in part because of domestic demand pressures but also in some instances in reaction to capital outflows resulting from the restrictive stance of U.S. monetary policy and high Euro-dollar interest rates.

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On March 25 the Treasury auctioned a \$1.8 billion strip of bills consisting of additions to outstanding issues maturing in about 6 to 12 weeks. Commercial banks, which were allowed to make payment for the new bills through credits to Treasury tax and loan accounts, bid aggressively in the auction and were awarded the bulk of the offering. The financing was expected to cover the Treasury's cash requirements from market sources for the balance of the fiscal year.

Long-term interest rates had risen further since the previous meeting of the Committee in an atmosphere of continuing concern about inflationary pressures in the economy. Yield increases were especially pronounced in the corporate and the municipal bond markets where new issues were accorded generally unenthusiastic receptions and a number of offerings were either postponed or reduced in size. In late March a somewhat improved tone emerged in the capital markets, reflecting in part rumors of progress in the Vietnam peace talks.

Movements in short-term interest rates had been mixed since early March. Rates on most Treasury bills had declined to the lowest levels since mid-December, as continuing strong liquidity demands, augmented by sizable seasonal demands, impinged on limited dealer inventories. The market rate on 3-month Treasury bills had fallen to slightly below 6 per cent after mid-March and at the time of this meeting was 5.99 per cent, compared with 6.17 per cent 4 weeks earlier. Market rates on other short-term securities had declined less or had risen in recent weeks. On March 17 most large commercial banks raised their prime lending rate from 7 per cent to a new record high of  $7\frac{1}{2}$  per cent.

System open market operations since the previous meeting of the Committee had been directed at maintaining firm conditions in the money and short-term credit markets. With Treasury bill rates under downward pressure, the System met reserve needs mainly through short-term repurchase agreements and purchases of Treasury coupon-bearing securities rather than by buying bills in the market. The effective rate on Federal funds continued to fluctuate in a range centering around  $6\frac{3}{4}$  per cent. Member bank borrowings averaged \$835 million in the 4 weeks ending March 26, the same as in the previous 4 weeks. Excess reserves declined somewhat and net borrowed reserves increased correspondingly.

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In March total bank credit, as measured by the adjusted proxy series—daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches—was estimated to have declined from February at an annual rate of 6.5 per cent, after changing little over the first 2 months of the year. Banks continued to liquidate holdings of U.S. Government securities during March but added somewhat on balance to holdings of other securities. Total bank loans declined during the month—reflecting large reductions in security loans and in loans to nonbank financial institutions and a substantial slowing in the growth of business loans after mid-month. Also, some part of the March decline in loans may have reflected sales of loans by U.S. banks to foreign branches. In the first quarter as a whole banks financed a net growth in loans, which was particularly sizable for business loans, mainly by liquidating holdings of Government securities.

The volume of large-denomination CD's outstanding declined considerably further in March, as yields on competing short-term debt market instruments remained above the maximum interest rates payable on such CD's under Regulation Q. Consumer-type time and savings deposits expanded moderately, however, and total time and savings deposits—which had declined at a rapid rate in January and February—were about unchanged in March. Private demand deposits also changed little, and the money stock expanded at a 2 per cent annual rate—about the same as in the first 2 months of 1969 and well below the growth rate over the second half of 1968. U.S. Government deposits declined substantially, following sizable increases earlier in the year.

Loan demands at banks were expected to rebound in April, partly in connection with needs to finance income tax payments. Staff projections suggested that the adjusted bank credit proxy would grow from March to April at an annual rate of 2 to 6 per cent if prevailing money market conditions and existing Regulation Q ceilings were maintained. This projection assumed that there would be some further increase in Euro-dollar liabilities of U.S. banks to their foreign branches.

Total time and savings deposits at banks were expected to change little again from March to April. It appeared probable that the pace

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of the run-off of large-denomination CD's outstanding would moderate after mid-April when Treasury bill rates were likely to decline seasonally. However, growth in consumer-type time and savings deposits was projected to slow as a result of withdrawals following the quarterly interest-crediting period and in connection with income tax payments. It was expected that U.S. Government deposits would rise considerably from March to April, that private demand deposits would remain about unchanged, and that the money stock would expand only slightly faster than in the first quarter.

Prior to this meeting the boards of directors of eight Reserve Banks had acted, subject to the approval of the Board of Governors, to increase discount rates from the present level of 5½ per cent. It was reported to the Committee that the Board of Governors planned to take action on discount rates within a few days, and concurrently to consider the desirability of an increase in member bank reserve requirements, to be effective shortly after mid-April. The staff had prepared alternative projections of the adjusted proxy series that took account of other possible monetary policy action. These projections suggested that bank credit would be weaker than otherwise in April if open market operations were directed at maintaining the firmer money market conditions expected to ensue from such action and if existing Regulation Q ceilings were continued.

It was the consensus of the Committee that some further monetary policy action was called for at this time in light of the greater-than-expected pace of the economic expansion and the continuation of pervasive inflationary pressures and expectations. An increase in discount rates was generally considered to be appropriate, but differing views were expressed regarding the desirability of an increase in reserve requirements at present. In one view both actions, along with supportive open market operations, were needed to make clear the System's determination to resist inflationary pressures. An alternative view was that, while an increase in reserve requirements might prove desirable at a later time, it was not required at present.

With respect to open market operations, a majority of the Committee agreed that such operations should be directed at maintaining firm conditions in money and short-term credit markets, and at confirming the effects on those markets of any other monetary policy

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actions that might be taken. 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, while expansion in real economic activity has moderated somewhat further, current and prospective activity now appears stronger than earlier projections had indicated. Substantial upward pressures on prices and costs are persisting. Most long-term interest rates have risen further on balance in recent weeks, but movements in short-term rates have been mixed. In the first quarter of the year bank credit changed little on average, as investments contracted while loans expanded further. In March the outstanding volume of large-denomination CD's continued to decline sharply; inflows of other time and savings deposits were moderate; and growth in the money supply remained at a sharply reduced rate. It appears that a sizable deficit re-emerged in the U.S. balance of payments on the liquidity basis in the first quarter but that the balance on the official settlements basis remained in surplus as a result of further large inflows of Euro-dollars. 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 maintaining firm 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 appears to be deviating significantly from current projections.

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

Absent and not voting: Mr. Hayes. (Mr. Treiber voted as his alternate.)

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Messrs. Coldwell and Maisel dissented from this action for different reasons. Mr. Coldwell noted that the directive favored by the majority could be interpreted as calling for no monetary firming unless the Board acted in the coming period with respect to discount rates or reserve requirements. Since he believed that greater monetary restraint was imperative under current circumstances, he favored adopting a directive that called unconditionally for the attainment of firmer conditions in money and short-term credit markets.

Mr. Maisel believed that, insofar as the Committee's action reflected a desire to affect the prevailing inflationary psychology directly, it represented a shift from the Committee's proper concern with flows of credit and money to an improper target not readily susceptible to such influence. He particularly objected to the directive as adopted because he thought that operations under it were likely to depress flows of the monetary aggregates to rates below those that seemed to him to be desirable and maintainable for a considerable period, and that such operations would thus be inconsistent with the gradualist approach to the ultimate objective of price stability that he favored.

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## MEETING HELD ON APRIL 29, 1969

### Authority to effect transactions in System Account.

Preliminary estimates of the Commerce Department indicated that in the first quarter real GNP expanded at an annual rate of 2.9 per cent—only slightly slower than the 3.4 per cent growth rate of the fourth quarter of 1968—and that average prices, as measured by the GNP deflator, increased a little faster than in late 1968. Staff projections suggested that real GNP would expand about as rapidly in the second quarter as in the first and that upward pressures on prices would continue strong.

In March retail sales rose further, according to the advance report. Industrial production also reached a new high as output of many final products and materials increased. The labor market remained tight, although nonfarm employment expanded less rapidly than it had earlier in 1969 and the unemployment rate edged up to 3.4 per cent from the 3.3 per cent level of preceding months.

Average wholesale prices of industrial commodities, which had advanced substantially in the first quarter, rose only slightly further from mid-March to mid-April. To a considerable extent the slowing of the rise reflected declines in prices of lumber and plywood following extremely large advances earlier; among other industrial commodities price increases continued widespread. The consumer price index rose more in March than in any other month since February 1951, partly because of a sharp advance in homeownership costs, including mortgage interest charges, property taxes, insurance, and repairs.

According to the preliminary GNP figures for the first quarter, there were large increases in final sales—particularly in business outlays on plant and equipment and in consumer expenditures—and a substantial decline in the rate of business inventory accumulation. The advance in consumer spending was associated with a sizable reduction in the rate of personal saving, as growth in disposable income slowed. Residential construction outlays also expanded appreciably further, although housing starts declined substantially in February and March from the very high January rate. Federal purchases of goods and services increased only slightly in the quarter.



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While the staff projections for the second quarter suggested that GNP would continue to expand at about the pace of the first quarter, they contemplated a different pattern of change among the major components. Specifically, it was expected that inventory accumulation would remain at about the first-quarter rate, instead of slowing substantially as in the first quarter, and that net exports of goods and services would rise significantly as a result of a faster recovery in exports than in imports following the end of the longshoremen's strike. At the same time, it was anticipated that growth in business fixed investment and in consumer spending would slow, that residential construction outlays would turn down, and that Federal expenditures would rise only slightly further.

For the second half of 1969, staff projections suggested that expansion in real GNP would slow further but that upward pressures on prices were likely to persist. Both the lagged effects of monetary restraint and a restrictive stance of fiscal policy were expected to contribute to the slowing of expansion in real activity. The administration recently had announced that it planned to reduce Federal outlays in the fiscal year 1970 from the January budget estimates. In addition, it had proposed that the surtax on incomes be continued at 10 per cent through the end of the calendar year 1969, and then be reduced to 5 per cent; and that the 7 per cent investment tax credit be repealed effective April 21. The repeal of the investment tax credit, if enacted, was not expected to have much effect on capital spending until late in 1969, and the influence of the surtax on spending seemed likely to moderate as the end of the year approached. Nevertheless, it now appeared that the Federal fiscal position would be more restrictive in the second half of the year than had been anticipated earlier.

The latest data on the U.S. balance of payments in the first quarter confirmed earlier estimates of a very large deficit on the liquidity basis and a large surplus on the official settlements basis. Both imports and exports declined from the fourth quarter of 1968 as a result of the longshoremen's strike, but exports fell more and the trade balance was in substantial deficit. In addition, there was a large outflow of corporate capital funds, reversing in part the net inflow of the fourth quarter. On the other hand, foreign purchases of U.S. equity securities remained sizable in the quarter—although the rate apparently dimin-

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ished in March—and bank-reported claims on foreigners declined more than seasonally.

The first-quarter surplus on the official settlements basis was primarily the result of a huge expansion of liabilities of U.S. banks to their foreign branches. While such liabilities declined substantially in late March, they subsequently increased to a new high in April. Interest rates in the Euro-dollar market changed little after late March at levels close to earlier peaks.

In foreign exchange markets demands for German marks increased sharply in the latter part of April as a result of revived expectations of a revaluation, and the British pound came under some brief selling pressure. The French franc was under pressure throughout April, in part because of uncertainties associated with the national referendum scheduled for April 27. However, the initial reaction in the market to the negative vote in the referendum and to the resignation of President de Gaulle was relatively mild.

A number of industrial countries had taken restrictive public policy measures in recent months, for domestic or balance of payments reasons. The latest of these measures included increases in central bank discount rates in Germany and the Netherlands, to help dampen re-emerging inflationary pressures, and in Belgium and Denmark, mainly to limit capital outflows resulting from high interest rates abroad. Also, in mid-April the British Government announced a restrictive budget for the fiscal year beginning April 1, in light of the absence of sufficient improvement in the payments balance of the United Kingdom.

The U.S. Treasury was expected to announce on the day after this meeting the terms on which it would refund notes maturing in mid-May, of which about \$3.8 billion were held by the public. It was generally anticipated that bonds maturing in mid-June, of which about \$2.1 billion were publicly held, would be included in the refunding.

The Treasury's cash balances at both commercial banks and Federal Reserve Banks had been drawn down to very low levels prior to the mid-April tax date, and in the period April 8–16 the Treasury financed part of its cash needs temporarily through sales to the Federal Reserve

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of special certificates of indebtedness.<sup>1</sup> The Treasury redeemed all outstanding special certificates on April 17 and subsequently rebuilt its cash balances to relatively high levels.

Commercial bank credit and the money stock, both of which had changed relatively little over the first quarter, rose substantially in the first half of April. For the month as a whole the adjusted bank credit proxy—daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches—was tentatively estimated to have increased at an annual rate of about 7 per cent from March, following a decline of similar magnitude in the previous month. There was a sharp, although temporary, increase in bank holdings of Treasury bills during the statement week ending April 2, as banks were awarded nearly all of the \$1.8 billion strip of bills auctioned by the Treasury in late March. In addition, a marked upsurge in bank loans—especially to businesses, nonbank financial institutions, and securities dealers—occurred around the mid-month tax date.

The early-April bulge in private demand deposits and the money stock apparently was associated in part with temporary technical factors relating to Euro-dollar flows and the 4-day Easter holiday in Europe. Private demand deposits subsequently declined and by late April were estimated to be close to their end-of-March level. However, the money stock was tentatively estimated to have increased at an annual rate of nearly 15 per cent from March to April, as a result of the higher average level of such deposits in recent weeks. U.S. Government deposits also were estimated to have expanded by a sizable amount on the average in April.

The volume of large-denomination CD's outstanding was reduced further in the first half of April—reflecting in part the use by corporations of proceeds of maturing CD's to help finance large tax payments. Available data suggested that there were sizable net outflows of consumer-type time and savings deposits at banks—and also at other thrift institutions—following the interest-crediting period and around the

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<sup>1</sup> The volume of such certificates held by the Federal Reserve totaled \$151 million on April 8, \$519 million on April 9, \$490 million on April 10, \$976 million on April 11 through 13, \$514 million on April 14, \$502 million on April 15, and \$627 million on April 16.

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midmonth tax date. In April as a whole, total time and savings deposits at banks were estimated to have declined slightly from their March average.

On April 3 the Board of Governors announced an increase in Federal Reserve Bank discount rates from  $5\frac{1}{2}$  to 6 per cent, effective April 4, and an increase of  $\frac{1}{2}$  of a percentage point in member bank reserve requirements against demand deposits, effective April 17. System open market operations subsequently were directed at maintaining the firmer conditions in money and short-term credit markets that were consistent with those actions. Pressures in the money market were intensified around the middle of April by massive shifts of reserves away from money center banks—shifts that stemmed in part from the rundown in the Treasury's cash balances. Moreover, open market operations were modified in the direction of greater firmness as the period progressed, when it became increasingly clear that bank credit was expanding at a pace significantly in excess of the range projected at the time of the previous meeting. The effective rate on Federal funds, which had fluctuated around  $6\frac{3}{4}$  per cent in March, rose to the  $7\frac{3}{4}$  to  $7\frac{7}{8}$  per cent area in mid-April and again late in the month. Member bank borrowings averaged slightly more than \$1 billion in the 4 weeks ending April 23, compared with an average of about \$835 million in the previous 4 weeks. Net borrowed reserves increased somewhat more than borrowings, as excess reserves declined further on the average.

Most short-term interest rates had risen following the announcement on April 3 of the increases in discount rates and member bank reserve requirements. Market rates on Treasury bills maturing within 6 months continued under upward pressure through the midmonth tax date—reflecting sizable sales by banks and higher dealer financing costs—but they receded from their peaks after mid-April under the influence of strong seasonal demands. The market rate on 3-month Treasury bills, for example, reached a high of 6.22 per cent on April 16, but by the day before this meeting it had declined to 6.00 per cent, about the same as 4 weeks earlier. Rates on most other short-term instruments advanced during the month, in many instances to new highs.

Long-term interest rates had moved down in recent weeks, as rumors of progress in the Vietnam peace negotiations and indications of in-

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creasingly restrictive fiscal and monetary policies fostered growing expectations that inflationary pressures would be contained. A large volume of new corporate and municipal bonds was marketed during April, including a number of issues that had been postponed earlier. Bond yields leveled out late in the month, partly as a consequence of these offerings and of expectations that a new intermediate-term issue would be included in the Treasury's forthcoming refunding.

Business loan demands at banks, which had been enlarged in April by needs to finance tax payments, were expected to moderate in May. Staff projections suggested that the adjusted bank credit proxy would decline at an annual rate of 2 to 5 per cent from April to May if prevailing conditions were maintained in money and short-term credit markets. It appeared likely that the run-off of outstanding CD's would continue and that consumer-type time and savings deposits would expand at a low rate. Private demand deposits and the money stock were projected to decline slightly on the average from April to May, and a reduction also was anticipated in U.S. Government deposits.

In the Committee's discussion a number of members expressed the view that it would be desirable at present to maintain at least the existing degree of monetary restraint in light of the persistence of strong inflationary pressures, and some question was raised as to whether restraint was being pursued with sufficient vigor. At the same time, recognition was given to the likelihood that the combined restrictive effects of current fiscal and monetary policies would become visible in economic developments later in the year, and the view was advanced that such a prospect argued against a further intensification of monetary restraint now.

The Committee agreed that in any event the forthcoming Treasury refunding militated against a change in monetary policy at this time. It decided that open market operations should be directed at maintaining the firmer conditions in money and short-term credit markets that had been achieved, with the proviso that operations should be modified, insofar as the Treasury financing permitted, if bank credit appeared to be deviating significantly from current projections. Some members suggested that any doubts arising in the conduct of operations should be resolved on the side of restraint. In addition, concern was voiced about the unexpectedly large increases now estimated for April in both bank

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credit and the money stock. While it was the consensus of the members that those increases probably reflected temporary factors to an important extent, the view was expressed that the proviso clause should be implemented quite promptly if bank credit developments in May suggested the contrary.

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

The information reviewed at this meeting suggests that expansion in real economic activity has moderated only slightly since the fourth quarter of 1968. At the same time, substantial upward pressures on prices and costs are persisting. Long-term interest rates have generally declined in recent weeks, but most short-term rates have risen somewhat. In the first quarter of the year bank credit changed little on average and the money supply grew at a sharply reduced rate. In early April both measures increased substantially, influenced in part by large tax-date borrowing and deposit bulges around Easter. The outstanding volume of large-denomination CD's has continued to decline and there was a net outflow of consumer-type time and savings deposits from banks and other thrift institutions in the first half of April. A sizable deficit re-emerged in the U.S. balance of payments on the liquidity basis in the first quarter but the balance on the official settlements basis remained in surplus as a result of large inflows of Euro-dollars. 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, while taking account of the forthcoming Treasury refunding, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining the prevailing firm conditions in money and short-term credit markets; provided, however, that operations shall be modified, to the extent permitted by the Treasury refunding, if bank credit appears to be deviating significantly from current projections.

Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Mitchell, Robertson, and Scanlon. Votes against this action: None.

Absent and not voting: Mr. Sherrill.

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## MEETING HELD ON MAY 27, 1969

### 1. Authority to effect transactions in System Account.

According to the information reviewed at this meeting, the pace of expansion in economic activity was moderating slightly further but substantial upward pressures on prices and costs were persisting. New staff projections for the second quarter suggested that the increase in real GNP would be a little less than the 2.8 per cent annual rate now estimated by the Commerce Department for the first quarter. Prices, however, were expected to continue rising rapidly.

Available data for April showed some signs of a less rapid pace of economic advance. Growth in personal income, industrial production, and nonfarm employment slowed, and the unemployment rate edged up by 0.1 per cent for the second successive month, to 3.5 per cent. Housing starts declined for the third successive month. Retail sales increased considerably, but from a March figure that had been revised downward; in April retail sales were only moderately above the level of September 1968, even though prices had risen substantially in that period. On the other hand, new orders for durable goods rebounded in April after declining in March. Much of the April surge of orders may have been in anticipation of the administration's recommendation, made on April 21, for repeal of the 7 per cent investment tax credit as of that date.

Advances in wholesale prices of industrial commodities remained widespread in April, but the average of such prices rose relatively little because of an abrupt reversal of the earlier rapid run-up for lumber and plywood. The consumer price index increased sharply further, with much of the rise accounted for by higher food prices and home-ownership costs. Over the past year consumer prices had increased by 5.4 per cent. Unit labor costs in the private nonfarm sector as a whole were reported to have risen markedly in the first quarter.

The staff projections for the second quarter suggested that business inventory accumulation would remain at about the first-quarter rate but that expansion in total final sales would slow. It was anticipated that consumer spending would rise less than in the first quarter, that Federal expenditures on goods and services would increase relatively

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little, and that residential construction outlays would decline. Only a small increase appeared in prospect for business spending on plant and equipment after the sharp expansion of the first quarter. Net exports were still expected to turn up as a result of the ending of the longshoremen's strike, but by considerably less than had been thought likely earlier.

Projections for the second half of 1969 suggested that expansion in real GNP would slow further but that upward pressures on costs and prices would still be strong. The GNP projections assumed that Federal expenditures would remain under substantial restraint and that, as recommended by the administration, the surtax would be continued at 10 per cent through the end of the year and the investment tax credit would be repealed. Although growth in disposable income was expected to be stimulated temporarily in the third quarter by the ending of retroactive tax payments and by the scheduled Federal pay increase, it seemed probable that generally moderate rates of expansion in employment and income in the second half of the year would limit increases in consumer spending. Prospects appeared to be for a continuing down-drift in residential construction outlays and for only small further increases in business capital expenditures.

In April both exports and imports of the United States were above normal as movements of merchandise recovered from the earlier longshoremen's strike. With respect to the over-all international payments of the United States, another large deficit was incurred on the liquidity basis in April while payments on the official settlements basis—which had been in substantial surplus in the first quarter—were about in balance. Extremely large deficits were incurred on both bases in the first half of May, when expectations of a revaluation of the German mark led to a massive flow of capital into Germany.

Beginning in late April, funds moved into marks out of dollars, sterling, French francs, and many other currencies, causing relatively severe reserve losses for a number of countries. Movements out of dollars, from both the United States and the Euro-dollar market, were exceptionally heavy, and earlier flows of Euro-dollars to the United States through foreign branches of U.S. banks were temporarily reversed. Interest rates in the Euro-dollar market, already high in April in consequence of U.S. bank demands and of reduced supplies from banks



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in some European countries, rose sharply further in the first half of May. Subsequently, despite interest costs in the neighborhood of 9½ per cent, U.S. banks again increased their liabilities to foreign branches.

In its May refunding the Treasury offered two new notes—a 15-month, 6¾ per cent note priced to yield 6.42 per cent and a 7-year, 6½ per cent note priced at par—in exchange for securities maturing in mid-May and mid-June. Of the \$5.9 billion of maturing issues held by the public, about \$2.1 billion were exchanged for the shorter-term note, and \$2.2 billion—considerably more than had been anticipated in the market—for the 7-year note. The rate of attrition, slightly more than one-fourth of public holdings, was high by historical standards but lower than had been generally expected.

System open market operations since the previous meeting of the Committee had been directed at maintaining firm conditions in the money and short-term credit markets. Money market conditions were quite taut during the interval. The effective rate on Federal funds fluctuated mostly in a range of 8 to 9 per cent, compared with rates in the 7¾ to 7⅞ per cent area in the latter part of April. Member bank borrowings rose to an average of about \$1.3 billion in the 4 weeks ending May 21 from about \$1.0 billion in the previous 4 weeks, and net borrowed reserves increased by a corresponding amount.

The tautness in the money market in part reflected aggressive bidding for funds by large banks as they adjusted to the cumulative effects of monetary restraint, the reduced availability of funds from the Euro-dollar market, and a shift of reserves away from the money centers over the course of the period. Although the System supplied a substantial volume of reserves on balance, it did not fully offset reserve drains stemming from market factors in light of the tendency during much of the interval for short-term Treasury bill rates to move to or below the lower end of recent ranges. For example, the market rate on 3-month Treasury bills, which had been in a range of 6.00 to 6.20 per cent during most of April, declined to a low for the year—5.87 per cent—at the end of that month and subsequently fluctuated mostly in a range below 6.10 per cent. Relatively strong investor demands for bills in the period were augmented by heavy foreign official purchases resulting from the speculative flows into the German mark.

Interest rates on other short-term debt instruments and on long-term

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securities had risen in recent weeks under the influence of taut money market conditions, expectations of a possible increase in the prime lending rate of banks, and dampened hopes for a settlement of the Vietnamese war in the near future. Also contributing to upward pressures was the sizable calendar of corporate bond offerings in May and June. The advance in municipal yields was particularly sharp, reflecting limited bank interest in new issues and efforts by dealers to dispose of bonds for which they had made commitments in April in the expectation of declining yields. Postponements of municipal offerings increased in May, and the calendar for that month—as well as for June—was considerably smaller than the unusually large volume marketed in April.

Business loan demands at banks, which were augmented in April by needs to finance tax payments, apparently continued strong in early May. Bank holdings of municipal securities declined slightly in April but holdings of U.S. Government securities increased a little, in part because of bank participation in the Treasury's late-March bill financing.

Bank credit and the money stock had risen sharply in the first week of April, and although both had declined later in the month, their average levels for April as a whole were considerably above those for March. According to revised estimates, the adjusted bank credit proxy—daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches—expanded at an annual rate of 6 per cent from March to April, and the money stock grew at a rate of more than 10 per cent. However, total time and savings deposits of banks declined slightly. Tentative estimates for May indicated that the average level of both the adjusted proxy series and the money stock would be about the same as in April, and that time and savings deposits would again decline slightly. The volume of large-denomination CD's outstanding was being reduced further in May, and other time and savings deposits apparently were recovering sluggishly from the sizable net outflows that marked much of April. The data available for savings flows at nonbank thrift institutions in early May also suggested only modest improvement over the weak April performance.

It appeared likely that the banking system—and financial markets generally—would be under heavy pressure in June. A near-record

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volume of corporate income tax payments due at midmonth was expected to contribute both to substantial demands for business loans and to continuing run-offs of outstanding large-denomination CD's. Staff projections suggested that bank credit would grow relatively little from May to June if prevailing conditions were maintained in money and short-term credit markets. Specifically, the proxy series adjusted for changes in Euro-dollar liabilities was projected to increase at an annual rate in a range from zero to 5 per cent. Some further recovery was anticipated in consumer-type time and savings deposits, at least until the midyear interest-crediting period. U.S. Government deposits were projected to decline on the average in June as a result of net debt repayments by the Treasury in the latter half of the month. Partly for this reason, and partly in consequence of the expected heavy demands for business loans, sharp increases appeared in prospect for private demand deposits and the money stock; the latter was projected to rise at an annual rate of 7 to 10 per cent.

It was noted at the meeting that in recent months banks had begun to draw increasingly on nondeposit sources of funds other than Euro-dollars—such as funds obtained through sales of commercial paper by bank holding companies and sales of loan participations to nonbank customers under agreements to repurchase—and that credit based on funds from these sources was not reflected in the proxy series as currently calculated. While data for firm estimates of the amounts involved were lacking, it was suggested that funds raised from such nondeposit sources might have grown at a rate equivalent to 1 or 2 percentage points in the adjusted proxy series in May and might possibly grow more in June.

In its discussion of policy the Committee took note of the signs of some slowing in the economic expansion and of the indications of stringency in financial markets. In view of the persistence of strong inflationary pressures and expectations, however, the members agreed that a relaxation of the existing degree of monetary restraint would not be appropriate at this time. There was some comment about the possible need for a slight further firming of policy, but it was noted that the strains anticipated in financial markets in connection with corporate tax payments in June militated against such a course. A number of members expressed the view that—while disorderly market con-

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ditions should be avoided—concern among market participants over the possibility of a “credit crunch” would not in itself warrant an easing of monetary policy.

The Committee decided that open market operations should be directed at maintaining the prevailing pressure on money and short-term credit markets, with the proviso that operations should be modified if bank credit appeared to be deviating significantly from current projections. Although not all members were of the same view on the matter, a number suggested that it would be desirable for the change in the adjusted bank credit proxy in June to be kept to the lower end of the projected range, particularly since the measure currently understated the resources actually available to the banking system. And a number of members expressed the hope that growth in the money stock in June could be held below the rate projected.

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

The information reviewed at this meeting suggests that expansion in real economic activity is continuing to moderate slightly, but that substantial upward pressures on prices and costs are persisting. Interest rates have risen in recent weeks. Bank credit and the money supply appear to be changing little on average in May after bulging in April. The outstanding volume of large-denomination CD's has continued to decline, and the available evidence suggests only modest recovery in other time and savings deposits at banks and in savings balances at nonbank thrift institutions following the outflows of the first half of April. The U.S. balance of payments on the liquidity basis was in sizable deficit in the first 4 months of 1969 but the balance on the official settlements basis remained in surplus as a result of large inflows of Euro-dollars. However, there were substantial outflows of funds from the United States in the first half of May, during the period of intense speculation on a revaluation of the German mark, and the payments balance was in very large deficit on both bases. In light of the foregoing developments, 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

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next meeting of the Committee shall be conducted with a view to maintaining the prevailing pressure on 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, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Mitchell, Robertson, Scanlon, and Sherrill. Votes against this action: None.

## **2. Amendment to authorization for System foreign currency operations.**

The Committee ratified an action taken by members on May 14, 1969, effective on that date, equalizing the System's swap arrangements with the National Bank of Belgium and the Netherlands Bank at \$300 million, and making the corresponding amendment to paragraph 2 of the authorization for System foreign currency operations. Previously, the arrangement with the National Bank of Belgium had been in the amount of \$225 million and that with the Netherlands Bank in the amount of \$400 million. As a result of this action, paragraph 2 of the authorization 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 .....	300
Bank of Canada .....	1,000
National Bank of Denmark .....	100

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Foreign bank	Amount of arrangement (millions of dollars equivalent)
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 .....	300
Bank of Norway .....	100
Bank of Sweden .....	250
Swiss National Bank .....	600
Bank for International Settlements:	
Dollars against Swiss francs .....	600
Dollars against authorized European currencies other than Swiss francs .....	1,000

Votes for ratification of this action: Messrs.  
 Martin, Hayes, Bopp, Brimmer, Clay, Coldwell,  
 Daane, Maisel, Mitchell, Robertson, Scanlon, and  
 Sherrill. Votes against ratification of this action:  
 None.

The System's swap arrangements with the two central banks in question had been of equal size for several years before the gold crisis of March 1968, when the arrangement with the Netherlands Bank had been increased by \$175 million. Members of the Committee had voted in mid-May to approve the restoration of equality in the size of the two swap arrangements at \$300 million upon recommendation of the Special Manager, who advised that the action was agreeable to the central banks of Belgium and the Netherlands.

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## MEETING HELD ON JUNE 24, 1969

### Authority to effect transactions in System Account.

The information reviewed at this meeting suggested that expansion in real economic activity was continuing to moderate slightly in the second quarter but that prices and costs were remaining under substantial upward pressure. Staff projections for the second half of the year implied further slowing of the rise in real GNP but only a moderate diminution of the rate of price advance.

Data for May offered a rather mixed picture of economic developments. Retail sales, according to the advance report, were virtually the same as in April; after allowing for price increases, reported sales were no higher in May than a year earlier. Housing starts declined for the fourth consecutive month to a level about one-fifth below the very high January rate. New orders for durable goods, which had surged in April prior to the administration's recommendation for repeal of the 7 per cent investment tax credit, declined in May to nearly the level in March. Nonfarm employment again expanded at a slower pace than in late 1968 and early 1969. Nevertheless, the labor market continued tight and unemployment remained at the April rate of 3.5 per cent. In addition, industrial production rose considerably from an April level that had been revised upward. In both April and May the advance was concentrated in industries producing business equipment and industrial materials.

Average wholesale prices increased sharply from mid-April to mid-May—mainly because of an exceptionally large rise in prices of farm products and foods, particularly livestock. Average prices of industrial commodities advanced only slightly; as in April, marked declines for lumber and plywood nearly offset increases for other commodities.

Staff estimates of GNP in the second quarter continued to suggest a slowing of growth in consumer expenditures, little change in defense outlays, and a decline in residential construction. However, on the basis of the latest Commerce-SEC survey of capital investment plans of businesses, the estimate of growth in outlays on new plant and equipment in the quarter had been revised upward. The survey results suggested that such outlays had expanded rather steadily in the first half of the year, contrary to earlier indications of a sharp increase in the first quarter and

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a slight decline in the second. The survey also implied that growth in capital outlays would decelerate markedly after midyear, and that for the year as a whole the rise from 1968 would be less than previously indicated—about 12.5 per cent rather than nearly 14 per cent.

Growth in GNP was expected to slow further in the second half of 1969 in part because of expectations of a downdrift in residential construction outlays and slackened expansion in business capital spending. In the latter connection, the staff projections assumed that the investment tax credit would be repealed. They also assumed that Federal expenditures would remain under substantial restraint and that the income tax surcharge would be continued at 10 per cent through the end of the year. Except for the third quarter, when the flow of disposable income was expected to be augmented temporarily by the Federal pay raise and the termination of payments on 1968 income tax liabilities, it appeared likely that growth in consumer spending would be held down by smaller employment and income gains. While the rate of price advance was expected to slow somewhat because of reduced demand pressures, it was anticipated that continuing substantial increases in costs would keep prices under considerable upward pressure throughout the year.

Developments in international financial markets had been dominated in recent weeks by extremely large borrowings of Euro-dollars by U.S. banks through their foreign branches. In the 3 weeks ending June 18 such borrowings rose by more than \$3 billion. Together with seasonal pressures in foreign financial markets, the strong bidding for funds by U.S. banks led to sharp further increases in Euro-dollar interest rates until June 10, when the 3-month rate briefly reached 13 per cent. Although Euro-dollar rates subsequently declined, they remained above their levels in late May.

The pull of high Euro-dollar rates apparently added to the outflow of funds from Germany that had begun after the German Government announced on May 9 that the existing parity of the mark would be maintained. It also led to some selling pressure on a number of Western European currencies, although the market for sterling remained relatively firm and the Swiss franc was strong. Central bank discount rates were increased in a number of countries, including Belgium in late May and Canada, France, and Germany in June.



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As a result of the Euro-dollar inflows, the U.S. balance of payments on the official settlements basis reverted to substantial surplus after mid-May. Heavy deficits had been recorded in late April and early May when expectations of a revaluation of the German mark had led to a massive flow of capital to Germany, but the subsequent inflows of funds borrowed by U.S. banks appeared large enough to produce a small official settlements surplus for the second quarter as a whole. On the liquidity basis, however, the U.S. balance of payments was in heavy deficit in the first half of June and a substantial deficit seemed to be in prospect for the second quarter. Outflows of private nonbank funds from the United States to the Euro-dollar market apparently had contributed to the large liquidity deficit of recent weeks.

System open market operations since the May 27 meeting of the Committee had been directed at maintaining the prevailing pressure on money and short-term credit markets. Money market conditions were particularly taut in the first half of June as banks aggressively sought funds to meet substantial loan demands, including expected heavy demands from businesses to finance tax payments due at midmonth. Also contributing to the pressures were large shifts of deposits away from money center banks as the Treasury drew down its tax-and-loan account balances. During the period as a whole the effective rate on Federal funds fluctuated mostly in a range of  $8\frac{1}{2}$  to  $9\frac{1}{2}$  per cent, compared with a range of about 8 to 9 per cent in the previous interval. In the 4 weeks ending June 18 member bank borrowings averaged about \$1,350 million, little changed from the preceding 4 weeks, and the average for net borrowed reserves also was close to its earlier level.

With credit demands remaining strong and the banking system continuing under considerable restraint, most market interest rates had risen appreciably further on balance in recent weeks. Particularly sharp rate advances occurred after major banks increased their prime lending rate by 1 percentage point—to a record high of  $8\frac{1}{2}$  per cent—on June 9. Upward pressures on Treasury bill rates were augmented by sales from foreign official accounts—most of which were associated with movements of funds from Germany into the Euro-dollar market—and the 3-month bill rate rose from around 6.10 per cent in late May to a new high of 6.81 per cent on June 12. Subsequently, when foreign official sales diminished and demands developed from investors who were re-

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deeming maturing Treasury securities for cash, the 3-month rate declined to a range around 6.50 per cent.

Yields on new corporate and municipal bonds advanced for most of the period since the preceding meeting, but yields on Treasury bonds turned down shortly after the increase in the prime rate and at the time of this meeting were slightly below their levels in late May. The volume of corporate bonds coming to market in June—and in prospect for July—was large, but most of the recent issues had been well received by investors at the higher yields offered. In contrast, the volume of municipal issues had declined substantially—in part because of cancellations and postponements of previously scheduled issues—but distribution of recent issues was proceeding slowly as a result of limited bank demand. Prices of common stocks turned down after mid-May and fell steadily in subsequent weeks.

Average yields on new-home mortgages were unchanged from April to May, but secondary-market yields on federally underwritten mortgages rose sharply to a new high in June, following the increase in the prime rate. Savings inflows at nonbank thrift institutions increased in May from the low April pace but for the 2 months together inflows were at a rate well below that for the first quarter. In May mortgage commitments outstanding at such institutions declined for the first time in 1969. Thrift institutions reportedly were continuing to follow cautious commitment policies in June, in anticipation of possibly heavy savings outflows following midyear interest and dividend crediting.

In May, according to revised estimates, declines at a 2 per cent annual rate were recorded for both the money stock and the adjusted bank credit proxy—daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches. Large-denomination CD's continued to run off at a rapid pace, and net inflows of consumer-type time and savings deposits were unusually small. In the face of strong business loan demands and net deposit outflows, banks substantially reduced their holdings of securities, particularly U.S. Government securities. In addition to enlarging their Euro-dollar liabilities to foreign branches, banks apparently made increased use of funds from other nondeposit sources, including sales of loan participations to nonbank customers under repurchase agreements and sales of commercial paper by bank holding companies.

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In the first 5 months of 1969 as a whole, growth in the money stock slowed to an annual rate of less than 3 per cent from about 6 per cent in the second half of 1968. The adjusted bank credit proxy declined at about a 1 per cent annual rate after increasing at a 13 per cent pace in the preceding half year. Since the beginning of 1969 business loans of banks had expanded at a 17 per cent annual rate, holdings of U.S. Government securities had declined at a rate of more than 21 per cent, and holdings of other securities had changed little on balance.

Business loan demands remained strong in early June, although borrowings around the midmonth tax date were smaller than many observers had expected. Staff projections suggested that the adjusted bank credit proxy would decline in both June and July—at annual rates in the ranges of 2 to 4 and 3 to 5 per cent, respectively—if prevailing conditions were maintained in money and short-term credit markets. The projections allowed for the large rise in Euro-dollar borrowings through foreign branches that had already occurred in June and for some anticipated further increases in coming weeks. While the projections did not incorporate allowances for funds raised by banks from other nondeposit sources, it was observed at the meeting that the use of such funds might increase on the average in June by an amount about equivalent to the projected decline in the adjusted proxy series.

With respect to various categories of deposits, the staff projections suggested that in both June and July large-denomination CD's would continue to run off at a substantial rate and that there would be net outflows of other time and savings deposits, particularly around the midyear interest-crediting period. On the other hand, expansion in private demand deposits and the money stock was projected to resume in June and to accelerate in July. In the 2 months together, U.S. Government deposits were expected to decline on the average by an amount roughly twice the projected increase in private demand deposits.

In the Committee's discussion it was noted that, while there had been some moderation in the rate of growth of real economic activity, inflationary pressures and expectations remained strong. A few members commented that the continuing inflationary environment might offer grounds for a slight further firming of money market conditions, or at least the resolution of any doubts arising in the conduct of open market operations in that direction. But the consensus of the Committee was

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that open market policy should remain unchanged at present. In this connection, some members noted the extent to which growth of money and bank credit had already been curtailed, the strains evident in financial markets, and the possibility of unusual liquidity pressures in the weeks ahead.

Comments also were made in the discussion about the desirability of System policy actions in areas other than open market operations—including increases in discount rates, increases in Regulation Q ceiling rates on large-denomination CD's, and actions to limit bank access to various nondeposit sources of funds. While there were some differences of view on these matters, the majority of those commenting thought that increases in discount rates or Regulation Q ceiling rates would not be appropriate at this time but that it would be desirable for the Board to consider some actions with respect to nondeposit sources of funds.

With respect to open market policy, the Committee agreed that operations should be directed at maintaining the firm conditions currently prevailing in the money and short-term credit markets. The proviso was added that operations should be modified if bank credit appeared to be deviating significantly from current projections or if unusual liquidity pressures should develop. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that expansion in real economic activity is continuing to moderate slightly, but that substantial upward pressures on prices and costs are persisting. Most market interest rates have risen considerably on balance in recent weeks, as credit demands continued strong against the background of considerable restraint on the banking system. Growth in bank credit and the money supply thus far in 1969 has been limited, and both declined somewhat on average in May. Large-denomination CD's have continued to run off at a rapid pace recently, and net inflows of consumer-type time and savings deposits have remained small. At nonbank thrift institutions, savings inflows slowed somewhat on average in April and May. Very heavy Euro-dollar borrowing by U.S. banks through their foreign branches produced a large surplus in the balance of payments on the official settlements basis after mid-May. On the other hand, high Euro-dollar interest rates apparently also stimulated outflows of funds from the United States that contributed to a large deficit on the liquidity basis thus far in June. In light of the

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foregoing developments, 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 maintaining the firm conditions currently prevailing 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 or if unusual liquidity pressures should develop.

Votes for this action: Messrs. Martin, Bopp, Brimmer, Clay, Coldwell, Daane, Mitchell, Robertson, Scanlon, Sherrill, and Treiber. Vote against this action: Mr. Maisel.

Absent and not voting: Mr. Hayes. (Mr. Treiber voted as his alternate.)

In dissenting from this action, Mr. Maisel observed that on balance conditions in money and short-term credit markets were now considerably firmer than at the end of April while the monetary aggregates had been declining. He was concerned that further tightening to an undesirable degree might occur under the directive favored by the majority today, since the language of the second paragraph was similar to that of the directives the Committee had issued on April 29 and May 27. In addition, he noted that the staff projections suggested that the bank credit proxy, before adjustment for Euro-dollar borrowings, and total reserves of member banks might fall at an annual rate of 10 to 12 per cent in June and July together even if conditions in money and short-term credit markets were unchanged. In his judgment, moderate positive rates of growth in bank credit were appropriate under current circumstances, and he thought it would be desirable for the Committee to act now to bring about a transition to maintainable financial conditions. Accordingly, he preferred a directive calling for maintenance of the money and short-term credit market conditions that had prevailed on the average in the second quarter rather than the tighter conditions currently prevailing.

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## MEETING HELD ON JULY 15, 1969

### Authority to effect transactions in System Account.

According to information reviewed at this meeting, real GNP apparently had continued to rise in the second quarter at an annual rate close to that of the first quarter and slightly below the rate of the final quarter of 1968. Average prices, as measured by the GNP deflator, were estimated to have continued upward at the rapid first-quarter pace. There were indications—including further large declines in prices of common stocks—that some attitudes regarding the outlook were beginning to change, but it appeared that inflationary expectations on the whole were still strong.

The latest economic information continued to exhibit the cross-currents that had been evident in preceding months. Retail sales, according to the advance report, declined in June, and revised estimates for May indicated that they had declined in that month also. On the other hand, industrial production was estimated to have risen considerably further in June, and nonfarm employment expanded more rapidly than in the two preceding months. The labor market remained tight, and the unemployment rate edged down to 3.4 per cent from 3.5 per cent in May.

Average wholesale prices rose sharply further from mid-May to mid-June as prices of farm and food products again advanced substantially. However, average prices of industrial commodities were unchanged for the first time since mid-1968, as further increases for a variety of commodities, particularly metals and products, were offset by continued marked declines in prices of lumber and plywood. The consumer price index rose much less in May than in March and April—partly because of a smaller advance in service costs, including mortgage interest charges and property taxes—but it appeared likely that the index for June would show a substantial increase. Average hourly earnings continued to advance rapidly in the first half of 1969, although not so rapidly as in late 1968. In the limited number of wage contracts on which negotiations had recently been completed, there had been provision for large increases in wage rates.

Staff projections for the second half of 1969 suggested that expansion of real GNP would slow further—reaching a relatively low rate

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in the fourth quarter—but that the advance in prices would diminish only moderately from the rapid pace of the first half. Although prospects for congressional action on the administration's tax recommendations were uncertain, the projections assumed that the income tax surcharge would be continued at 10 per cent through the end of 1969 and at 5 per cent in the first half of 1970, and that the investment tax credit would be repealed.

One of the major forces expected to retard economic growth in the second half was a sharp deceleration in the expansion of fixed capital outlays by businesses, as had been suggested by the recent Commerce-SEC survey. In addition, it appeared likely that outlays on residential construction would decline as a result of limited availability of mortgage funds. Growth in consumer spending was expected to be stimulated temporarily in the third quarter by the Federal pay raise and the ending of retroactive payments on 1968 income tax liabilities, but to slow later on in line with smaller increases in employment and income. Apart from the pay raise, Federal expenditures were expected to remain under substantial restraint.

With respect to the U.S. balance of payments, tentative estimates for the second quarter indicated that the deficit on the liquidity basis had increased substantially further from the high first-quarter rate and that there had been another sizable surplus on the official settlements basis. The liquidity deficit was swollen by very large capital outflows. These included movements of funds into Germany during the period of intense speculation on a revaluation of the German mark in late April and early May and flows of funds to the Euro-dollar market—especially in June—in response to record high interest rates there. There was a sharp decline in foreign purchases of U.S. corporate securities, a shift from inflow to outflow in bank-reported claims on foreigners, and apparently some increase in the outflow of direct investment capital. Merchandise exports and imports both increased following the termination of the longshoremen's strike, and in April and May combined there was a very small trade surplus, in contrast to the small deficit of the first quarter.

The second-quarter surplus in the payments balance on the official settlements basis reflected the movements of foreign funds out of other currencies into Euro-dollars that accompanied a huge increase in bor-

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rowings by U.S. banks from their foreign branches. These developments were concentrated mainly in June; in the 4 weeks ending June 25, Euro-dollar borrowings of U.S. banks rose by \$3.6 billion to a new high of \$13.6 billion. Some further net increase occurred in early July.

In recent weeks interest rates in the Euro-dollar market had fluctuated below the peaks reached on June 10 but had remained high. On June 26 the Board of Governors announced certain proposals designed to moderate the flow of Euro-dollars between U.S. banks and their foreign branches, including a proposal for a 10 per cent reserve requirement on borrowings by U.S. banks from their branches—to the extent that these borrowings exceeded the daily-average amounts outstanding in the 4 weeks ending May 28, 1969.

On July 9 and 11 the Treasury auctioned tax-anticipation bills due in December 1969 and March 1970, respectively. Each issue amounted to \$1.75 billion, and payment on each was scheduled for July 18. Commercial banks, which were permitted to pay for the bills in full through credits to Treasury tax and loan accounts, successfully bid for the bulk of the issues. The Treasury was expected to announce at the end of July the terms on which it would refund \$3.4 billion of notes maturing in mid-August, of which \$3.2 billion were held by the public. Current estimates suggested that the Treasury also would need to raise some additional new cash during August.

With the banking system remaining under considerable restraint, short-term interest rates recently had risen further on balance. Treasury bill rates fluctuated over an unusually wide range as shifting demand and supply pressures impinged on a market in which dealers were attempting to hold inventories to minimal levels. The market rate on 3-month bills, for example, declined from around 6.50 per cent at the time of the previous meeting of the Committee to about 6.10 per cent in late June in response to strong seasonal demands; the rate then advanced to a range around 7 per cent in reaction to the Treasury's offering of tax-anticipation bills and a large prospective volume of Federal agency financing.

In capital markets, yields on municipal bonds had declined in recent weeks as a result of a sharply reduced volume of current and prospective offerings and light dealer inventories. Yields on long-term



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Treasury and corporate bonds—particularly the latter—also declined for a time in the latter part of June but they turned up near the end of the month, partly because of sizable additions to an already large calendar of corporate offerings. Also contributing to the weakening in the market atmosphere were the delays in congressional action on extension of the income tax surcharge and the announcement by the Federal Reserve of two proposed regulatory actions. These were the proposal on June 26 regarding reserve requirements on Euro-dollar borrowings by U.S. banks and a proposal on June 27 to bring certain Federal funds transactions within the coverage of Regulations D and Q. However, the Government bond market rallied sharply on the Friday before this meeting, following the announcement by a major automobile manufacturer that it had cut back on its capital investment program. On balance, Treasury and corporate bond yields at the time of this meeting were little changed from their levels of 3 weeks earlier.

Secondary market yields on federally underwritten new-home mortgages reached a new high in early July, and the available evidence suggested that mortgage lenders were following highly selective lending policies. Net savings inflows to nonbank thrift institutions slackened considerably in June and for the second quarter as a whole were well below earlier quarters. According to preliminary indications, thrift institutions experienced substantial net outflows of savings in early July, following quarterly interest and dividend crediting.

System open market operations since the previous meeting of the Committee had been directed at maintaining the firm conditions prevailing in the money and short-term credit markets. Day-to-day variations in the Federal funds rate were more pronounced than earlier, but the average effective rate—approximately 9 per cent—was about the same as in the preceding interval. Member bank borrowings averaged \$1,325 million in the 3 weeks ending July 9, little changed from the previous 4 weeks, and average net borrowed reserves also remained close to their earlier level.

Commercial bank holdings of securities declined slightly in June. Business loans outstanding were unchanged over the month after rising rapidly earlier in the year, and total loans declined slightly. The volume of loans reported as outstanding at the end of June was reduced significantly by sizable sales of loans during the month to bank

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affiliates, but there apparently had also been some diversion of borrowers' demands to the commercial paper market following the increase in the prime lending rate of banks on June 9.

Total bank credit, as measured by the adjusted proxy series—daily-average member bank deposits, adjusted to include changes in the daily average of U.S. bank liabilities to foreign branches—was estimated to have declined at an annual rate of about 3 per cent from May to June. The decline in the adjusted proxy series reflected a large reduction in member bank deposits and a partly compensating expansion in the Euro-dollar liabilities of domestic banks to their foreign branches. Rough estimates suggested that, if a further adjustment were made for assets sold to affiliates and to customers with bank guarantees, the proxy series would be about unchanged in June.

The money stock was estimated to have increased at an annual rate of about 1 per cent from May to June after declining at a 3 per cent rate in the previous month. The resumption of growth in money reflected an expansion in currency; private demand deposits<sup>1</sup> declined slightly. U.S. Government deposits were reduced considerably on the average in June. The run-off of large-denomination CD's continued without abatement; since mid-December the outstanding volume of such CD's at weekly reporting banks had contracted by about \$9 billion, or nearly 40 per cent. Other time and savings deposits of banks changed little on the average in June and—as at nonbank thrift institutions—there apparently were substantial net outflows from consumer-type accounts in early July.

Revised staff projections suggested that the adjusted bank credit proxy would decline at an annual rate of 5 to 8 per cent from June to July if prevailing conditions were maintained in money and short-term credit markets. The projections allowed for some further growth in Euro-dollar borrowings of U.S. banks from the high level of early

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<sup>1</sup> It was reported at the meeting that, under present accounting procedures for cash items generated by Euro-dollar transactions of U.S. banks, the recent growth in such cash items appeared to be producing some downward bias in measures of private demand deposits—and hence in measures of the money stock and, to a relatively smaller extent, the bank credit proxy. The staff was studying methods for correcting the bias in question. The information on recent and projected changes in these variables presented at the meeting and included in this policy record does not include such corrections.

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July, but they did not include any allowance for possible changes in the extent to which banks were utilizing funds from other nondeposit sources. It was noted, however, that banks were likely to continue to increase their reliance on funds from such sources.

With respect to the various categories of deposits, it was expected that private demand deposits—and the money stock—would expand moderately from June to July and that U.S. Government deposits would decline sharply. Also anticipated were a continuing rapid run-off in large-denomination CD's and a reduction in the average level of consumer-type time and savings deposits.

Projections for August suggested only a slight further decline in the average level of member bank deposits. Credit demands in that month were expected to be influenced by dealer and bank support of Treasury financing operations. In addition, with maturities of CD's in August less than in earlier months, it appeared likely that the run-off would moderate; and prospects seemed to favor some net inflow of consumer-type time and savings deposits.

In the Committee's discussion a number of members commented that the response of the economy to existing monetary and fiscal restraints was as yet inadequate. Considerable concern was expressed about the persistence of inflationary pressures and expectations and about the uncertain prospects for congressional action on extension of the income tax surcharge.

The members agreed that the forthcoming Treasury refunding militated against any appreciable change in open market policy at this time. Some, however, expressed the opinion that a slight shift toward greater restraint might be warranted. A contrary view was also advanced, favoring a shading toward slightly less restraint in light of the projections for slackened growth in real GNP, recent and prospective changes in bank credit, and the risk that maintenance of current tight money market conditions for an extended period might lead to developments that would necessitate an undesirably large adjustment toward ease later on.

Other members took the intermediate position that further firming would not be appropriate in view of the high degree of restraint already in effect but that, at the same time, the inflationary environment and the uncertain status of tax legislation militated against even a

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slight move toward easing. In the latter connection, it was noted that any indications that monetary restraint was being relaxed might reinforce inflationary expectations just at a time when signs were beginning to appear that some attitudes about the outlook were changing.

At the conclusion of the discussion the Committee agreed that open market operations should be directed at maintaining the currently prevailing firm conditions in money and short-term credit markets, with the proviso that operations should be modified, to the extent permitted by the Treasury refunding, 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 expansion in real economic activity, after moderating slightly in the first quarter, has continued at about the same pace since then. Substantial upward pressures on prices and costs are persisting. Market interest rates have fluctuated widely recently, partly because of varying expectations, although credit demands remain relatively strong. Short-term rates on balance have continued under upward pressure, against the background of considerable restraint on the banking system. In June bank credit showed little change, after allowance for assets sold to affiliates and to customers with bank guarantees. Growth in the money supply resumed at a slow pace, and the run-off of large-denomination CD's which began in mid-December continued without abatement. There apparently were substantial net outflows from consumer-type time and savings accounts at banks and nonbank thrift institutions around midyear, following a period of slackened growth. The over-all balance of payments deficit on the liquidity basis rose sharply in the second quarter; there were large outflows into German marks and into Euro-dollar deposits, and there was no significant improvement in net exports. In contrast, there was another large surplus on the official settlements basis as U.S. banks borrowed heavily in the Euro-dollar market. In light of the foregoing developments, 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.

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

Votes for this action: Messrs. Martin, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Robertson, Scanlon, Sherrill, and Treiber. Votes against this action: None.

Absent and not voting: Messrs. Hayes and Mitchell. (Mr. Treiber voted as Mr. Hayes' alternate.)

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## MEETING HELD ON AUGUST 12, 1969

### Authority to effect transactions in System Account.

According to preliminary Commerce Department estimates, real GNP had expanded in the second quarter at an annual rate of 2.4 per cent, close to the 2.5 per cent rate of the first quarter and somewhat slower than the 3.5 per cent rate of the second half of 1968. However, substantial upward pressures on prices and costs were persisting; average prices, as measured by the GNP deflator, had increased at an annual rate of nearly 5 per cent in both the first and second quarters. Staff projections suggested some further slowing of growth in real GNP in the second half of 1969 but only a moderate reduction in the rate of price advance.

Recent economic developments continued to present a mixed picture. Industrial production was tentatively estimated to have risen sharply further in July. On the other hand, weekly figures suggested that retail sales were about unchanged from June and no higher than they had been in February. Nonfarm employment expanded less than it had on the average in earlier months of the year, and the unemployment rate rose to 3.6 from 3.4 per cent in June.

Average wholesale prices increased only slightly further from mid-June to mid-July. Average prices of farm products and foods, which had accounted for most of the rise in the wholesale price index in recent months, were unchanged. Price advances continued widespread among industrial commodities, but the average for such commodities rose only moderately because of further declines in prices of lumber and plywood. The consumer price index increased sharply in June with foods, particularly meats, accounting for much of the advance.

In the second quarter, according to the preliminary Commerce Department figures, expansion in real GNP had been sustained by a rise in inventory investment. Declines were recorded in residential construction expenditures and Federal outlays on goods and services, and the rate of increase was slower than in the first quarter for consumer spending and business capital outlays.

One uncertainty in the outlook for the second half of 1969 had been removed by the enactment in early August of legislation to ex-

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tend the income tax surcharge at 10 per cent through the end of the year. The mid-1969 Government pay raise was expected to lead to an increase in Federal outlays in the third quarter and to provide some temporary stimulus to growth in disposable income and consumer spending, but it seemed likely that the decline in Federal outlays would resume in the fourth quarter and that growth in consumer income and spending would again be moderating. Prospects were that residential construction activity would continue to decline in the third and fourth quarters. Further slowing in the expansion of business capital outlays was anticipated in both quarters, as suggested by the June Commerce-SEC survey of business plans and also by a special Federal Reserve survey of capital spending authorizations of about 200 large corporations conducted in late July.

With respect to the balance of payments, it appeared that outflows of U.S. capital remained sizable in July and that the very large deficits that had been recorded on the liquidity basis earlier in the year were continuing. The official settlements balance was still in surplus in the first half of July, a period in which the outstanding Euro-dollar borrowings of U.S. banks increased considerably further. After mid-July, however, there was relatively little net change in such borrowings and the official settlements balance shifted toward deficit. Interest rates in the Euro-dollar market declined from early July to early August but remained at relatively high levels.

On the Friday before this meeting the French Government announced an 11.1 per cent devaluation of the franc. This action was taken against the background of recent substantial losses of international reserves by France and in the interests of avoiding a deflationary policy "that would impose unbearable sacrifices and massive unemployment on the country." Although certain Western European currencies had come under some selling pressure following the announcement, the initial reaction in foreign exchange markets appeared on the whole to be orderly. Earlier—around mid-July—the Bank of Canada had increased its discount rate and the German Federal Bank had announced an increase in reserve requirements against deposit liabilities of domestic banks; and around the end of the month discount rates had been increased by the central banks of Belgium and the Netherlands.

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In its August refunding the Treasury offered a new 18-month, 7¾ per cent note priced to yield about 7.82 per cent in exchange for \$3.4 billion of securities maturing on August 15. The new issue was well received and was quoted at a premium in the market. Of the \$3.2 billion of maturing issues held by the public, about 14 per cent were redeemed for cash. The Treasury was expected to raise about \$1.5 billion to \$2 billion of new cash later in the month through an offering of short-term securities.

The atmosphere in securities markets had improved recently—partly because of the enactment of legislation extending the income tax surcharge, of further indications that the rate of real economic expansion was gradually slowing, and of signs that credit demands from some sectors might be moderating. Yields on new long-term corporate bonds and municipal securities, which had been rising in the latter part of July, declined somewhat in early August. Municipal bond markets had been under particularly severe pressures partly as a result of congressional discussion of possible changes in the tax treatment of earnings on such bonds, and these pressures moderated after the House Ways and Means Committee modified certain earlier proposals in this area. Various short-term interest rates also had declined recently. For example, the market rate on 3-month Treasury bills, at about 7 per cent on the day before this meeting, was down from a peak of 7.13 per cent in late July, although it was little changed from its level 4 weeks earlier.

Commercial bank holdings of U.S. Government securities rose during July as a result of bank underwriting of the tax-anticipation bills sold by the Treasury at midmonth, but holdings of other securities decreased considerably. Business loans outstanding were about unchanged for the second successive month after expanding rapidly earlier in the year. To some extent the lack of growth in business loans since May reflected outright sales of loans to bank affiliates. Even with the inclusion of such loans, however, the increase in the last 2 months would have been at a rate only about one-third of that earlier in the year.

Total bank credit, as measured by the adjusted proxy series, was estimated to have declined at an annual rate of about 12 per cent from June to July, as a large reduction in daily-average member



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bank deposits was only partly offset by a rise in the average level of Euro-dollar liabilities of U.S. banks to their foreign branches. Banks increased their reliance on funds from other nondeposit sources, including funds obtained by selling assets to affiliates and to customers with bank guarantees. Rough estimates suggested that with a further adjustment for such funds the proxy series would have declined at an annual rate of 7 to 8 per cent from June to July.

Private demand deposits<sup>1</sup> and the money stock rose on the average in July—the latter at an annual rate of 6 per cent—partly as a consequence of a large further contraction of U.S. Government deposits. The run-off of large-denomination CD's continued without abatement; since mid-December the outstanding volume of such CD's at weekly reporting banks had been reduced by more than \$10.5 billion, or about 45 per cent. There also were sizable outflows of other time and savings deposits following midyear interest crediting. Nonbank thrift institutions similarly experienced heavy outflows early in July.

In general, System open market operations since the previous meeting of the Committee had been directed at maintaining firm conditions in the money and short-term credit markets. Money market pressures had tended to ease for a time after mid-July as a result of a shift of reserves toward the money center banks. This tendency was not fully offset through System operations because bank credit appeared to be significantly below earlier projections. However, the extent to which operations were influenced by bank credit developments was affected by “even keel” considerations related to the

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<sup>1</sup> Estimates of private demand deposits—and hence of the money stock and the bank credit proxy—had recently been corrected for a downward bias produced, under previously employed accounting procedures, by the recent growth in cash items generated by Euro-dollar transactions of U.S. banks. For the money stock the correction raised the estimated annual rate of increase for July by about 2½ percentage points—from 3.7 to 6.1 per cent; and for the first 6 months of the year by about 1½ percentage points—from 2.2 to 3.6 per cent. The effects of the correction on the adjusted proxy series were smaller. For July, the estimated annual rate of decline was reduced by about 1½ points, from 13.5 to 11.8 per cent; and for the first half of the year an estimated decline at an annual rate of about 1 per cent was revised to an estimate of no change.

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Treasury refunding. Subsequently, a redistribution of reserves away from major banks had contributed to tighter money market conditions despite sizable reserve-supplying operations by the System. In the two statement weeks following the July 15 meeting, the effective rate on Federal funds had averaged about  $8\frac{1}{4}$  per cent—compared with a rate centering around 9 per cent in earlier weeks—and since then had risen to a range around  $9\frac{3}{4}$  per cent. In the 4 weeks ending August 6, member bank borrowings had averaged \$1,250 million, down somewhat from the previous period. A corresponding decline in excess reserves had left net borrowed reserves about unchanged on the average.

Prospective changes in the bank credit proxy and related variables were affected by the expected consequences of certain regulatory actions taken by the Board of Governors on July 24, 1969. These were (1) an amendment to Regulation D, effective July 31, requiring member banks to include in deposits used to compute reserve requirements all so-called “London checks” and “bills payable checks” used in settling transactions involving foreign branches; and (2) amendments to Regulations D and Q defining deposit liabilities subject to those regulations to include, beginning August 28, every bank liability on a repurchase agreement (RP) entered into on or after July 25 with a person other than a bank and involving any assets other than direct and fully guaranteed obligations of the United States or its agencies.

The first of these actions was expected to increase required reserves of member banks by about \$450 million in the statement week ending August 20. The second action was not expected to have much effect on required reserves, since it appeared unlikely that a significant volume of newly written RP's of the types affected would be outstanding after late August. It was noted, however, that outstanding RP's were expected to decline as current agreements matured and that this decline would tend to reduce bank credit by an equivalent amount, other things equal. Moreover, it was considered likely that bank attitudes toward alternative sources of funds and toward their own lending and investing policies were already being affected by this action, and by the expectation that the Board would soon implement two other regulatory actions it had proposed

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near the end of June. The latter were proposals to amend Regulations D and M, among other things to place a 10 per cent reserve requirement on borrowings by U.S. banks from their foreign branches, to the extent that these borrowings exceeded the daily-average amounts outstanding in the 4 weeks ending May 28, 1969; and a proposal to amend Regulations D and Q to bring a member bank's liability on certain Federal funds transactions within the coverage of those regulations.

The staff projections suggested that the adjusted bank credit proxy would decline at an annual rate of 9 to 12 per cent from July to August if prevailing conditions were maintained in money and short-term credit markets. The projections allowed for only a small further rise in the average level of Euro-dollar borrowings of U.S. banks. While no specific allowance was made in the projections for possible changes in the extent to which banks were utilizing funds from other nondeposit sources, it was noted that the outstanding volume of funds obtained from such sources probably would grow less rapidly than in July.

Among deposit categories, private demand deposits—and the money stock—were projected to decline moderately from July to August, and a further reduction in the average level of U.S. Government deposits was anticipated. Given prevailing levels of market interest rates, it was expected that large-denomination CD's would continue to run off, although less rapidly than earlier because the volume of maturing CD's was smaller. And it appeared unlikely that consumer-type time and savings deposits would show a marked expansion after the large net outflows of July.

In the Committee's discussion account was taken of the indications that the rate of expansion of over-all economic activity was moderating somewhat, of the recent legislation extending the 10 per cent income tax surcharge through the end of the year, and of the substantial degree of monetary restraint already in effect. The Committee agreed that no further increase in monetary restraint would be warranted at present. In particular, it agreed that any tendencies toward firmer money market conditions that might result from recent regulatory actions by the Board of Governors or from other causes should be resisted through open market operations.

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At the same time, a majority of the members thought that action to ease money market conditions would not be warranted now, in view of the persistence of inflationary pressures and the risk that such action would encourage a new surge of inflationary expectations. Some members of the majority expressed the view that System operations should not necessarily be undertaken to offset fully any easing tendencies that might be produced by market forces. On the other hand, it was suggested that the implementation of policy should not be unduly influenced by temporary swings in market psychology.

The Committee concluded that open market operations should be directed at maintaining the prevailing firm conditions in money and short-term credit markets. The proviso was added that operations should be modified if bank credit appeared to be deviating significantly from current projections. It was also agreed that operations should be modified if pressures arose in the aftermath of the devaluation of the French franc or in connection with the regulatory actions taken by the Board of Governors.

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

The information reviewed at this meeting indicates that expansion in real economic activity slowed somewhat in the first half of 1969 and some further moderation is projected. Substantial upward pressures on prices and costs are persisting. Most market interest rates recently have receded slightly from their earlier highs. In July the money supply expanded as U.S. Government deposits decreased further; bank credit declined on average, after adjusting for an increase in assets sold to affiliates and to customers with bank guarantees. The run-off of large-denomination CD's which began in mid-December continued without abatement in July, and there apparently were net outflows from consumer-type time and savings accounts at banks and nonbank thrift institutions combined. The over-all balance of payments deficit on the liquidity basis remained very large in July; the balance on the official settlements basis was still in surplus in the first half of the month but subsequently shifted toward deficit as U.S. banks' borrowings of Euro-dollars leveled off. Foreign exchange markets appear initially to be adjusting in an orderly fashion to the announced devaluation of the French franc. In light of the foregoing developments, it is the policy of the Federal

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Open Market Committee to foster financial conditions conducive to the reduction of inflationary pressures, with a view to encouraging sustainable 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 maintaining the prevailing firm 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 or if pressures arise in connection with foreign exchange developments or with bank regulatory changes.

Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Coldwell, Daane, Robertson, Scanlon, Sherrill, and Swan. Votes against this action: Messrs. Maisel and Mitchell.

Absent and not voting: Mr. Clay. (Mr. Swan voted as his alternate.)

In dissenting from this action Messrs. Maisel and Mitchell indicated that they did not advocate lessening monetary and credit restraint. However, they did not want monetary policy to become more and more restrictive. It appeared to them that trends in monetary aggregates and the availability of credit were indicative of increased tightening that would be heightened if money market conditions were maintained at the levels called for in the directive favored by the majority. In order to guard against an undesired further tightening, they favored a directive calling for operations to moderate such contractive tendencies, if prospective declines in monetary aggregates should in fact occur, while maintaining the position of over-all monetary and credit restraint.

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## MEETING HELD ON SEPTEMBER 9, 1969

### 1. Authority to effect transactions in System Account.

Revised estimates by the Commerce Department indicated that real GNP had expanded at an annual rate of 2.0 per cent in the second quarter, after rising at rates of 2.5 per cent in the first quarter and 3.5 per cent in the second half of 1968. Average prices, as measured by the GNP deflator, advanced at an annual rate of 5.1 per cent in the second quarter, a little faster than in the first. Staff projections continued to suggest that growth in real GNP would slow further during the second half of 1969, particularly in the fourth quarter, but that upward pressures on prices would diminish only moderately.

Recent economic information offered additional evidence that the expansion in final demands was slowing somewhat. Contrary to earlier indications, both retail sales and nonfarm employment were now estimated to have declined in July, and it was expected that the preliminary estimate of the industrial production index for that month—which had shown a sharp increase—would be revised downward. In August, according to weekly figures, retail sales rose but, after adjustment for price increases, remained below the level of a year earlier. Nonfarm employment advanced at a considerably slower pace in August than earlier in the year, and tentative indications were that the industrial production index would at most rise only slightly. On the other hand, the unemployment rate edged down to 3.5 from 3.6 per cent in July.

Increases in prices of industrial commodities continued widespread from mid-July to mid-August, and the average rose appreciably. However, the total wholesale price index declined slightly as a result of a reduction in prices of farm and food products. The consumer price index again rose sharply in July, largely because of increases in prices of foods and services.

The staff projection suggested that real GNP would expand in the third quarter at about the second-quarter rate but would rise less in the final 3 months of the year. Growth in private final sales was expected to slow further in the second half, but it appeared likely that the expansion in GNP would be sustained in the third quarter by some increase in business inventory accumulation and by a rise in Federal

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expenditures resulting from the July pay increase. The projections for the fourth quarter suggested little further change in inventory investment and a renewal of earlier declines in Federal outlays on goods and services.

With respect to other categories of private expenditures, consumer spending was now projected to rise at a slower rate in both the third and fourth quarters than it had in the second, despite an anticipated increase in the growth rate of disposable income in the third quarter. Declines in residential construction outlays were expected to continue. The latest Commerce-SEC survey of business plans, taken in August, suggested that spending on new plant and equipment would rise more in the third quarter than the May survey had indicated but that such spending would remain about unchanged in the fourth quarter. For 1969 as a whole, the survey implied a level of capital outlays 10.6 per cent above that of 1968, compared with the increases of 12.6 and 14 per cent, respectively, that had been indicated by the surveys taken in May and February.

The deficit in the U.S. balance of payments on the liquidity basis remained very large in both July and August. The official settlements balance was in surplus for July as a whole, mainly because of a large increase in outstanding Euro-dollar borrowings of U.S. banks in the first half of the month. In August, however, when there was a much smaller increase in such borrowings, the payments balance shifted into deficit on the official settlements basis also. Both exports and imports declined in July, but imports fell more and a slight surplus was recorded in merchandise trade that month.

Following the announcement of the devaluation of the French franc on August 8, interest rates in the Euro-dollar market reversed the decline that had been under way since early July, and conditions in foreign exchange markets became unsettled; sterling, the lira, and the Belgian franc were under selling pressure, and the guilder and mark were in strong demand. Although activity in the exchange markets was greatly reduced after mid-August, uncertainties persisted—partly because of possibilities of a revaluation of the mark following the German elections scheduled for September 28. In mid-August the Bank of Italy increased its basic discount rate from 3½ to 4 per cent.

On August 20 the Treasury auctioned a \$2.1 billion strip of bills

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consisting of additions to outstanding issues maturing from mid-September to late October. Commercial banks, which were allowed to make payment for the new bills through credits to Treasury tax and loan accounts, bid successfully for the bulk of the offering. The Treasury was expected to announce around mid-September the terms on which it would refund notes and bonds maturing on October 1, of which the public held about \$5.6 billion.

In the early part of September the Treasury's cash balances at both commercial banks and Federal Reserve Banks had been drawn down to quite low levels. The Treasury temporarily financed part of its cash needs by selling \$322 million of special short-term certificates of indebtedness to the Federal Reserve on September 5. It appeared likely that the Treasury would experience further cash drains prior to the mid-September tax date and would need to borrow a substantial amount of additional funds directly from the System in the period through mid-month.

After declining somewhat in earlier weeks, long-term interest rates turned up around mid-August and subsequently reached new highs in an atmosphere of renewed concern over the persistence of inflationary pressures and expectations of continuing monetary restraint. The advances in yields also reflected a sizable volume of new issues by various Federal agencies, a growing calendar of new corporate bonds, and the possible offering of an intermediate-term issue in the Treasury's forthcoming refunding. The volume of State and local government securities coming to market had remained relatively light, as many potential issuers had been unable to offer bonds because market interest rates exceeded statutory ceilings. However, uncertainties arising out of legislative proposals affecting the tax-exempt status of municipal obligations and further reductions in bank holdings had contributed to sizable increases in yields on such obligations.

Most short-term interest rates, while fluctuating over a fairly wide range, had changed little on balance since the previous meeting of the Committee. The market rate on 3-month Treasury bills, which ranged from about 6.75 to 7.15 per cent over the interval, was at 7.09 per cent on the day before this meeting—up slightly from its level 4 weeks earlier.

System open market operations since the previous meeting had been



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directed at maintaining firm conditions in the money and short-term credit markets. Operations were complicated over much of the period by the alternating tendencies towards tautness and ease in the money market and in early September by the sizable declines in the Treasury's cash balances at Reserve Banks. The Federal funds rate fluctuated widely, but the average effective rate—about 9 per cent—was approximately the same as in the previous interval. Member bank borrowings averaged \$1,250 million in the 4 weeks ending September 3, unchanged from the preceding 4 weeks, and average net borrowed reserves also were little changed from their earlier level.

Preliminary estimates suggested that commercial banks had increased their holdings of U.S. Government securities in August in connection with bank underwriting of the tax-anticipation bills sold by the Treasury late in the month. However, bank holdings of municipal and Federal agency securities decreased substantially for the second consecutive month. Business loans outstanding, which had changed little in June and July, rose considerably during August but other loans declined by a nearly equal amount.

Total bank credit, as measured by the adjusted proxy series—daily-average member bank deposits, adjusted to include changes in the daily average of liabilities of U.S. banks to foreign branches—declined at an annual rate of about 10 per cent from July to August. It was estimated that with a further adjustment for funds raised from non-deposit sources other than Euro-dollars, the proxy series would have declined at an annual rate of about 8 per cent. The volume of funds raised through sales of commercial paper by bank affiliates increased somewhat further on the average in August, but outstanding loans sold to nonbank customers under repurchase agreements declined. As a result of an action taken by the Board of Governors in late July, any such repurchase agreements entered into on or after July 25 became subject to Regulations D and Q on August 28.

Private demand deposits and the money stock were estimated to have decreased from July to August—the latter at an annual rate of about 5½ per cent—as U.S. Government deposits rose somewhat on the average following 2 months of substantial decline. There was a further sizable reduction in the outstanding volume of large-denomination CD's, notably at banks outside of New York and Chicago. Net

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outflows of other time and savings deposits continued, although they were considerably smaller than those in July, following midyear interest crediting. At nonbank thrift institutions, which also had experienced sizable net outflows of savings funds in early July, flows appeared to have remained relatively weak in the first half of August.

Staff projections suggested that the average level of member bank deposits would increase at an annual rate of 2 to 5 per cent from August to September if prevailing conditions were maintained in money and short-term credit markets. It was thought likely that there would be little net change in the combined total outstanding of Euro-dollar liabilities of banks, funds raised by sales of loans under RP's, and funds raised through sales of commercial paper by bank affiliates. Expectations with regard to Euro-dollar borrowings by U.S. banks were affected by the fact that on August 13 the Board of Governors had established a 10 per cent marginal reserve requirement on such borrowings by member banks. The reserve requirement was to be met beginning with the week of October 16, based on an initial 4-week computation period beginning September 4.

All of the increase in the average level of member bank deposits anticipated in September reflected an expected sharp rise in U.S. Government deposits; both private demand deposits—as well as the money stock—and time and savings deposits were projected to contract further. It appeared likely, however, that the rate of reduction in time and savings deposits would moderate from that experienced earlier in the summer, because a smaller volume of large-denomination CD's would be maturing and because prospects were for somewhat less weakness in other time and savings deposits.

The Committee decided that no change in monetary policy should be made at this time, both on general economic grounds and in light of the forthcoming Treasury refunding. Note was taken of the indications that the rate of real economic growth was slowing, but it was agreed that the persistence of strong inflationary pressures and expectations militated against a relaxation of monetary restraint at present. At the same time, a number of members emphasized the desirability of avoiding any firming in the stance of policy.

The Committee concluded that open market operations should be directed at maintaining the prevailing firm conditions in money and

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short-term credit markets, subject to the proviso that operations should be modified, to the extent permitted by the Treasury refunding, if bank credit appeared to be deviating significantly from current projections. It was also agreed to renew the additional provisos that had been included in the previous directive; these called for modification of operations if pressures arose in connection with foreign exchange developments or in connection with regulatory actions taken by the Board of Governors.

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

The information reviewed at this meeting indicates that expansion in real economic activity slowed somewhat in the first half of 1969 and some further moderation during the second half is projected. Substantial upward pressures on prices and costs are persisting. Long-term interest rates recently have risen to new peaks, while short-term rates have changed little on balance. In August the money supply decreased while U.S. Government deposits rose somewhat; bank credit declined further on average; the run-off of large-denomination CD's continued without abatement; and there were further net outflows from consumer-type time and savings accounts at banks. The U.S. foreign trade surplus was very small in July. The over-all balance of payments deficit on the liquidity basis remained very large in both July and August, while the balance on the official settlements basis shifted into deficit in August as U.S. banks' borrowings of Euro-dollars leveled off. In light of the foregoing developments, 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 sustainable economic growth and attaining reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury refunding, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining the prevailing firm conditions in money and short-term credit markets; provided, however, that operations shall be modified, to the extent permitted by the Treasury refunding, if bank credit appears to be deviating significantly from current projections or if pressures arise in connection with foreign exchange developments or with bank regulatory changes.

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Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Scanlon, and Sherrill. Votes against this action: Messrs. Maisel and Mitchell.

Absent and not voting: Messrs. Daane and Robertson.

Messrs. Maisel and Mitchell dissented from this action for reasons similar to those underlying their dissent from the directive adopted at the previous meeting. They believed that in measuring the degree of monetary firmness or restraint the Committee should give more weight to movements in key monetary aggregates—such as the money stock, private demand deposits, total and nonborrowed reserves, and bank credit—and in longer-term interest rates. In their judgment, the fact that the monetary aggregates had been declining and longer-term interest rates had been rising in recent weeks indicated that restraint had been steadily increasing, even though money market conditions had been relatively stable. They favored maintaining the over-all posture of restraint measured in terms of such aggregates and interest rates, and permitting more flexibility in money market conditions in order to do so.

## **2. Amendment to continuing authority directive.**

The Committee amended paragraph 2 of the continuing authority directive to the Federal Reserve Bank of New York regarding domestic open market operations, to increase the dollar limit on Federal Reserve Bank holdings of short-term certificates of indebtedness purchased directly from the Treasury from \$1 billion to \$2 billion. With this change, paragraph 2 read as follows:

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  $\frac{1}{4}$  of 1 per cent below the discount rate of the Federal Reserve Bank of

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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 \$2 billion.

Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Maisel, Mitchell, Scanlon, and Sherrill. Votes against this action: None.

Absent and not voting: Messrs. Daane and Robertson.

This action was taken on recommendation of the System Account Manager, who advised that the Treasury's needs for temporary accommodation might well exceed the existing \$1 billion limit in the period before the mid-September tax-payment date. It was agreed that the limit in question would revert to \$1 billion at the close of business on October 7, 1969, the day on which the next meeting of the Committee was scheduled, unless otherwise decided by the Committee on or before that date.

### **3. Ratification of amendment to authorization for System foreign currency operations.**

The Committee ratified an action taken by members on August 27, 1969, effective September 2, 1969, to increase the System's swap arrangement with the National Bank of Belgium from \$300 million to \$500 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 of the authorization 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:

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Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank .....	100
National Bank of Belgium .....	500
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 .....	300
Bank of Norway .....	100
Bank of Sweden .....	250
Swiss National Bank .....	600
Bank for International Settlements:	
Dollars against Swiss francs .....	600
Dollars against authorized European currencies other than Swiss francs .....	1,000

Votes for ratification of this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Maisel, Mitchell, Scanlon, and Sherrill. Votes against ratification of this action: None.

Absent and not voting: Messrs. Daane and Robertson.

The action in question had been taken by members on recommendation of the Special Manager of the System Open Market Account. The latter had advised that the increase in the swap line would be helpful in permitting the National Bank of Belgium to cope with short-run speculative pressures on the Belgian franc arising out of the recent devaluation of the French franc and would thus contribute to stability in foreign exchange markets.

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## MEETING HELD ON OCTOBER 7, 1969

### 1. Authority to effect transactions in System Account.

According to staff estimates, expansion in real GNP continued in the third quarter at about the 2 per cent annual rate of the second quarter, as an increase in inventory investment approximately offset further slackening in growth of private final sales. Average prices, as measured by the GNP deflator, were estimated to have advanced substantially. Staff projections suggested that real GNP would grow more slowly in the fourth quarter and that it might change little in the first half of 1970. With pressures on resources expected to ease over that period, some moderation in the rate of price advance was projected.

A number of monthly measures of economic activity had weakened recently. Nonfarm employment was about unchanged in September and the unemployment rate rose sharply to 4.0 from 3.5 per cent in August. Industrial production edged down in August, and tentative estimates suggested that it changed little or declined slightly in September. It appeared from weekly data for most of September that retail sales in that month were about the same as in August and that, after adjustment for price increases, such sales remained below the level of a year earlier. New orders at manufacturers of durable goods declined appreciably in August, and housing starts fell for the seventh consecutive month.

Prices of a large number of industrial commodities increased from mid-August to mid-September and the average advanced substantially further. The over-all wholesale price index rose only slightly, however, as a result of another decline in prices of farm products and foods. In August the consumer price index again increased considerably.

The staff projections of GNP for the current and the next two quarters were based on the assumptions that the income tax surcharge would be continued at 5 per cent through the first half of 1970, that the investment tax credit would be repealed, and that social security benefits would be increased by 10 per cent on April 1. The projections suggested that expansion in aggregate final demands would continue to moderate through the second quarter of 1970 and that the rate of inventory accumulation would be declining after the turn of the year.

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U.S. merchandise exports rose more than imports in August, so the trade surplus increased a little. With respect to the over-all balance of payments, available data indicated that in August and September the deficit on the liquidity basis had been very large, although not so large as in preceding months, and that the balance on the official settlements basis had shifted into deficit. The official settlements balance had been in surplus for more than a year prior to August mainly as a result of increases in outstanding Euro-dollar borrowings of U.S. banks through their foreign branches, but there apparently had been little net change in those borrowings after July. Speculative flows of funds into Germany during September contributed to the shift in the official settlements balance.

Recent developments in foreign exchange markets had been dominated by events connected with the German mark. Demands for marks increased in early September in anticipation of a possible revaluation of that currency after the German elections scheduled for September 28, and by Wednesday, September 24, the German Federal Bank had acquired a substantial volume of dollars in active but orderly trading. The German authorities closed their exchange markets the next 2 days and, after a brief resumption of trading, again on Monday, September 29. The Government then announced that the mark would be allowed to float temporarily, and the exchange rate immediately broke through its previous upper limit. Subsequently the mark strengthened further, reaching a premium above par of about 6½ per cent at the time of this meeting. During the period, the German Federal Bank frequently sold dollars to moderate fluctuations in the rate. The rise in the exchange rate and the expectation that the mark would be revalued once a new German Government was formed led to some reduction in the earlier tensions in foreign exchange markets, although the French franc and the Italian lira remained under selling pressure.

Earlier in September discount rates had been increased by the central banks of Germany, Belgium, Switzerland, Austria, and Norway. Despite the tightening of conditions in domestic European money markets, interest rates in the Euro-dollar market—which had risen steadily during August—declined moderately after early September, partly because of the easing in demands by U.S. banks for Euro-dollars.



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On September 17 the Treasury announced that in exchange for securities maturing on October 1 and December 15, 1969, it would offer three new notes having, respectively, maturities of about 20 months, 3 years and 8 months, and 6 years and 10 months, and yields of 8, 7.75, and 7.59 per cent. The new issues were initially well received and rose to a premium in the market. Of the \$7.6 billion of maturing securities held by the public, about \$5.8 billion were exchanged for the new issues, including somewhat more than \$1 billion for each of the two longer-term notes. Following this financing, the Treasury announced that on October 8 it would auction \$2 billion of tax-anticipation bills due in April 1970. The Treasury was expected to raise additional funds during the fourth quarter to meet further cash needs.

Treasury cash balances at both commercial banks and Federal Reserve Banks had been reduced to very low levels prior to the mid-September tax date, and in the period September 5–16 the Treasury had temporarily financed some of its cash needs through sales of special short-term certificates of indebtedness to the Federal Reserve. The volume of such certificates reached a 16-year high of \$1.1 billion on September 10,<sup>1</sup> but the Treasury was able to redeem all outstanding certificates by September 17 and subsequently to rebuild its cash balances to a substantial level.

System open market operations since the previous meeting of the Committee had been directed at maintaining firm conditions in the money and short-term credit markets. Sizable operations were required to offset the impact on bank reserves and money market conditions of substantial changes in Treasury cash balances and large shifts of funds among banks stemming from the Treasury refunding and from foreign central bank transactions. Federal funds traded mainly in a range of 8½ to 9½ per cent; the average effective rate of about 9⅛ per cent was slightly higher than in the preceding interval. Member bank borrowings averaged \$1,075 million in the 4 weeks

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<sup>1</sup> The volume of special certificates held by the Federal Reserve totaled \$322 million on September 5 through 7, \$653 million on September 8, \$830 million on September 9, \$1,102 million on September 10, \$862 million on September 11, \$759 million on September 12 through 14, \$513 million on September 15, and \$972 million on September 16.

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ending October 1, down from an average of \$1,250 million in the previous 4 weeks. Excess reserves were little changed on the average, and so net borrowed reserves also declined.

Against the background of continuing credit restraint and limited availability of funds, most market interest rates had risen to new highs in the period since the previous meeting of the Committee. Yield increases were relatively pronounced in the capital markets which absorbed large amounts of new corporate, Federal agency, and intermediate-term Treasury issues. Most recently, however, yields on Treasury and new corporate bonds had stabilized following the good reception accorded a sizable new Federal agency offering, some purchases of Treasury notes and bonds by official accounts, and the publication of the 4 per cent unemployment figure for September. Yields on State and local government bonds had moved counter to the general trend in September; they had declined somewhat as a result of a continuing light volume of new issues and of developments in the Congress relating to proposed legislation affecting the tax-exempt status of such obligations.

Most short-term interest rates also had risen since the previous meeting. Rates on Treasury bills were an exception; they were relatively stable for most of the period—mainly because of reinvestment demands generated by the Treasury refunding and by foreign central bank purchases—and had declined in recent days. The market rate on 3-month Treasury bills, at 6.94 per cent on the day before this meeting, was 15 basis points below its level 4 weeks earlier.

Conditions in markets for residential mortgages continued to tighten in September. It appeared that savings flows at nonbank thrift institutions had remained weak during that month, and limited data available for the first few days of October suggested that net outflows following quarterly interest crediting would be larger than usual.

At commercial banks, business loans outstanding increased moderately in September but holdings of U.S. Government securities declined sharply as banks sold Treasury bills acquired in the late-August bill-strip financing. The bank credit proxy—daily-average member bank deposits—increased at an annual rate of 2.5 per cent from August to September. On balance, there was a small reduction in the average outstanding volume of funds obtained by banks from “non-deposit” sources—including Euro-dollar borrowings, funds obtained

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by sales of loans to nonbank customers under repurchase agreements, and funds obtained through sales of commercial paper by bank affiliates. After adjustment for this development, the proxy series was estimated to have risen at an annual rate of about 2 per cent on the average in September. In the third quarter as a whole the proxy series so adjusted was estimated to have declined at an annual rate of 4.2 per cent.

The increase in the average level of member bank deposits in September was attributable almost entirely to a sharp rise in U.S. Government deposits after the midmonth tax date. Private demand deposits and the money stock<sup>2</sup> changed little. Total time and savings deposits declined at a much slower rate than earlier in the year, partly because of a marked reduction in net outflows of consumer-type deposits. In addition, there was a substantial increase in late September in foreign official time deposits. Further run-offs of large-denomination CD's occurred during the month, particularly at banks outside of New York.

Staff projections suggested that the average level of member bank deposits would decline from September to October at an annual rate of 5 to 8 per cent if prevailing conditions were maintained in money and short-term credit markets. It appeared likely that the combined total outstanding of funds obtained from nondeposit sources would increase a little on the average—perhaps by an amount equivalent to 1 percentage point or less in the credit proxy. Among deposit categories, reductions were anticipated in the average level of both Government and private demand deposits, and the money stock was projected to decline at an annual rate of 2 to 5 per cent. Continued reductions were expected in both large-denomination CD's and other time and savings deposits. The run-off of CD's appeared likely to moderate appreciably, however, partly because the volume of foreign official deposits was expected to increase further.

The Committee decided that a relaxation of monetary restraint

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<sup>2</sup> The regular annual benchmark corrections and revisions of seasonal adjustment factors for the money stock series had been made since the previous meeting of the Committee. The effect of the adjustment on the statistics for 1969 was to raise the estimated annual rate of growth during the first quarter from 2.9 to 4.1 per cent, and to lower the estimated second-quarter growth rate from 4.7 to 4.5 per cent. During the third quarter the annual rate of increase in the money stock series (on the new basis) was estimated at a fraction of 1 per cent.

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would not be appropriate at this time in light of the persistence of inflationary pressures and expectations. It was also noted in this connection that fiscal policy was likely to become less restrictive in early 1970 even if, as recommended by the administration, the income tax surcharge was continued at 5 per cent through the first half of the year. At the same time, the Committee agreed that an intensification of monetary restraint would not be desirable at present in view of the considerable degree of restraint already in effect and of the indications that the rate of economic expansion was moderating.

The Committee concluded that open market operations should be directed at maintaining the prevailing firm conditions in money and short-term credit markets, subject to the proviso 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 the pace of expansion in real economic activity was sustained in the third quarter by an acceleration of inventory investment, which about offset a further slackening in growth of private final sales. Some monthly economic measures have weakened recently, and slower over-all growth is projected for the fourth quarter. Substantial upward pressures on prices and costs are persisting. Most market interest rates recently have risen to new highs as demands for funds have pressed against limited supplies. In September, on average, the money supply changed little as U.S. Government deposits rose considerably further, and bank credit increased slightly after 2 months of substantial decline. The outstanding volume of large-denomination CD's decreased further in September, and flows of consumer-type time and savings funds at banks and nonbank thrift institutions appear to have remained relatively weak. The U.S. foreign trade surplus increased a little in August. In August and September the deficit in the over-all balance of payments on the liquidity basis was very large, although not as large as in preceding months; and the official settlements balance, which had been in surplus for more than a year, shifted into deficit, reflecting slackened Euro-dollar borrowing by U.S. banks and new speculative flows into Germany. Exchange market tensions were reduced somewhat when the German Government decided to cease

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temporarily official sales of marks, after which the exchange rate for that currency rose above the official parity. In light of the foregoing developments, 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 sustainable 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 maintaining the prevailing firm 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, Bopp, Brimmer, Clay, Coldwell, Daane, Mitchell, Robertson, Scanlon, and Sherrill. Vote against this action: Mr. Maisel.

In dissenting from this action Mr. Maisel noted that interest rates on all types of market securities had risen substantially on balance in the period since late April, and that during this period the Committee's directives—like that favored by the majority today—had called for maintenance of prevailing firm conditions in money and short-term credit markets. He also noted that the behavior of key monetary aggregates, including member bank reserves, the money stock, and bank credit, had been considerably weaker in the third quarter—either declining more rapidly or rising more slowly—than in the first half of the year; and that sharp declines in the aggregates were projected for October if prevailing money market conditions were maintained. As at the two previous meetings, Mr. Maisel expressed the view that such evidence indicated a steady increase in monetary restrictiveness. He favored permitting more flexibility in money market conditions in order to maintain but not intensify the present degree of monetary restraint measured in terms of key aggregates and interest rates.

## **2. Amendments to continuing authority directive.**

On recommendation of the Manager of the System Open Market Account, the Committee made two amendments to the continuing author-

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ity directive issued to the Federal Reserve Bank of New York regarding domestic open market operations. In addition, the dollar limit specified in paragraph 2 of the directive on Federal Reserve Bank holdings of special short-term certificates of indebtedness purchased directly from the Treasury, which had been temporarily increased from \$1 billion to \$2 billion at the previous meeting, reverted to \$1 billion under the terms of the action the Committee had taken then.

One of the amendments made today also affected paragraph 2; it involved the addition of language authorizing Reserve Banks other than the New York Bank to purchase special short-term certificates from the Treasury for their own account at times when the New York Reserve Bank was closed. With this amendment, paragraph 2 read as follows:

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, or, if the New York Reserve Bank is closed, any other Reserve Bank for its own account (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  $\frac{1}{4}$  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.

The second amendment to the directive consisted of the addition of a new paragraph 3, authorizing the Reserve Banks to engage under certain conditions in lending of U.S. Government securities held in the System Open Market Account. The new paragraph read as follows:

3. In order to insure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

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Votes for these actions: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Mitchell, Robertson, Scanlon, and Sherrill. Votes against these actions: None.

The amendment to paragraph 2 was made in view of the possibility that the Treasury might need temporary accommodation at times, such as the forthcoming Columbus Day holiday, when the New York Reserve Bank was closed and some other Reserve Banks remained open.

The action to add the new paragraph 3 was taken after the Manager had advised that the problem of delivery failures in the Government securities market had worsened significantly over the past year, partly because private facilities for lending such securities had become inadequate; that delivery failures were markedly impairing the performance of the market; and that the functioning of the market would be improved if securities held in the System Open Market Account could be lent, for the express purpose of avoiding delivery failures, to Government securities dealers doing business with the Federal Reserve Bank of New York and to banks participating in securities clearing arrangements conducted through a Reserve Bank. The Committee concurred in the Manager's judgment that under existing circumstances such lending of securities from the System Open Market Account was reasonably necessary to the effective conduct of open market operations and to the effectuation of open market policies. It was agreed that the authorization would be reviewed periodically to determine whether the contemplated lending activity remained necessary.

The initial instructions specified by the Committee in conjunction with this authorization included a \$75 million limit on the par value of securities involved in outstanding loans to any individual dealer at any time and a limit of three business days on the duration of loans to dealers, with those loans eligible for renewal under certain circumstances. The instructions also specified that both the dealers and the banks that borrowed securities were to deposit and pledge collateral consisting of U.S. Government securities of greater current market value than the securities borrowed. In addition, the lending fee to be charged on such securities loans was set at a rate higher than the pre-

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vailing fee charged by private lenders, in order to encourage continued maximum use of available private facilities for lending of Government securities.

### **3. Amendment to authorization for System foreign currency operations.**

The Committee approved increases from \$100 million to \$200 million equivalent in the System swap arrangements with the Austrian National Bank, the National Bank of Denmark, and the Bank of Norway, and the corresponding amendments to paragraph 2 of the authorization for System foreign currency operations, effective immediately. As a result of this action, paragraph 2 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	200
National Bank of Belgium	500
Bank of Canada	1,000
National Bank of Denmark	200
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	300
Bank of Norway	200
Bank of Sweden	250
Swiss National Bank	600



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

Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Mitchell, Robertson, Scanlon, and Sherrill. Votes against this action: None.

While Austria, Denmark, and Norway each had a strong current account in its international payments balance, all three countries had experienced reserve losses recently, for the most part as a result of the pull of high Euro-dollar interest rates and of speculation on a revaluation of the German mark. The indicated action was taken on recommendation of the Special Manager, who advised that it should prove helpful in providing against the contingency of destabilizing short-run speculative pressures on the currencies of the countries involved.

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## MEETING HELD ON OCTOBER 28, 1969

### Authority to effect transactions in System Account.

Preliminary estimates of the Commerce Department indicated that expansion in private final sales had slackened further in the third quarter, but that growth in real GNP was sustained at a 2 per cent annual rate by an acceleration of inventory investment. Prices and costs continued to rise rapidly.

Some crosscurrents were evident in the recent behavior of monthly economic measures. On the one hand, industrial production declined in September for the second successive month; nonfarm employment did not increase, and the unemployment rate rose to 4.0 from 3.5 per cent in August; and growth in personal income slowed considerably. Retail sales advanced moderately, but after adjustment for price increases, sales remained below the year-earlier level.

On the other hand, new orders at manufacturers of durable goods rose sharply in September. The advance was widespread among industries, but was exceptionally large for the machinery and equipment industries. In addition, housing starts increased markedly from an August level that had been revised upward.

Average prices of industrial commodities and the over-all index of wholesale prices rose slightly more from mid-August to mid-September than earlier estimates had indicated. During the third quarter as a whole prices of industrial commodities increased more rapidly than in the preceding quarter. However, the rise in the over-all wholesale price index slowed substantially, as prices of farm products and foods declined somewhat following their sharp advance in the second quarter. The consumer price index increased considerably further in September.

Staff projections continued to suggest that real GNP would grow more slowly in the fourth quarter than in the third, and that there might be no growth in the first half of 1970. As before, the projections assumed that the income tax surcharge would be reduced to 5 per cent on January 1, 1970, and would remain at that rate through the first half of the year; that the investment tax credit would be repealed; and that social security benefits would be increased by 10 per cent on April 1. It was expected that Federal purchases of goods and services would decline over the interval, mainly because of reduced defense outlays, and that expansion

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of aggregate demands in the private sector would moderate further. It was also expected that the rate of inventory accumulation would slow in the first half of 1970. Prospects were for continued increases in costs, but with demand pressures expected to ease, some moderation in the rate of price advance appeared likely.

The U.S. foreign trade surplus increased further in September as exports remained near the high August level and imports declined. The trade balance showed a small surplus in the third quarter as a whole, following the small deficit recorded in the first half of 1969. With respect to the over-all balance of payments, in September the deficit was large on the liquidity basis and even larger on the official settlements basis. On both bases the balance was in deficit for the third quarter as a whole.

On October 24 the German Government announced that, effective October 27, the official parity of the mark would be revalued upward by 9.3 per cent—somewhat more than had been generally expected. Before this announcement the exchange rate for the mark, which had been permitted to float since late September, had risen to a premium of about 8 per cent. The appreciation of the mark and its subsequent revaluation led to a partial reversal of the earlier speculative flow of funds into Germany. Also, interest rates in the Euro-dollar market declined considerably further despite some increase in early October in outstanding Euro-dollar borrowings by U.S. banks.

During October the Treasury auctioned \$5 billion of tax-anticipation bills; on October 8 it auctioned a \$2 billion issue due in April 1970, and on October 23 a \$3 billion issue due in June 1970. It was expected that the Treasury would raise an additional \$2 billion to \$2.5 billion of new cash later in the fourth quarter to meet further needs for funds.

Since early October interest rates on long-term securities had declined considerably despite a continued heavy calendar of public offerings of new corporate bonds and a marked increase in bond offerings by State and local governments. To a large extent the declines reflected changing expectations among market participants: The publication of certain economic statistics—including the 4 per cent unemployment figure for September—and renewed hopes for peace in Vietnam had led to a growing belief that the pace of the economic expansion would slow in the months ahead and that the pressures in financial markets would moderate. These attitudes subsequently were tempered by new developments, and in

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recent days bond yields had retraced part of their earlier declines.

Most short-term interest rates also had declined on balance since early October, and Treasury bill rates had been relatively stable despite the Treasury's two large bill offerings. The market rate on 3-month Treasury bills was 6.99 per cent on the day before this meeting of the Committee, compared with 6.94 per cent 3 weeks earlier.

System open market operations in the first part of the period since the preceding meeting had been directed at moderating tendencies toward undue tightness in the money market while maintaining the firm conditions that had prevailed earlier. The tendencies toward easing that emerged subsequently were not fully offset, because estimates for October of the bank credit proxy—daily-average member bank deposits—that were prepared shortly after the middle of the month indicated a significantly larger decline than had been projected at the time of the previous meeting. However, the objectives of operations were modified only marginally, and near the close of the period—when new estimates indicated that the proxy series was not so weak as it had appeared for a time—operations were again directed at maintaining firm conditions. Over the period as a whole the effective rate on Federal funds, while fluctuating in a fairly wide range, averaged slightly more than 9 per cent—little changed from the previous period. Member bank borrowings averaged about \$1.1 billion in the 3 weeks ending October 22, about the same as in the preceding 4 weeks, but net borrowed reserves increased somewhat as excess reserves declined.

The latest staff estimates suggested that the bank credit proxy was declining on the average in October at an annual rate of 7 to 9 per cent. It appeared that the total outstanding of funds obtained by banks from “nondeposit” sources was increasing; Euro-dollar borrowings of U.S. banks and funds obtained through sales of commercial paper by bank affiliates, taken together, evidently were rising by more than enough to offset further reductions in funds obtained by sales of loans to nonbank customers under repurchase agreements. After adjustment for these developments the proxy series was estimated to be declining on the average in October at an annual rate of 5.5 to 7.5 per cent. In the third quarter as a whole the proxy series so adjusted had declined at an annual rate of 4.3 per cent.

The money stock, which had changed little on balance in the third

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quarter, was now estimated to be rising on the average in October at an annual rate of 1 to 4 per cent. Both U.S. Government deposits and total time and savings deposits were estimated to be declining—the latter slightly faster than in September but much more slowly than in preceding months. Net outflows of large-denomination CD's had diminished markedly in recent weeks, apparently in large part because of an increase in foreign official deposits. There were rather sizable net outflows of consumer-type time and savings funds at banks—and at nonbank thrift institutions as well—following quarterly interest crediting.

Staff projections suggested that, if prevailing conditions in money and short-term credit markets were maintained, the average level of member bank deposits would rise from October to November at an annual rate of 5 to 8 per cent but would change little in December. All of the growth anticipated for November reflected an expected rise in U.S. Government deposits, in large part as a result of bank underwriting of the Treasury's bill financing in late October; private demand deposits and the money stock were projected to remain about unchanged on the average in November, and further declines in time and savings deposits appeared to be in prospect. It seemed likely that there would be some further net increase in November in funds obtained from nondeposit sources, primarily through sales of commercial paper by bank affiliates. After adjustment for such an increase, the proxy series was projected to rise at a rate of 6 to 10 per cent from October to November.

The Committee agreed that no change in monetary policy would be appropriate at this time. It was noted in the discussion that prices were still rising rapidly and, despite the indications of further slowing in the economic expansion, expectations of continued inflation remained widespread. It was also noted that fiscal policy was likely to become less restrictive in 1970, and some members expressed concern about the possibility that the shift in the stance of fiscal policy might be marked.

The Committee concluded that open market operations should be directed at maintaining the prevailing firm conditions in money and short-term credit markets, subject to the proviso that operations should be modified if bank credit appeared to be deviating significantly from current projections. A number of members expressed the view that operations should not be undertaken to resist tendencies toward lower interest rates that might be produced by market forces.

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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 pace of expansion in real economic activity was sustained in the third quarter by an acceleration of inventory investment, which about offset a further slackening in growth of private final sales. Slower overall growth is projected for the fourth quarter, although some cross-currents have been evident in the recent behavior of monthly economic measures. Prices and costs are continuing to rise at a rapid pace. Most market interest rates have declined considerably on balance from their recent highs, in large part because of changing expectations. In the third quarter, average monthly bank credit declined and the money supply changed little; in October it appears that bank credit is decreasing further on average but that the money supply is growing somewhat. In recent weeks the net contraction of outstanding large-denomination CD's slowed markedly, apparently reflecting mainly an increase in foreign official time deposits, but flows of consumer-type time and savings funds at banks and nonbank thrift institutions appear to have remained relatively weak. The U.S. foreign trade surplus increased further in September, but the deficit in the over-all balance of payments was still large on the liquidity basis and even larger on the official settlements basis. The appreciation of the German mark since the end of September, culminating in the revaluation of the official parity, has led to a partial reversal of speculative flows, and conditions in the Euro-dollar market have eased. In light of the foregoing developments, 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 sustainable 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 maintaining the prevailing firm 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, Bopp, Brimmer, Clay, Coldwell, Daane, Maisel, Mitchell, Robertson, Scanlon, and Sherrill. Votes against this action: None.

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## MEETING HELD ON NOVEMBER 25, 1969

### 1. Authority to effect transactions in System Account.

According to reports at this meeting, growth in real GNP apparently was slowing further in the fourth quarter from the 2 per cent annual rate of the second and third quarters. Prices and costs were continuing to rise at a rapid pace. Staff projections suggested that there might be no growth in real GNP in the first half of 1970, and that the rate of price advance might moderate somewhat as a result of reduced demand pressures.

Data for October were generally consistent with the view that the economic expansion was weakening. Industrial production edged down for the third successive month. Although total nonfarm employment increased, the unemployment rate, at 3.9 per cent, was little changed from the 4.0 per cent level to which it had risen in September. In manufacturing, both the number employed and the average length of the work-week declined. As in September, personal income increased much less than it had earlier in the year. In addition, two important series that had risen sharply in September—new orders for durable goods and housing starts—declined in October.

Average prices of industrial commodities increased considerably further from mid-September to mid-October, and the over-all wholesale price index advanced substantially even though prices of farm products and foods changed little. The consumer price index continued upward at a rapid pace despite a seasonal decline in food prices.

In contrast to most broad categories of final demand, both recent and prospective business outlays on plant and equipment now appeared to be stronger than they had earlier. In revising the GNP figures for the third quarter, the Commerce Department had raised its estimates of the increase in business capital spending while reducing its estimates of growth in spending by consumers and State and local governments. Similarly, in staff projections for the fourth quarter and for the first half of 1970, growth rates for business capital outlays had been revised upward somewhat, partly on the basis of the results of a recent private survey of business spending plans. But despite these revisions, it was expected that growth in capital outlays would slow progressively

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through mid-1970—particularly if, as assumed, the investment tax credit were repealed.

In other respects, the broad outlines of the staff projections were essentially unchanged. It was still anticipated that Federal purchases of goods and services would decline through mid-1970, mainly because of reductions in defense outlays, and that inventory accumulation would slow in the first half of the new year. The expansion of final demands in the private sector was expected to remain moderate even if, as assumed, the income tax surcharge were reduced to 5 per cent at the end of 1969 and social security benefits were increased by 10 per cent on April 1.

A small surplus re-emerged in the U.S. foreign trade balance in the third quarter, following three quarters of deficit. With respect to the over-all balance of payments, the deficit on the liquidity basis was again very large, although smaller than in the second quarter. The official settlements balance, after having been in surplus for more than a year, shifted into deficit in the third quarter as a result of a marked slackening of the rise in Euro-dollar borrowings of U.S. banks. Tentative estimates suggested that there had been considerable improvement in the liquidity balance in October and early November—apparently in large part because of a reversal of earlier speculative flows into German marks.

Since the revaluation of the German mark on October 27, that currency had been under fairly persistent selling pressure in foreign exchange markets. Demand had been strong for sterling and had firmed for the lira and the French franc. In the Euro-dollar market interest rates had declined until late October, but they then advanced sharply and steadily—in part as a result of renewed bidding for Euro-dollars by U.S. banks. The price of gold in the London market had declined sharply in recent weeks—from about \$40 to a little more than \$35, the lowest level since the “two-tier” arrangement had been put into effect in March 1968.

On November 21 the Treasury auctioned \$2.5 billion of tax-anticipation bills, of which \$1 billion were due in April 1970 and \$1.5 billion in June. This financing, together with the addition of \$100 million to each of the weekly bill auctions, was expected to cover the Treasury's cash requirements through early 1970.



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System open market operations since the October 28 meeting of the Committee had been directed at maintaining prevailing firm conditions in money and short-term credit markets. Operations were complicated by heavy reserve drains, stemming in part from repayments by foreign central banks of swap drawings on the Federal Reserve. To offset the resulting tendencies toward tighter money market conditions, the System supplied an unusually large volume of reserves, making net purchases of about \$2.6 billion of U.S. Government securities. During the period the effective rate on Federal funds averaged slightly more than 9 per cent, little changed from the preceding interval. Member bank borrowings averaged about \$1.2 billion in the 4 weeks ending November 19, compared with about \$1.1 billion in the preceding 3 weeks.

Interest rates on most short- and long-term securities had declined during much of October, but in the latter part of that month such rates began to rise sharply and by the time of this meeting they had reached levels close to or above earlier peaks. To a large extent the upturn in rates reflected a reversal of earlier expectations that pressures in financial markets would soon abate. Recently, market participants had come increasingly to the view that monetary restraints were not likely to be relaxed soon, as a result of both a growing belief that fiscal policy would be eased significantly and fading hopes for a near-term settlement in Vietnam. In the judgment of many financial observers, that view was supported by the announcement of the Board of Governors on October 29 that it (1) was considering an amendment to Regulation Q under which the rules regarding the payment of interest on deposits would apply to funds received by member banks from the issuance of commercial paper or similar obligations by bank affiliates and (2) had determined that such obligations of subsidiaries of member banks were subject to Regulations D and Q.

Also contributing to the recent advance in interest rates was the continuing heavy demand for funds reflected in the large current and prospective volume of security issues by corporations, State and local governments, and Federal agencies. Upward pressures on Treasury bill rates were augmented by the substantial supply of new bill issues and by large sales of bills by the German Federal Bank following the revaluation of the mark. On the day before this meeting the market rate on 3-month Treasury bills was at a record 7.42 per cent,

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more than 40 basis points above its level of 4 weeks earlier.

Average interest rates on home mortgages rose to new highs in October in both the primary market for conventional loans and the secondary market for FHA-insured loans. New mortgage commitments appeared to have declined somewhat at savings and loan associations during October, and the backlog of outstanding commitments edged lower for the sixth consecutive month. There were unusually large net outflows of savings funds at such associations following quarterly interest crediting at the end of September.

Commercial banks also experienced net outflows of consumer-type time and savings deposits during October. The run-off of large-denomination CD's at banks continued, but at a much slower rate than earlier in the year because increases in foreign official deposits largely offset further reductions in holdings of domestic depositors. Private demand deposits and the money stock changed little from September to October—the former declined slightly, but the latter edged up as a result of an increase in currency outstanding. U.S. Government deposits fell considerably on the average.

Daily-average member bank deposits—the bank credit proxy—declined at an annual rate of about 9 per cent from September to October. Euro-dollar borrowings of U.S. banks changed little on the average, and there were further reductions in funds obtained by sales of loans to nonbank customers under repurchase agreements. However, the outstanding total volume of funds obtained by banks from “nondeposit” sources increased as a result of a substantial rise in funds obtained through sales of commercial paper by bank affiliates. After adjustment for these developments, the proxy series declined at an annual rate of 7.5 per cent.

Staff estimates suggested that the bank credit proxy would probably rise at an annual rate of 9 to 12 per cent from October to November, and that the advance would be even more rapid—perhaps at a 12 to 15 per cent rate—after adjustment for an increase in the outstanding volume of funds obtained from nondeposit sources. Whereas the expansion in the proxy series was attributable in large part to a rise in the average level of U.S. Government deposits, the estimates suggested relatively rapid increases also in private demand deposits and the

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money stock—for the latter, the increase was estimated at a rate in a 4 to 7 per cent range.

Much slower growth in the bank credit proxy appeared to be in prospect for December. Staff projections suggested that if prevailing conditions were maintained in money and short-term credit markets, the proxy series would rise from November to December at an annual rate in the range of 0 to 3 per cent, and in a 1 to 4 per cent range after adjustment for an expected further increase in funds from non-deposit sources. It seemed likely that the money stock would decline slightly on the average in December.

In its discussion of policy the Committee took account of the indications that the economic expansion was slowing further and of the evidences of strain in financial markets. The members agreed, however, that a relaxation of monetary restraint would not be appropriate at this time in view of the continuing strength of inflationary pressures and expectations. The uncertainties with respect to fiscal policy, particularly the possibility of significant easing of fiscal restraint in 1970, were also cited in this connection.

The Committee concluded that open market operations should be directed at maintaining the prevailing firm conditions in money and short-term credit markets, subject to the proviso that operations should be modified if bank credit appeared to be deviating significantly from current projections. It was also agreed that operations should be modified if pressures arose in connection with regulatory action by the Board of Governors in the area of bank-related commercial paper. A number of members expressed the view that operations should not be undertaken to resist tendencies toward lower interest rates should they develop as a result of market forces.

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

The information reviewed at this meeting indicates that real economic activity has expanded only moderately in recent quarters and that a further slowing of growth appears to be in process. Prices and costs, however, are continuing to rise at a rapid pace. Most market interest rates have again been advancing in recent weeks, in many cases reaching new highs as a result of demand pressures, including heavy Treasury and foreign official bill sales, and a reversal of earlier

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market expectations partly stemming from growing concern about the outlook for fiscal policy. In October bank credit declined on average and the money supply changed little, but both appear to be increasing relatively rapidly in November. Recently the net contraction of outstanding large-denomination CD's has slowed markedly, apparently reflecting mainly an increase in foreign official time deposits. However, flows of consumer-type time and savings funds at banks and non-bank thrift institutions have remained weak. In the third quarter a small surplus in U.S. foreign trade re-emerged, but there was another very large deficit in the over-all balance of payments on the liquidity basis and the official settlements balance, which had been in surplus earlier, was also in deficit. More recently, return flows out of the German mark have apparently contributed to some short-run improvement in the U.S. payments position. In light of the foregoing developments, 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 sustainable 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 maintaining the prevailing firm 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 or if pressures arise in connection with possible bank regulatory changes.

Votes for this action. Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Daane, Mitchell, Robertson, Scanlon, and Sherrill. Votes against this action: None.

Absent and not voting: Mr. Maisel.

## **2. Actions with respect to continuing authority directive.**

At this meeting the Committee ratified an action taken by members on November 14, 1969, effective on that date, amending paragraph 1(a) of the continuing authority directive to the Federal Reserve Bank of New York regarding domestic open market operations. The effect of the amendment was to raise from \$2 billion to \$3 billion the limit on changes in holdings of U.S. Government securities in the System Open

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Market Account between meetings of the Committee. With this amendment, paragraph 1(a) read as follows:

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 \$3.0 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.

Votes for ratification of this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Daane, Mitchell, Robertson, Scanlon, and Sherrill. Votes against ratification of this action: None.

Absent and not voting: Mr. Maisel.

Later in the course of this meeting the Committee amended paragraph 1(a) of the continuing authority directive to restore the \$2 billion limit in effect prior to November 14.

Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Daane, Mitchell, Robertson, Scanlon, and Sherrill. Votes against this action: None.

Absent and not voting: Mr. Maisel.

The action of November 14 was taken after the Account Manager advised that a temporary increase in the "leeway" was needed to accommodate the large reserve-supplying operations found necessary in implementing the current economic policy directive then in effect. The paragraph was restored to its previously existing form on recommendation of the Manager, who advised that the temporary need for the larger leeway had passed.

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## MEETING HELD ON DECEMBER 16, 1969

### Authority to effect transactions in System Account.

Reports at this meeting suggested that growth in real GNP, which had been only moderate earlier in the year, was slowing further and perhaps coming to a halt in the fourth quarter. Prices and costs were continuing to rise rapidly. Staff projections suggested that there would be little or no expansion in real GNP in the first half of 1970 and some slowing in the rate of increase in prices.

With few exceptions, data for November supported the view of a weakening in economic expansion. Industrial production declined for the fourth consecutive month. Although the unemployment rate fell sharply—to 3.4 per cent from 3.9 per cent in October—other measures suggested some further easing of labor market conditions; in particular, total nonfarm employment did not increase, employment and overtime hours in manufacturing fell, and claims for unemployment compensation rose further. Retail sales declined in November and, after adjustment for price increases, remained below the level of a year earlier.

The wholesale price index advanced considerably further from mid-October to mid-November, partly because of an exceptionally large rise in average prices of farm products and foods. Average prices of industrial products also increased substantially.

The latest Commerce-SEC survey of business plans, taken in November, suggested that outlays on new plant and equipment would rise sharply in the first half of 1970. As a result, staff projections of fixed investment spending by business in that period had again been revised upward. However, the strengthening of the outlook in this sector did not appear sufficient to change materially the prospect for little or no growth in real GNP in the first half. On the other hand, it was noted that legislation now under consideration in Congress relating to Federal taxes and social security benefits, if enacted, would result in a considerably greater relaxation of fiscal restraint than had been assumed in the projections.

The U.S. balance of payments appeared to be improving in the fourth quarter; in November the deficit on the liquidity basis had diminished further and the official settlements balance had reverted to surplus. However, the improvement seemed to reflect such relatively

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volatile elements as return flows from the German mark and a sharp increase in November in outstanding Euro-dollar borrowings of U.S. banks. In recent weeks interest rates in the Euro-dollar market had remained under upward pressure, in part as a result of actions by the German monetary authorities to encourage German banks to reduce their net foreign assets.

Interest rates on most types of domestic market securities had risen considerably further in recent weeks. Yields on long-term Treasury and municipal bonds currently were at new highs, and yields on new corporate bonds were close to peaks that had been reached in early December. On the day before this meeting the market rate on 3-month Treasury bills was at a record level of 7.92 per cent, 50 basis points above its level of 3 weeks earlier.

These rate advances had occurred against the background of continued heavy demands for funds, and—in the Treasury bill market—large dealer inventories and sustained high financing costs. To an important extent, however, they appeared to reflect expectational factors, including market concern about the possibility that fiscal restraint would be relaxed significantly and the related prospect that the period of severe monetary restraint would be prolonged.

System open market operations since the preceding meeting of the Committee had been directed at maintaining prevailing firm conditions in the money market while taking account of strains in the Treasury bill market as bill rates adjusted sharply upward. The effective rate on Federal funds continued to fluctuate mostly in a range of 8½ to 9½ per cent. Member bank borrowings averaged \$1.2 billion in the 3 weeks ending December 10, unchanged from their average in the preceding 4 weeks.

At nonbank thrift institutions there were net outflows of savings funds in October, after quarterly interest crediting, and the inflows in November and early December were at a rate well below that usually expected for the season. Moreover, there was widespread concern about the possibility of very heavy outflows at such institutions around the turn of the year, following year-end interest crediting.

At commercial banks the volume of business loans outstanding changed little over the course of November, and holdings of U.S. Government securities declined somewhat further despite bank underwriting

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of the tax-anticipation bills auctioned by the Treasury late in the month. Holdings of other securities and loans to securities dealers increased sharply, although perhaps only temporarily. From October to November the bank credit proxy—daily-average member bank deposits—expanded on the average at an annual rate of 11 per cent. After adjustment for further growth in the outstanding volume of funds obtained by banks from “nondeposit” sources—including Euro-dollar borrowings and funds acquired through sales of commercial paper by bank affiliates—the proxy series increased at a rate of about 13.5 per cent. So adjusted, the proxy series had declined at annual rates of 7.5 per cent in October and 4.3 per cent in the third quarter.

Private demand deposits and the money stock also expanded on the average in November. The latter grew at an annual rate of about 3.5 per cent, after rising only fractionally in October and remaining unchanged in the third quarter. U.S. Government deposits increased sharply in November, mainly as a result of Treasury financing operations. Outflows of consumer-type time and savings deposits continued, but the net contraction in the volume of large-denomination CD's outstanding remained more moderate than earlier in the year as a result of further sizable increases in foreign official time deposits.

Revised staff projections suggested that if prevailing conditions in the money market were maintained there would be little change in the bank credit proxy from November to December and a slight rise after adjustment for an expected further increase in funds from nondeposit sources. It was anticipated that total time and savings deposits would increase somewhat on the average, but that U.S. Government deposits and private demand deposits—as well as the money stock—would decline somewhat. Projections for January suggested that the proxy series would decline at an annual rate of 1 to 4 per cent—and less after adjustment for another expected increase in nondeposit funds—and that the money stock would remain about unchanged.

The Committee agreed that no relaxation of monetary policy would be appropriate at this time, in view of the persistence of inflationary pressures and expectations and the high degree of uncertainty with respect to the extent to which fiscal policy might be relaxed. The members concluded that open market operations should be directed at maintaining the prevailing firm conditions in the money market. It was also agreed that operations should be modified if unusual liquidity



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pressures should develop. A number of members expressed the view that any tendencies toward lower interest rates that might be produced by market forces should not be resisted.

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

The information reviewed at this meeting indicates that real economic activity has expanded only moderately in recent quarters and that a further slowing of growth appears to be in process. Prices and costs, however, are continuing to rise at a rapid pace. Most market interest rates have advanced further in recent weeks partly as a result of expectational factors, including concern about the outlook for fiscal policy. Bank credit rose rapidly in November after declining on average in October, while the money supply increased moderately over the 2-month period; in the third quarter, bank credit had declined on balance and the money supply was about unchanged. The net contraction of outstanding large-denomination CD's has slowed markedly since late summer, apparently reflecting mainly an increase in foreign official time deposits. However, flows of consumer-type time and savings funds at banks and nonbank thrift institutions have remained weak, and there is considerable market concern about the potential size of net outflows expected around the year-end. In November the balance of payments deficit on the liquidity basis diminished further and the official settlements balance reverted to surplus, mainly as a result of return flows out of the German mark and renewed borrowing by U.S. banks from their foreign branches. In light of the foregoing developments, 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 sustainable 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 maintaining the prevailing 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 liquidity pressures should develop.

Votes for this action: Messrs. Martin, Hayes, Bopp, Brimmer, Clay, Coldwell, Maisel, Mitchell, Robertson, Scanlon, and Sherrill. Votes against this action: None.

Absent and not voting: Mr. Daane.

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## *Operations of the System Open Market Account*

The following two reports describe the actions taken during 1969 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 effort 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 256.

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## REVIEW OF OPEN MARKET OPERATIONS IN DOMESTIC SECURITIES

The year 1969 was a period of intensifying monetary restraint. Open market operations were used in combination with other Federal Reserve actions to restrain the expansion of bank credit and to emphasize the System's determination to combat entrenched inflationary pressures and expectations. In the early part of the year operations enforced the shift to intensified monetary restraint that had been signaled by an increase of  $\frac{1}{4}$  percentage point in the discount rate to  $5\frac{1}{2}$  per cent in mid-December 1968. Operations underscored firm restraint following a further  $\frac{1}{2}$  percentage point increase in the Federal Reserve discount rate announced on April 3, which was accompanied by a similar increase in reserve requirements against member bank demand deposits. Firm pressure on bank reserve positions was maintained over the balance of the year, thereby restraining the growth of the monetary and credit aggregates.

The pressure exerted by sustained monetary restraint was manifest in the indexes of pressure in the money market. Member bank borrowing from the Federal Reserve Banks rose from an average of less than \$600 million in the last quarter of 1968 to \$900 million in March 1969 and \$1.4 billion in May and June. After that it fluctuated around \$1.2 billion. The Federal funds rate rose from an average of 6 per cent in December to nearly 7.5 per cent in April and around 9 per cent over the remainder of the year.

The stringency of Federal Reserve policy was also evident in the behavior of the monetary aggregates during 1969. The money supply—private demand deposits plus currency outside banks—rose by only 2.5 per cent, compared with 7.2 per cent in 1968. With market rates of interest above the Regulation Q ceiling rates on time deposits, commercial bank time deposits declined by 5.3 per cent during 1969, compared with an increase of 11.5 per cent in 1968. And total loans and investments at commercial banks grew by 2.3 per cent, or by 3.3 per cent if loans sold to banks' own affiliates are included.

System outright purchases, sales, and redemptions of U.S. Government securities during 1969 totaled \$19 billion (not including the purchase and redemption of \$2.7 billion of special securities issued directly by the Treasury for brief periods). While this total was prac-

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tically unchanged from the year before, the temporary provision and absorption of bank reserves through repurchase agreements and matched sale-purchase transactions increased by 49 per cent to \$100 billion. These techniques, which enabled the System to inject or absorb reserves with minimal impact on the securities markets, were particularly useful when swift reversals of operations were required to maintain steadily firm conditions in the money market.

For the third year in a row, outright transactions in U.S. Government securities for foreign accounts exceeded the volume undertaken for the System Open Market Account by a substantial amount. These operations reflected considerable turbulence in the exchange markets—particularly the speculation in the German mark and the French franc. The System injected, net, \$4.2 billion of reserves into the banking system during the year, compared with \$3.8 billion in 1968 and \$4.8 billion in 1967. The large expansion of the System portfolio in 1969, when money became very tight as compared with 1968, reflected primarily increases in reserve requirements against member banks' demand deposits and the imposition of marginal reserve requirements against liabilities to their foreign branches. System holdings of U.S. Government securities on December 31 totaled \$57.2 billion.

#### JANUARY 1-APRIL 2: OPERATIONS REINFORCE SHIFT TO INTENSIFIED MONETARY RESTRAINT

*Economic and financial environment.* Federal Reserve policy moved decisively to restraint in mid-December 1968 with an increase of  $\frac{1}{4}$  percentage point in the Federal Reserve discount rate to  $5\frac{1}{2}$  per cent and a reinforcing shift in open market operations. The first 3 months of 1969 were a period of intensifying monetary restraint. Open market operations were conducted with a view to increasing the pressure on the banking system, thereby underscoring the determination of the System to combat inflation. Widespread skepticism about the System's resolve at the beginning of the year began to give way during the period. However, there were lingering doubts about the System's perseverance should the results of restrictive policy begin to appear in output and employment.

Few such results made their appearance during the first quarter.

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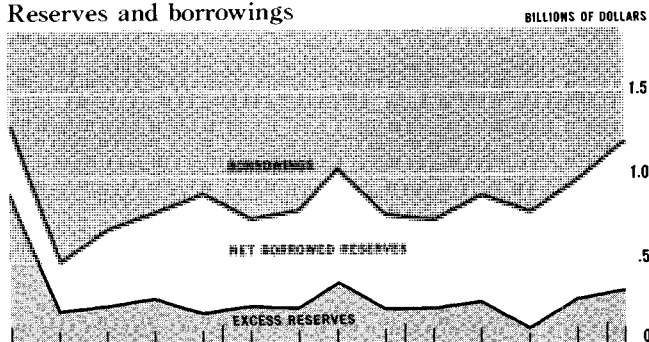
Rather, the economy continued to exhibit considerable strength. The marked swing of the Federal budget from deficit to surplus, in combination with increased monetary restraint, did not seriously discourage consumer and business spending during the period. Despite payment of the income tax surcharge, consumers maintained a high level of spending by reducing their rate of saving. Moreover, personal income continued to rise rapidly and the unemployment rate remained at or near a 15-year low. The volume of expansionary spending by businesses clearly reflected an inflationary psychology. Consumer and wholesale prices rose at an accelerated rate in the first quarter. A sizable deficit re-emerged in the Nation's balance of international payments on the liquidity basis, although the balance remained in surplus on the official settlements basis—thanks to heavy Euro-dollar borrowings by large U.S. banks.

The shift of monetary policy toward restraint was evident both in the change in money market conditions and in the behavior of the monetary and credit aggregates. Member bank borrowing from the Federal Reserve Banks averaged \$813 million during the first quarter of 1969, compared with \$587 million during the final quarter of 1968. And net borrowed reserves—member bank borrowings from the Reserve Banks less excess reserves—averaged \$592 million as compared with \$241 million during the previous quarter. Federal funds traded predominantly in a 6.5 to 7 per cent range during March 1969, a full percentage point higher than the range prevailing before the increase in the discount rate in mid-December 1968. (See Chart 1.)

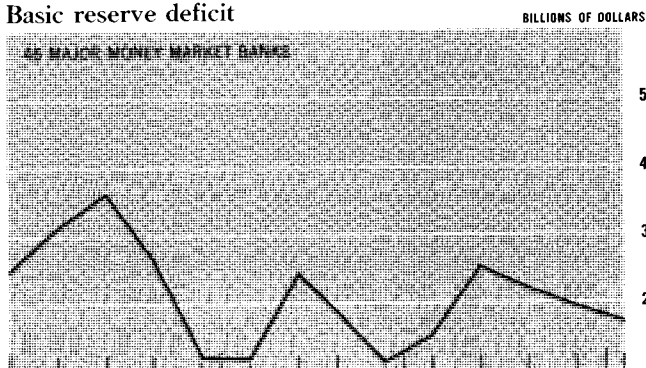
Among the monetary aggregates, the money supply—private demand deposits plus currency outside banks—increased at a seasonally adjusted annual rate of about 4 per cent over the first quarter; during 1968 the money supply had risen at an annual rate of 7 per cent in the final quarter and also for the year as a whole. Time and savings deposits declined at an annual rate of 5 per cent in the first quarter, after growing at a rate of 17 per cent over the last 3 months of 1968. The sharp reversal of time deposit growth reflected largely a decline of \$4 billion (not seasonally adjusted) in negotiable certificates of deposit (CD's) over the first quarter as short-term market rates rose above the rates banks were allowed to pay on CD's. Total member bank deposits subject to reserve requirements—the so-called bank credit proxy—fell at a 5 per cent annual rate during the first quarter of 1969. Adjusted

# 1. JANUARY 1, 1969 – APRIL 2, 1969

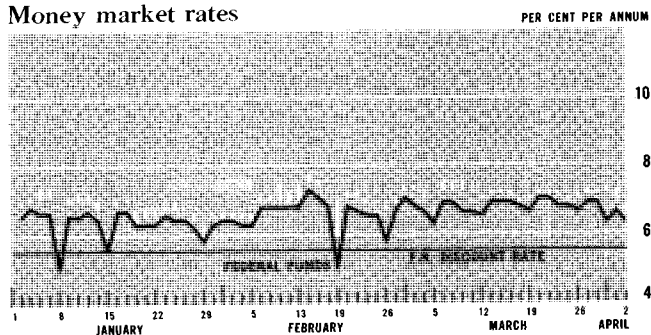
## Reserves and borrowings



## Basic reserve deficit

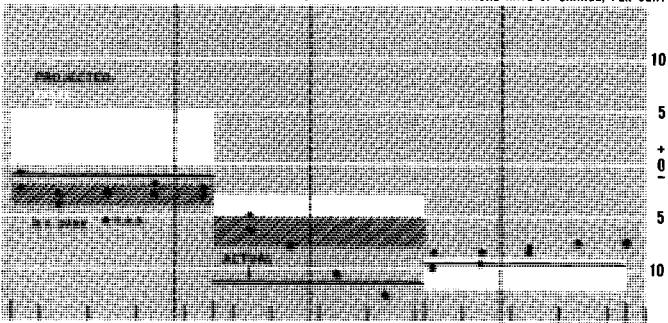


## Money market rates

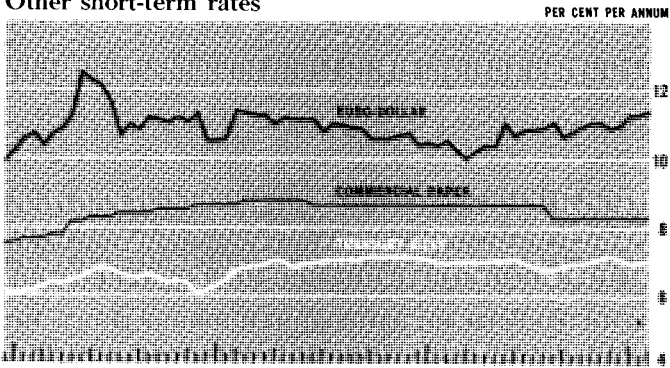


*Money market rates:* Federal funds, daily effective rates; call loans, daily range on new loans to U.S. Govt. securities dealers posted by New York City banks. *Adjusted bank credit proxy* is total member bank deposits plus liabilities to foreign branches; ranges shown are those projected at FOMC meetings (dates of which are shown by dashed lines)—cross-hatched areas indicate revised ranges for same month as projected at next meeting; slight revisions in ranges not shown; F.R.B. and N.Y. Bank projections

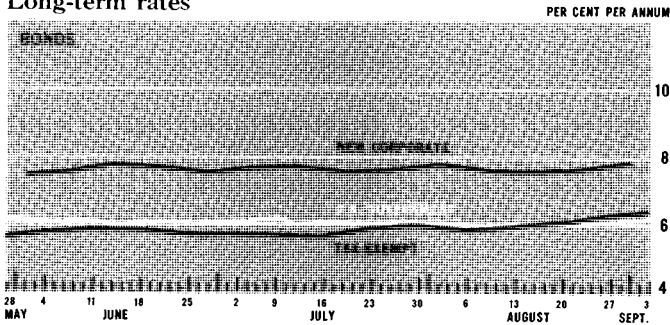
### Adjusted bank credit proxy



### Other short-term rates



### Long-term rates



made on Fridays. *Other short-term rates:* bid rate on 3-month Euro-dollars; daily bid rate on 3-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.

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for the rapid growth of Euro-dollar borrowings, the proxy showed a 2 per cent rate of decline, compared with a 10 per cent growth rate in 1968.

The determined efforts of the monetary authorities to reduce inflationary pressures exerted steady pressure on most short-term interest rates. Yields on 3-month Euro-dollar deposits reached 8½ per cent by early March, a full percentage point above the December high. (See Chart 1.) The commercial bank prime rate was raised by 1 percentage point in 3 steps, to 7½ per cent in mid-March, following the December 1968 increase in the discount rate. Rates on bankers' acceptances and commercial paper also rose.

In contrast to the rise in rates on most other short-term investments, Treasury bill rates, after adjusting upward to the new level of the discount rate, declined somewhat during the first quarter of 1969. As early market skepticism over the Federal Reserve's determination to combat inflation gradually gave way to expectations of a sustained period of monetary restraint, many investors shifted to short-term Treasury bills while awaiting increases in long-term yields. Furthermore, a steady decline in stock prices contributed to demand for bills from investors seeking a temporary haven for their funds; the New York Stock Exchange index during March, for example, averaged about 8 per cent lower than in December. The net increase in the supply of bills, resulting from the Treasury's sale of additional bills during the interval, was readily absorbed by investors. In this atmosphere the market bid rate for the latest 3-month Treasury bill averaged 6.01 per cent in March, 12 basis points below the January average rate.

Capital market yields, however, rose to record levels during the first quarter of 1969. Pressure on bank reserves heightened fears of large-scale bank liquidation of U.S. Government and municipal securities. Although sales did not materialize in large volume, bank demand for such issues was sharply curtailed. As prices deteriorated, other investors also displayed a marked reluctance to commit funds. In such an atmosphere, many corporate and municipal financings that had been scheduled were postponed or reduced in size, but the pressure of new offerings remained heavy. Most new Aa-rated public utility bonds were reoffered to yield slightly over 7 per cent during January, but reoffering yields rose to more than 7.5 per cent during March. The Bond Buyer's index of yields on 20 municipal bonds rose from 4.85 per cent near the



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end of December to 5.30 per cent at the end of March. In the market for U.S. Treasury securities long-term bond yields averaged 6.05 per cent in March as compared with 5.65 per cent in December, while yields on 3- to 5-year maturities rose to 6.33 per cent from 5.99 per cent.

The Treasury's mid-February refunding was conducted against an unsettled background. Holders of the \$14.5 billion of 5½ per cent notes and 4 per cent bonds maturing in February (including \$5.5 billion held by private investors) were offered the option of exchanging their securities for a new 15-month, 6¾ per cent note due in May 1970 or a new 7-year, 6¼ per cent note due in February 1976. The new 15-month and 7-year notes were priced to yield about 6.42 and 6.29 per cent, respectively. Public response to the offerings was cool despite the fact that the issues carried the highest offering yields on new Treasury securities since the Civil War. Approximately 36 per cent of the maturing securities held outside official accounts were not exchanged. Reflecting prevailing interest rate expectations, only \$885 million of the 7-year notes were taken by the public. Government agency financings, which raised \$1.1 billion of net new money during the period, were confined to the short-term market.

*Open market operations.* System open market operations during the first 3 months of the year were directed toward maintaining the firmer conditions in the money and short-term credit markets that had been achieved following the mid-December increase in the Federal Reserve discount rate. Over the period January 1 to April 2, System open market operations in Government securities absorbed nearly \$600 million of reserves, net. (See table.) System outright purchases and sales of Treasury securities during the period totaled \$1.5 billion and \$1.6 billion, respectively, and the System redeemed \$0.8 billion of maturing Treasury bills. The System also absorbed \$4.1 billion of reserves on a short-term basis through matched sale-purchase transactions, largely in January, and injected \$5.5 billion temporarily through repurchase agreements against Treasury and Federal agency securities, mostly in February and March.

The System supplied reserves during the first few days of 1969 in order to relieve year-end pressures and facilitate adjustments in the money and securities markets generated by the December 1968 increase in the Federal Reserve discount rate. Then from January 8 to February

5 it absorbed reserves steadily to offset the seasonal reflux of reserves. The Account Manager made frequent use of matched sale-purchase transactions when unexpected additions to reserve availability threatened to erode the prevailing firm tone of the money market. This technique, which had been introduced in July 1966, enabled the System to effect much greater short-term reserve absorption than would have been feasible through outright sales, which would have required dealers to assume market risks.

#### SYSTEM OPERATIONS IN GOVERNMENT SECURITIES DURING 1969

In millions of dollars

Type of operation	Jan. 1- Apr. 2	Apr. 3- May 28	May 29- Sept. 3	Sept. 4- Dec. 31	Total
<b>Outright purchases:</b>					
<b>Treasury bills:</b>					
From market .....	134	1,235	710	2,401	4,480
From foreign accounts .....	1,098	498	1,633	3,293	6,522
Coupon issues .....	253	196	67	192	708
Special certificates of indebtedness .....		1,130		1,561	2,691
<b>Outright sales:</b>					
<b>Treasury bills:</b>					
To market .....	605	11	473	663	1,752
To foreign accounts .....	1,015	400	598	1,880	3,893
Coupon issues .....					
<b>Matched sale-purchase transactions:</b>					
<b>With dealers:</b>					
Sales .....	3,920	2,329	8,053	8,187	22,489
Purchases .....	3,920	2,329	8,053	8,187	22,489
<b>With foreign accounts:</b>					
Sales .....	225	50			275
Purchases .....	225	50			275
<b>Redemptions:</b>					
Treasury bills .....	786	206	207	649	1,848
Special certificates of indebtedness .....		1,130		1,561	2,691
<b>Repurchase agreements:</b>					
<b>Government securities:</b>					
Purchases .....	5,059	5,745	4,843	8,142	23,789
Sales .....	4,796	5,900	4,951	8,142	23,789
<b>Federal agency securities:</b>					
Purchases .....	421	976	847	1,362	3,606
Sales .....	358	966	920	1,362	3,606
<b>Net change .....</b>	<b>-595</b>	<b>+1,167</b>	<b>+951</b>	<b>+2,694</b>	<b>+4,217</b>

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

The first use of the matched sale-purchase technique in 1969 occurred on January 8, a reserve-settlement day, when year-end pressures in the money market faded and excess reserves accumulated in the banking system. The Account Manager resisted the developing ease by arranging \$550 million in matched sale-purchase transactions. Subse-

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quently, a sizable inflow of currency to the banking system and a less-than-anticipated decline in float threatened to lead to a continuation of comfortable conditions in the money market. Over the next several days, therefore, the System sold \$395 million of bills in the market and to foreign accounts. Additional reserves were temporarily absorbed on Wednesday, January 15, through \$690 million of matched sale-purchase agreements.

The maintenance of steadily firm money market conditions was challenged during the next 3 weeks by a massive shift in reserves toward the money center banks. The basic reserve deficit of the eight major New York City banks swung from an average of \$1.4 billion during the 3 weeks ended January 15 to an average of less than \$100 million during the next 3 weeks.<sup>1</sup> The larger-than-seasonal improvement reflected both increased borrowings in the Euro-dollar market and higher U.S. Government deposits and a decline in required reserves. The System countered the effect of these developments by aggressively absorbing reserves on all but 4 days of the 3 weeks ended February 5. In addition to six rounds of matched sale-purchase transactions totaling \$2.7 billion, the System sold outright a total of \$651 million of bills in the market and to foreign accounts and redeemed \$225 million of maturing bills.

Despite the contrary influence of market factors during the 3-week period ended February 5, including the periodic emergence of high levels of float, open market operations maintained generally firm conditions in the money market. Federal funds traded predominantly in a 6¼ to 6½ per cent range, and the 3-month Treasury bill generally traded in a 6 to 6.20 per cent range. To maintain firm conditions in the money market, member bank borrowing was allowed to rise to an average of \$806 million as compared with an average of \$593 million during the first 2 weeks of the year. Net borrowed reserves rose to an average of \$574 million during the same 3 weeks, almost \$200 million higher than during the previous 2 weeks.

A sharp swing in reserve factors and in the distribution of reserves conditioned open market operations during the next two statement weeks, which ended on February 19. Movements in market factors,

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<sup>1</sup> The basic reserve position of a group of banks is defined as the group's excess reserves less its net purchases of Federal funds from member banks and less its borrowings from the Reserve Banks.

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particularly increases in currency outside the banking system and in Treasury balances at the Reserve Banks, drained a substantial volume of bank reserves. The major money center banks, especially those in New York City, came under renewed reserve pressure, and they bid more aggressively for funds. Open market operations provided reserves—but not in sufficient volume to offset the upward pressure on the Federal funds rate. Rates on these funds rose to a range of  $6\frac{3}{4}$  to  $7\frac{1}{4}$  per cent in mid-February. The taut conditions contributed to heavy borrowing by member banks. Such borrowing averaged \$922 million over the 2 weeks ended February 19, and net borrowed reserves rose to an average of \$630 million.

The System supplied reserves daily over these 2 weeks, primarily through repurchase agreements. The heavy use of this technique was dictated by two factors. First, repurchase agreements make it possible for the Account Manager to respond quickly to unexpected pressures in the money market while still keeping the supply of reserves on a short string. Secondly, Treasury bill rates had been moving down, reflecting steady investor demand, and the System did not wish to add to that pressure by making outright purchases of bills in the market. The scarcity of bills was underscored on February 18 when a System go-around elicited only \$284 million of offerings of bills by dealers, of which the Account Manager accepted \$134 million for the System and an additional amount for foreign accounts. In order to meet further reserve needs, the System purchased \$85 million of Treasury coupon issues the next day. The scarcity of bills in the market even tended to make it difficult for the System to provide reserves through repurchase agreements because nonbank dealers did not always have sufficient collateral to match System needs to supply reserves.

Thus, on occasion, the Trading Desk departed from its normal practice of considering only financing needs of nonbank dealers and permitted these dealers to round up additional securities from customers to place under repurchase contract with the System. During the 2 weeks ended February 19 the Account Manager arranged a total of \$2 billion of repurchase agreements against Treasury and agency securities. These were supplemented by \$329 million of such contracts against bankers' acceptances. With Treasury bills in scarce market supply, repurchase agreements against bankers' acceptances proved a particularly useful means of injecting reserves.

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Open market operations were generally routine over the succeeding 6 weeks—the interval from February 20 to April 2. With Treasury bill rates declining persistently, the System avoided altogether any outright transactions in the bill market. Instead, the Account Manager continued to meet reserve needs primarily through short-term repurchase agreements, which totaled \$3 billion against Treasury and agency issues and \$402 million against bankers' acceptances during the interval. The System also purchased outright \$495 million of Treasury bills directly from foreign accounts and \$253 million of coupon issues in market go-arounds. Reserve absorptions were accomplished by sales of \$343 million of bills to foreign accounts and redemptions of \$556 million of maturing bills.

All of the statement weeks in the interval from February 20 to April 2 followed a similar pattern. In each one, Federal funds traded primarily in a range of 6 $\frac{5}{8}$  to 7 per cent before the weekend. In order to meet indicated reserve needs, the System injected reserves through repurchase agreements before each weekend, and then it geared its subsequent operations to money market conditions. In the 3 weeks ended March 12, the System either absorbed reserves or took no action after the weekend. In the following 3 weeks, which ended on April 2, it injected additional reserves in the latter part of the week. During most of the 6-week period, Federal funds traded predominantly in a 6 $\frac{1}{2}$  to 6 $\frac{3}{4}$  per cent range on the last 3 days of each statement week.

For the 5 weeks ended March 26, member bank borrowing from the Federal Reserve averaged \$821 million, and net borrowed reserves averaged \$619 million. Amid the churning in the market surrounding the March 31 quarterly-statement publishing date and the April 1 Cook County, Illinois, personal property tax date, however, member bank borrowings at the discount window rose to an average of \$1.2 billion in the statement week ended April 2. Net borrowed reserves in that week averaged \$886 million—the deepest weekly level since February 1953.

Although day-to-day open market operations encountered no unusual problems during March, the interpretation of the bank credit proxy in the light of the proviso clause of the directive was unusually difficult. (The proviso clause, which has been included in most of the Committee's directives in recent years, typically calls for modification of money market objectives if it appears that bank credit growth is proceeding more quickly or more slowly than expected.) The projec-

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tions of the credit proxy including Euro-dollar borrowings quickly settled near the bottom of the range that had been anticipated by the Committee at its March 4 meeting—a 3 to 6 per cent annual rate of decline in March.

On the surface, the levels projected might have suggested implementation of the proviso clause on the side of slightly less restraint. But several factors argued against such implementation. First there was considerable market belief that the System would not persevere in its policy of restraint, so such a move would have risked being interpreted as a greater relaxation of monetary restraint than intended—particularly in view of the decline in Treasury bill rates after early March. Second, there was growing evidence that banks might be expanding credit in ways not measured by the proxy. And finally, the estimates for April pointed to a probable rise in the proxy, reversing the March decline. In light of all these circumstances, the proviso clause was not implemented.

#### APRIL 3—MAY 28: OPERATIONS UNDERSCORE FIRM RESTRAINT

*Economic and financial environment.* Inflationary pressures and expectations showed little sign of abating in the early spring. Economic activity remained disconcertingly strong. Underlining the System's determination to resist inflationary pressures, the Board of Governors announced on April 3 an increase of  $\frac{1}{2}$  percentage point in reserve requirements against demand deposits, effective April 17, and concurrently announced approval of a similar increase in the discount rate to 6 per cent (by April 8 the increase was in effect at all Reserve Banks). The Federal Open Market Committee directed the Account Manager to maintain firm conditions in the money and short-term credit markets while taking account of the effects on those markets of the other monetary policy actions.

The second phase of monetary policy in 1969 was not accomplished without complications and stresses. Banks managed reserve positions more cautiously in the restrictive environment, usually amassing reserves each week well in excess of requirements to protect against adverse developments in the uncertain atmosphere. Federal funds rates ratcheted higher over the interval, not only in reflection of these pressures but also in response to the rising cost of Euro-dollar borrowing, which resulted in part from increased speculation on an upward

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reevaluation of the German mark. Treasury bill rates, on the other hand, were relatively steady, and the capital markets did not reflect mounting pressures until near the end of the period.

These crosscurrents posed something of a dilemma for the conduct of open market operations. In keeping with the sentiment of the Committee, the Account Manager tended to resolve doubts on the side of restraint. This tendency was reinforced by the strength of the bank credit proxy in April, by the apparent proliferation of bank credit expansion that was not reflected in the bank credit proxy, and by the tenacity of doubts concerning the resolution of the System to hold fast to a policy of stern restraint. The net result of System operations in the April–May interval was to make amply clear that the Federal Reserve was serious about monetary restraint.

Monetary aggregates were a prime concern over the interval. Time and savings deposits continued to decline in the face of competition from money market instruments. Private demand deposits, however, bulged in early April (reflecting in part technical factors related to Euro-dollar flows). Consequently, the money supply spurted at an annual rate of almost 8 per cent for the full month. Meanwhile, the bank credit proxy expanded at an annual rate of 5.5 per cent when adjusted for Euro-dollar borrowings. Open market operations during the month were conditioned by these developments. Over the next month these two aggregates weakened—the money supply rose by only about 1 per cent and the proxy adjusted for Euro-dollar borrowings showed virtually no change.

Total reserves, after being adjusted for the increase in reserve requirements and for seasonal variation, declined at an annual rate of 8 per cent in April but rose at an annual rate of nearly 20 per cent in May. Nonborrowed reserves declined at a 12 per cent rate in April and rose at a rate of 6 per cent in May. The divergent rates for total and for nonborrowed reserves indicate how sparingly the System supplied reserves through open market operations and the resultant greater recourse by member banks to the Federal Reserve discount window. Such borrowing rose from an average of \$918 million in March to \$996 million in April and \$1,402 million in May. The effective rate for Federal funds escalated by about 2 percentage points over the April–May interval to around 8.75 per cent. Net borrowed reserves climbed

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from \$701 million in March to \$844 million in April and \$1,102 million in May. (See Chart 2.)

Bank credit, as measured by last-Wednesday-of-the-month figures for loans and investments, spurted over the April–May interval—rising at a seasonally adjusted annual rate of 8 per cent, compared with 2 per cent during the first quarter. Bank loans advanced at a 15 per cent rate over April and May, up from 9 per cent over the first quarter. By April the liquidity position of the banking system had deteriorated considerably. With holdings of Treasury securities at a very low level, bank liquidation proceeded at a somewhat slower pace than in the first quarter. However, banks did reduce further the already meager rate at which they had been acquiring tax-exempt securities. The reduced availability of Euro-dollars during the interval also made it difficult for banks to obtain much in the way of additional funds from this source. Hence, banks relied increasingly on other nondeposit sources of funds, including sales of commercial paper by affiliates and sales of loans either outright or under repurchase agreements—a development that also had an effect on open market operations.

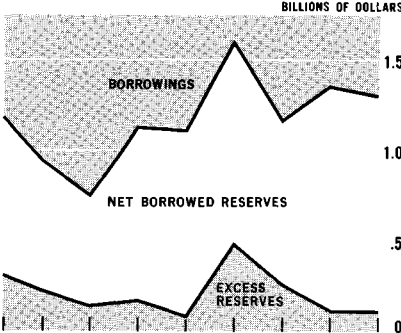
Increases in most short-term market rates were substantial during the April–May interval. The rate on 90-day Euro-dollars rose from  $8\frac{1}{2}$  per cent in March to around 10 per cent by the end of May. (See Chart 2.) Rates offered by dealers on 4- to 6-month commercial paper were raised from  $6\frac{7}{8}$  per cent in late March to  $7\frac{1}{2}$  per cent at the end of May. And during the same interval dealers' offering rates on bankers' acceptances were raised from  $6\frac{5}{8}$  to  $7\frac{1}{2}$  per cent.

Treasury bill rates during April–May generally fluctuated within the same 6 to 6.25 per cent range that had prevailed since the turn of the year. Investor demand remained relatively strong, and during the latter half of the interval demand was augmented by the German official placement of dollars acquired as a result of increased speculation in the mark. However, downward pressure on rates stemming from such demand was tempered by the increasing cost of financing dealer inventories as money market rates climbed. In this atmosphere dealers were particularly sensitive to any shifts in supply and demand, and they became restless whenever inventories tended to rise above the very low levels that dealers maintained during most of the period. Although the Treasury did not replace \$200 million of the maturing April 30 bill in the regular monthly auction (the portion sold earlier as part of a "strip"),

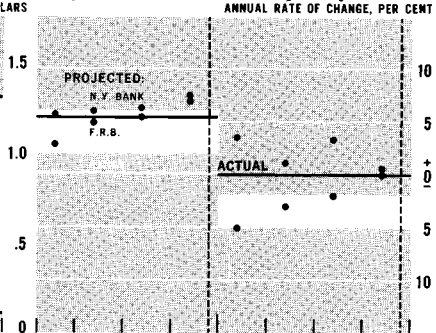


2. APRIL 2, 1969 – MAY 28, 1969

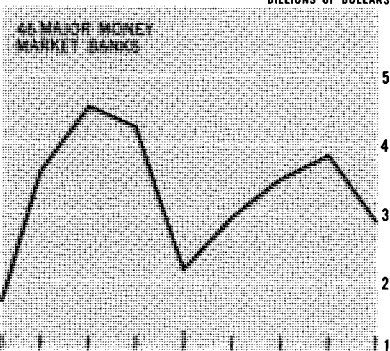
Reserves and borrowings



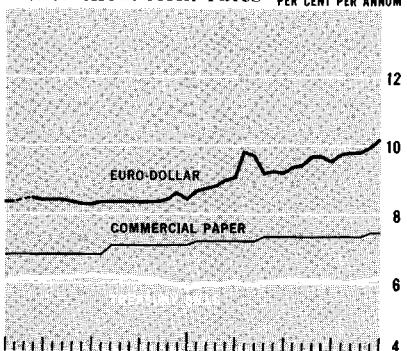
Adjusted bank credit proxy



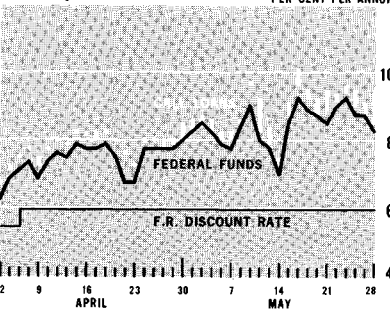
Basic reserve deficit



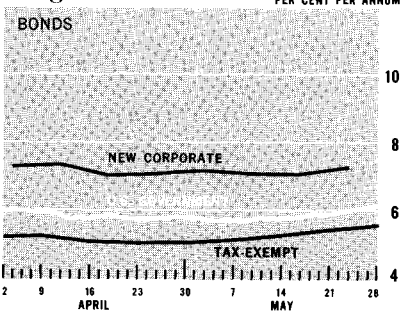
Other short-term rates



Money market rates



Long-term rates



For notes see pp. 212-13.

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it did replace the outstanding "strip" bills sold in March 1969 by adding \$300 million to each weekly auction of bills starting May 8.

Although the Treasury reduced its debt as the budget swung to substantial surplus, financing by federally sponsored credit agencies expanded. Led by the Federal home loan banks and the Federal National Mortgage Association, such agencies raised about \$1.4 billion in new money during the April–May interval (while budgeted agencies retired nearly \$1 billion of debt). The bulk of this total was used to cushion the impact of monetary policy on housing. The financing was confined to the shorter-term sector of the market—the longest maturity being 39 months. Around mid-April yields on new agency offerings were as low as 6.70 per cent, but as the market grew more congested during May, yields edged higher. One of the last offerings during the interval, \$200 million of 39-month debentures, was priced to yield 7.40 per cent.

Capital market yields actually declined somewhat in April but rose again in May. The initially better tone in the markets was related largely to the widespread sentiment that interest rates had reached their peaks, an expectation that stemmed from the feeling that anti-inflation programs being pursued by the Federal Reserve and the administration would prove effective. This confidence was dissipated during May as evidence of sustained inflationary pressures accumulated and as money market rates climbed sharply.

The Treasury's May refunding was conducted in the earlier buoyant atmosphere, however. The terms of the financing were similar to those of the February refunding. The Treasury offered holders of notes and bonds maturing in May and June 1969 the right to exchange their holdings into either a 15-month,  $6\frac{3}{8}$  per cent note yielding 6.42 per cent or a 7-year,  $6\frac{1}{2}$  per cent note priced at par. The yield on the short note was the same as that offered for a comparable note in February, but the longer maturity yielded about 21 basis points more than the 7-year note offered 3 months previously.

In the improved atmosphere, private holders subscribed for \$2.2 billion of the longer-term note in contrast to \$885 million in February. As market psychology changed, however, prices declined and by May 28 the new 15-month and 7-year notes were bid about  $\frac{8}{32}$  and  $1\frac{8}{32}$ , respectively, below their original offering prices. Reflecting this deterioration, average yields on 3- to 5-year Treasury securities, after declining from an average of 6.33 per cent in March to 6.15 per cent during

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April, rose to 6.52 per cent by May 28. Long-term Government bond yields, which had fallen from an average of 6.05 per cent in March to 5.84 per cent in April, rose to 6.15 per cent by the end of May.

Demand for high-yielding corporate issues expanded sharply in April, since many investors believed bond prices had reached bottom. Investor demand prompted many corporations to reschedule sales of issues postponed during the first quarter, and ultimately almost \$1.3 billion of publicly offered issues were marketed, the largest monthly total since June 1968. An innovative feature of the period was the sale of 3- to 5-year maturities instead of the typical 20- to 30-year maturities. The expanded supply of new corporate issues soon generated investor resistance, market ebullience faded, and again yields rose toward the end of the period. In early May, for example, new Aa-rated utility issues were marketed to yield 7.25 per cent, 25 basis points less than a similar issue at the beginning of April. At the end of May a similarly rated telephone issue was reoffered to yield 7.65 per cent.

The municipal bond market was faced with two fundamental problems during the interval. The most immediate was the virtual withdrawal of banks—in recent years the major buyers of tax-exempt bonds—from active participation in the market for new issues. Furthermore, the intensifying pressure on bank reserve positions continued to forebode a potential liquidation of bank investments in municipal issues. The outlook grew more clouded as the Congress considered tax-reform measures that would have reduced the attractiveness of municipal securities to investors, especially banks. Nevertheless, municipal yields followed the pattern in other sectors of the capital markets. By the end of April the Bond Buyer's index of yields on municipal bonds had reached 5.09 per cent, a 20-basis-point decline since the end of March. A surge of financing activity accompanied the improved market tone—driving the index above its postdepression high to 5.60 per cent by the end of May.

*Open market operations.* System open market operations in the April–May interval were directed first at maintaining firm conditions in the money market—confirming the effects of the April increases in reserve requirements and the discount rate. As the period progressed, the System moved toward still firmer conditions in resisting excessive growth of the bank credit proxy in the second half of April, and in the face of mounting evidence that banks were expanding credit increasingly

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with funds obtained in ways not measured by the proxy. Reflecting in part some cushioning of the increase in reserve requirements, as well as accommodation of seasonal needs, System open market operations in Government securities supplied a net of \$1.2 billion of reserves from April 3 to May 28.

Outright purchases of Treasury bills totaled \$1.7 billion, including \$498 million purchased directly from foreign accounts, while purchases of Treasury notes and bonds totaled \$196 million. Outright sales of Treasury bills amounted to \$411 million, largely to foreign accounts. In addition, \$206 million of Treasury bills were redeemed at maturity. Temporary reserve injections and absorptions were accomplished through \$6.7 billion of new repurchase agreements and \$2.4 billion of matched sale-purchase transactions. In order to tide the Treasury over its mid-April period of cash stringency, the System also purchased a total of \$1.1 billion of special certificates of indebtedness, which were redeemed by the Treasury when income tax payments flowed in. The maximum amount of such securities outstanding in this period was \$976 million.

In coordinating open market operations with the April 3 announcement of increases in the discount rate and in reserve requirements against demand deposits, the System supplied the bulk of the projected reserve needs for the statement week ended April 9 by repurchase agreements at the start of the period. Thereafter the rate on Federal funds edged progressively higher in the wake of the Board's initiatives. The predominant trading level climbed from  $6\frac{7}{8}$  per cent on the first day of the period to  $7\frac{1}{8}$  per cent on Monday, April 7. When the rate rose to  $7\frac{3}{8}$  per cent on Tuesday, the Desk made a moderate amount of repurchase agreements to mitigate further escalation. Conditions were less taut on the settlement day, however, and the Desk sold a small amount of Treasury bills to a foreign account under a 1-day matched sale-purchase agreement aimed at preserving the money market firmness achieved during the week.

Federal funds rates reached new highs over the Federal tax-payment date despite expanded over-all availability of bank reserves. This is a prime example of the effects that a massive ebb and flow through the Treasury's accounts can have on reserve availability and on the money market when the buffer normally provided by tax and loan accounts disappears. Balances in these accounts were drained prior to the April

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15 tax date, and the Treasury covered deficits by large-scale borrowing from the Federal Reserve Banks. These operations injected about \$1 billion of reserves during the statement week ended April 16. In view of the short-term nature of the reserve provisions, the Desk arranged matched sale-purchase transactions—\$439 million of 7-day agreements on April 10 and \$235 million of 3-day agreements on April 14—to offset the Treasury's operations. The major money center banks bore the brunt of these operations. In the first place, the drawing down of Treasury tax and loan balances was felt mainly by the major depositaries ("C" banks), and in the second place, matched agreements extinguished reserves largely in the money centers. Although net borrowed reserves for the week averaged only \$615 million, the lowest level in more than a month, the skewed reserve distribution resulted in a tighter money market, with Federal funds trading at an average of about 7.60 per cent. The Account Manager was prepared to countenance these conditions in light of the strength of the bank credit proxy in April. In addition, the bond markets were buoyant, reflecting expectations that the restrictive monetary policy would rapidly contain inflationary pressures and thus be of short duration.

The System continued to exercise restraint in providing reserves over the second half of April but was swift in absorbing reserves when money market conditions displayed a tendency to ease. The strength of the credit proxy in April remained a major factor guiding this conduct. Rates on Federal funds rose to a  $7\frac{1}{2}$  to  $7\frac{7}{8}$  per cent range, although at times rates were even higher; the effective rate averaged 7.63 per cent. Member bank borrowings from the System averaged more than \$1.1 billion over the two statement weeks ended April 30, and net borrowed reserves averaged \$1 billion.

The increase of  $\frac{1}{2}$  percentage point in reserve requirements against demand deposits impounded about \$700 million of reserves during the statement week ended April 23, and additional reserves were drained by the rebuilding of Treasury balances after the tax date. In this environment banks managed reserve positions cautiously by amassing excess reserves early in the statement week. The Desk provided necessary reserves through repurchase agreements and outright purchases of bills at the start of the week but did not attempt to relieve entirely the mounting pressures in the money market. When conditions began to reflect the accumulation of superfluous reserves toward the end of the

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week, matched sale–purchase agreements were used to absorb reserves and underscore the System’s commitment to restraint.

Banks generally switched to the opposite strategy of reserve management in the statement week ended April 30—borrowing relatively little at the discount window over the weekend and accumulating reserve deficiencies. The Desk again provided for projected reserve needs early in the week through repurchase agreements and outright purchases of Treasury bills. Reserve availability turned out to be less than projected after the weekend, however, and the money market remained firm. But then pressures intensified at the end of the period as banks scrambled to cover reserve deficiencies. In this event the System provided \$697 million in reserves through repurchase agreements over the final 2 days of April. Nevertheless, bank bidding for a diminishing supply of funds forced the Federal funds rate briefly to a new high of 9½ per cent on the settlement day, April 30.

The Federal funds rate eased to 8.25 per cent on May 1 but ratcheted upward over the rest of the month—reaching new high ground prior to each weekend before dipping as the weekly settlement date approached. For May as a whole, the effective rate on Federal funds averaged 8.67 per cent, a full percentage point higher than the average of the last 3 weeks of April. To some extent, this increase reflected a diversion of funds out of the Euro-dollar market into speculation in the German mark, which intensified demands for Federal funds. The cautious management of banks’ reserve positions also contributed to the outcome. In the uncertain climate, and in view of the deep basic reserve deficit in the money centers, banks continued to bid aggressively for Federal funds at the start of each statement week.

In this environment, the Account Manager used repurchase agreements on each Thursday and Friday to moderate the strong pre-weekend pressures in the money market. After midmonth, tautness also tended to persist after the weekends and repurchase agreements were used on several other occasions. The generally buoyant state of the Treasury bill market and low dealer inventories precluded more than modest reserve injections through outright purchases of bills in the market during the interval. Outright purchases of Treasury bills from foreign accounts, when possible, were helpful in providing for longer-term reserve needs, and after the Treasury’s refunding was completed, the Desk purchased some coupon-bearing Government obligations.

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Because of the low levels of dealer inventories, the Desk also found it necessary on several occasions to request Government securities dealers to use customer collateral to expand the volume of repurchase contracts.

More than \$4.6 billion in repurchase agreements against Treasury and Federal agency securities were arranged during the four statement weeks ended May 28. Outright purchases of bills in the market, mainly at midmonth, amounted to \$568 million, while purchases of coupon securities totaled \$195 million. Purchases of bills from foreign accounts totaled \$329 million. Although money market conditions tended to be more comfortable after the weekends, the absorption of redundant reserves was necessary only in the statement week ended May 14, when System foreign currency swap agreements generated an unexpected volume of reserves. During that period the Desk extinguished reserves by selling \$349 million of bills to a foreign account on an outright basis and \$1.1 billion in the market in 1-day matched sale-purchase transactions. For the month of May as a whole, member bank borrowing from the Federal Reserve and net borrowed reserves averaged \$1.4 billion and \$1.1 billion, respectively.

### MAY 29-SEPTEMBER 3:

#### MONETARY AGGREGATES WEAKEN AS STEADY PRESSURE IS MAINTAINED ON BANK RESERVE POSITIONS

*Economic and financial environment.* After 5 months of intensifying restraint the System held monetary policy to a generally steady course of firm restraint over the 3 months June through August. During this period the Federal funds rate and marginal reserve measures fluctuated around the levels achieved in May. However, the cumulative effects of firm monetary restraint became manifest in the money and credit markets. Banks grew quite cautious in managing their reserve positions—often accumulating reserves well in excess of their needs. This resulted in an alternating pattern of tautness and ease in the Federal funds market, which in turn prompted a strategy of countervailing open market operations that required frequent reversals of direction. In another manifestation of the cumulative effects of months of pressure on bank reserve positions, most of the monetary aggregates weakened considerably. Indeed, the decline in total member bank deposits (adjusted to

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include Euro-dollar borrowings) induced the Account Manager to relieve pressures slightly in the latter part of July under the proviso clause of the Committee's current policy directive.

Real economic growth slowed further during the period, but inflation continued apace, and the unemployment rate remained quite low. Fiscal restraint was strengthened by an enlarged budget surplus in the second quarter, and some uncertainty over fiscal policy was removed by the early-August extension of the 10 per cent income tax surcharge to the end of the calendar year. The Nation's balance of payments remained in a deep deficit on the liquidity basis. On the official settlements basis the balance continued in substantial surplus through the first half of the period, but turned negative around mid-July when borrowing of Euro-dollars by U.S. banks leveled off.

Open market operations during the June through August interval were conducted with a view to maintaining the prevailing pressure on the money and short-term credit markets. Member bank borrowing from the Federal Reserve Banks averaged \$1.3 billion, about the same as during the latter half of May. Excess reserves rose somewhat, reflecting the cautious management by banks of their reserve positions in a period of severe monetary restraint. Net borrowed reserves, therefore, declined to \$1 billion on the average over the June through August interval from \$1.2 billion during the latter half of May. The effective rate on Federal funds averaged 8.90 per cent, about the same as in the second half of May. (See Chart 3.)

Most other short-term interest rates rose over the period, partly under the influence of the largely unexpected boost in the prime lending rate of commercial banks to  $8\frac{1}{2}$  per cent near the start of the period, a full percentage-point increase. Offering rates on bankers' acceptances rose by  $\frac{5}{8}$  percentage point over the 3-month interval to  $8\frac{1}{8}$  per cent, while rates on prime dealer-placed commercial paper rose by  $\frac{3}{4}$  percentage point to  $8\frac{1}{4}$  per cent. Rates on 90-day Euro-dollars rose as high as 13 per cent briefly in June and closed in August at  $11\frac{1}{4}$  per cent, up about  $1\frac{1}{4}$  percentage points for the period.

The bank credit proxy, when adjusted for a massive inflow of Euro-dollars, declined at an annual rate of about 1 per cent during June. (See Chart 3.) During July, however, the proxy declined at an annual rate of more than 11 per cent, even after adjustment for Euro-dollar liabilities. The sharp decline reflected largely time deposit losses in the



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absence of any modification of maximum permissible interest rates on such deposits. (Negotiable CD's declined by \$4.7 billion, not seasonally adjusted, over the May 29–September 3 interval.) Estimates of funds received from nondeposit sources in July, including sales of loans to affiliates financed by sales of commercial paper, did not significantly mitigate the decline of the credit proxy in July. Consequently, open market operations permitted somewhat more comfortable conditions to develop in the money market during the second half of July in accordance with the Committee's directive to modify operations if bank credit deviated significantly from projections. Despite a further heavy drain of time deposits in August, the decline in the credit proxy eased to an annual rate of 9.5 per cent after adjustment for a slackened rate of growth in banks' Euro-dollar liabilities.

Over the June–August interval as a whole, the credit proxy (adjusted not only for Euro-dollar but also for other nondeposit liabilities <sup>1</sup>) declined at an annual rate of about 4 per cent, as compared with growth at a rate of about 1 per cent over the first 5 months of the year. Commercial bank loans and investments were little changed over the June–August period. The growth in bank loans practically ceased, and net liquidation of tax-exempt securities began. Moderate net investment in U.S. Government securities resumed, however, largely because of bank underwriting of \$3.5 billion of tax-anticipation bills sold by the Treasury in July. The money supply rose at a seasonally adjusted annual rate of 1.4 per cent during the interval, down from 4.3 per cent over the first 5 months of the year.

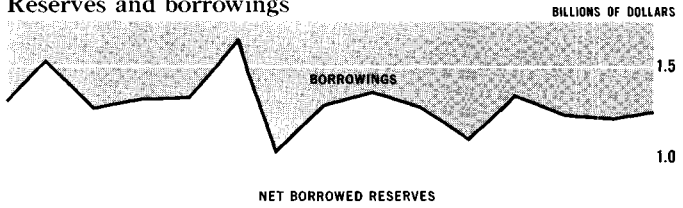
After 5 months of relative stability Treasury bill rates rose sharply, reflecting in part the cumulative effects of monetary restraint. Rates on 3-month bills had averaged between 6.01 and 6.13 per cent on a monthly basis over the January–May period but rose to an average of 6.43 per cent in June and 6.98 per cent during July and August. Upward rate momentum was evident in the bill market even before the June 9 increase in the bank prime rate. The cost of financing dealer positions had become increasingly burdensome, and apprehension among dealers was raised by bill sales by foreign central banks that were related to a movement of funds from Germany into the Euro-dollar

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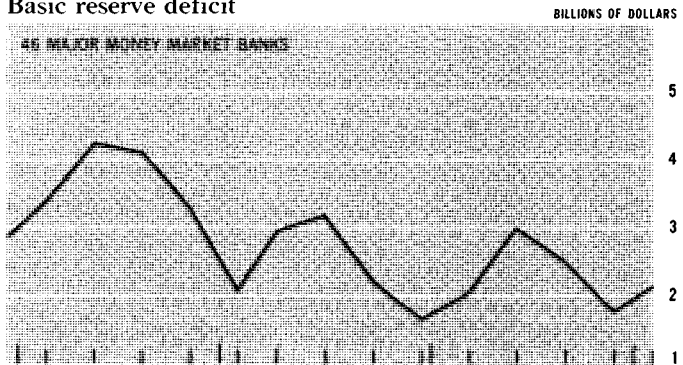
<sup>1</sup> Commercial paper issued by bank affiliates, liabilities to branches in U.S. territories and possessions, and loans sold under repurchase agreements to others than banks or banks' own affiliates. In Chart 3 the proxy is adjusted only for liabilities to foreign branches.

3. MAY 28, 1969 – SEPTEMBER 3, 1969

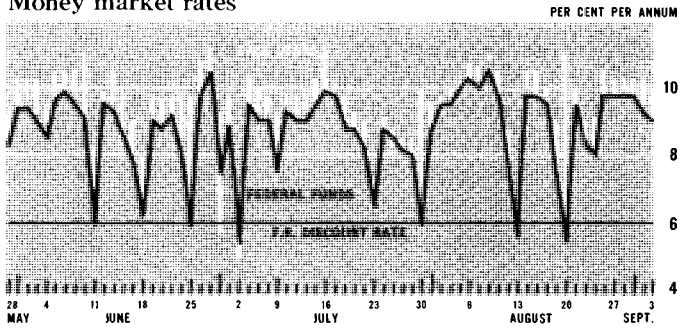
Reserves and borrowings



Basic reserve deficit

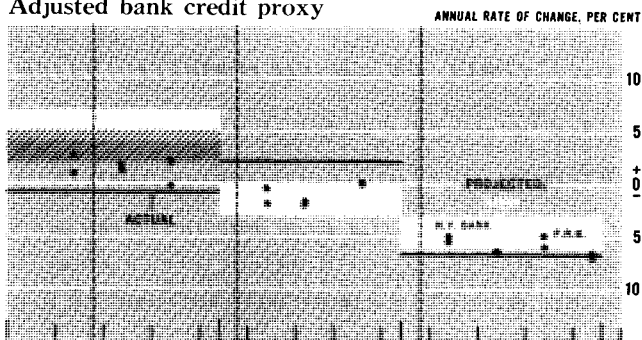


Money market rates

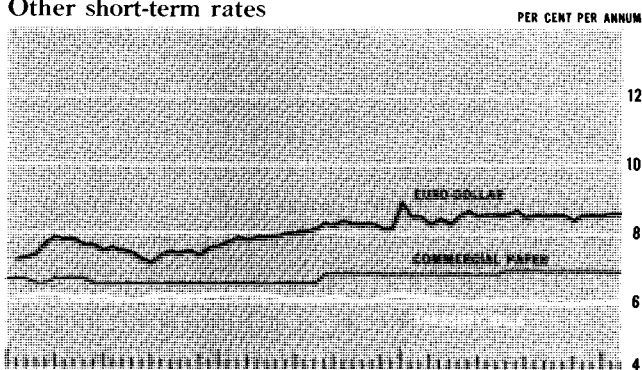


For notes see pp. 212-13.

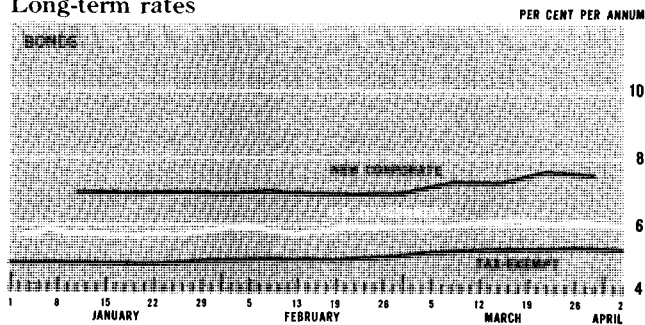
### Adjusted bank credit proxy



### Other short-term rates



### Long-term rates



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market. The increase in the prime rate sparked a sharper rise in bill rates, and rates climbed still higher in the wake of the June 26 announcement of the Board of Governors' proposal to apply a 10 per cent reserve requirement against Euro-dollar borrowings by member banks to the extent that such borrowings exceeded the daily-average amounts outstanding in the 4 weeks that ended May 28, 1969. (The proposal was adopted on August 12, with the new requirement to be met beginning October 16, based on an initial 4-week computation period beginning September 4.)

The Treasury's sale of \$3.5 billion of tax-anticipation bills early in July resulted in even higher rate levels. By mid-July, however, sentiment in the market had improved and rates were generally stable over the remainder of the interval, although the added market supply resulting from the Treasury's sale of the \$2.1 billion "strip" of bills with an average maturity of 45 days caused some uncertainty during the second half of August.

Yields on intermediate-term Treasury notes and bonds also worked higher over the interval. Average yields on 3- to 5-year Government securities rose from 6.33 per cent in May to 6.64 per cent in June and then stabilized around 7.05 per cent during July and August. Investor demand was light during most of the interval, and activity was dominated by professional trading. In this atmosphere, price movements reflected largely shifts in expectations over the future course of interest rates—with uncertainty over congressional passage of the extension of the income tax surcharge being a matter of concern. Activity expanded somewhat toward the end of the interval as attention focused on the Treasury's August refunding, and the reinvestment of the proceeds of the sale of Alaskan oil-land leases generated some demand for Government securities.

In its quarterly refunding the Treasury offered a single 18-month note in exchange for the \$3.4 billion of notes maturing on August 15 (of which \$3.2 billion were held by private investors). The new note carried a coupon of  $7\frac{3}{4}$  per cent and was priced to yield 7.82 per cent, 140 basis points more than the yield offered on a 15-month note only 3 months earlier. The terms were enthusiastically received by market participants, who were encouraged by the absence of a longer-term issue and the Treasury's decision not to pre-refund the large October maturity. While the 11.1 per cent devaluation of the French

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franc injected a note of uncertainty into the market, the atmosphere was improved by congressional extension of the 10 per cent tax surcharge to the end of the year. All but 13 per cent of the maturing issue held by the public was exchanged for the new note, a relatively low rate of attrition by recent standards.

Federal agencies raised about \$2.4 billion, net, of new money in the short- and intermediate-term markets during the interval, with more than half of this new debt coming to market toward the end of August. The Federal home loan banks and the Federal National Mortgage Association were again the heavy borrowers, accounting for about \$1.7 billion. In addition, the Commodity Credit Corporation, which does not usually tap the central money market, sold \$700 million of 39-day certificates through competitive bidding in June. Yields offered by the agencies on 6- to 24-month maturities, which were predominant among the new issues, were in a 7.85 to 8 per cent range at the start of the period, but at the end of August a 14-month issue was priced to yield 8.30 per cent. This figure was a new high for yields on agency securities, except for the CCC issue, which sold at an average discount rate of 8.723 per cent. Two sizable 5-year issues marketed in August resulted in downward pressure on prices of similar maturities of Treasury obligations.

The corporate and Treasury bond markets were relatively stable over the interval. The increase in the prime rate at the start of the period generated sharp price declines, but prices fluctuated in a relatively narrow range thereafter. New corporate financing was heavy, but higher yields attracted fairly good investor demand for most new issues that were attractively priced. Most Aa-rated utility bonds marketed during the period were priced to yield between 7.75 and 8.15 per cent as compared with the 7.25 to 7.65 per cent range prevailing during May. In the secondary market average yields on Aaa-rated corporate bonds fluctuated in a 6.90 to 7.10 per cent range on a weekly basis; and in the market for long-term Treasury bonds weekly average yields ranged from 5.98 to 6.11 per cent through the end of August.

The municipal bond market continued to labor under the threat of modification of the tax-exemption privilege. The Bond Buyer's index of yields on 20 tax-exempt issues rose from 5.60 per cent at the end of May to 5.82 per cent after the prime rate increase. (This was the highest point reached by this index since it was first calculated in 1904.)

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New financing activity was light during the summer—reflecting in large part the restrictions of locally imposed interest rate ceilings—and by mid-July the Bond Buyer's index had fallen almost to the level of late May.

However, conditions deteriorated sharply in the wake of the House Ways and Means Committee's tentative approval of a "minimum tax" on previously tax-free income. The heavy tone lifted somewhat when it appeared that new tax-reform proposals would not inhibit future buying of municipal securities by commercial banks. Nevertheless, major uncertainties remained and market participants preferred to stay on the sidelines until the outlook became clearer. Accordingly, prices resumed their downward course, and the Bond Buyer's yield index climbed to a new high of 6.26 per cent by the end of August.

*Open market operations.* System open market operations during the June through August interval were aimed essentially at maintaining the degree of pressure on the money and short-term credit markets that had been achieved during the first 5 months of the year. A tendency for market pressures to ease during the latter half of July was not fully offset by open market operations, however, in view of the substantial decline in the bank credit proxy. Even so, the Account Manager responded very cautiously to the weakness in bank credit in order to avoid giving the impression of a basic shift in the thrust of monetary policy on the eve of a Treasury refunding.

Throughout the period there was a tendency for banks to manage their reserve positions cautiously—piling up reserves in excess of their requirements in order to avoid being caught short at the last minute. In consequence, money market pressures tended to intensify early in each statement week and to ease toward the end of each statement week. To counter this alternating pattern of stringency and ease in the money market, the System frequently had to reverse direction within a statement week, first injecting and then absorbing reserves.

On a net basis, operations in Government securities supplied \$951 million of reserves over the period May 29 to September 3. The System injected reserves through outright purchases of \$2.4 billion of Treasury securities and repurchase agreements of \$5.7 billion against Treasury and Federal agency securities. In order to absorb reserves, the Account Manager made frequent use of matched sale-purchase transactions—arranging a total of \$8.1 billion during the interval—as

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a means of countering easing conditions in the money market with little effect on Treasury bill rates. The System absorbed additional reserves through outright sales of \$1.1 billion of Treasury bills and redemptions of \$207 million of maturing bills.

Early June was a period of stringency in the money market, as the basic reserve deficit of the major money center banks deteriorated sharply. The large banks acted vigorously to curb credit demands and deposit drains and to acquire funds from other sources: On June 9 several of these banks announced an increase of 1 percentage point in the prime rate to  $8\frac{1}{2}$  per cent; borrowings of Euro-dollars rose by \$3 billion over the 3 weeks ended June 18—driving 90-day rates for these funds as high as 13 per cent; bidding for Federal funds intensified; and heavy use was made of the discount window, especially by banks outside the major money centers.

In this climate, banks accumulated excess reserves early in each statement week, and money market conditions tended toward alternate tautness and ease. This pattern was not a serious problem during the first statement week of June. The System injected reserves by making \$665 million of repurchase agreements against Treasury and agency securities and bankers' acceptances and by purchasing outright \$505 million of bills from foreign accounts. Federal funds traded predominantly at  $9\frac{3}{8}$  per cent through Monday, June 2, and the System took no action to counter a slight easing of the effective rate to 8.50 per cent on the settlement day. Pressures intensified in the statement week ended June 11, however. Federal funds climbed as high as 10 per cent before the weekend, and the System responded by providing \$789 million of reserves through repurchase agreements and \$71 million through outright purchases of bills from foreign accounts.

The increase in the prime rate on Monday, June 9, threw the Treasury bill market into a state of temporary disruption. Further complicating the System's operations, foreign accounts presented the Desk with more than \$700 million of Treasury bills to be sold over the three remaining days of the statement week, an abnormal volume of transactions that reflected primarily movements of funds from Germany into the Euro-dollar market.

Given the state of the bill market, it was doubtful that the market could have absorbed this volume even at sharply higher interest rates. On the other hand, money market conditions were becoming more

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comfortable, and purchases of these bills by the System would have added undesirably to reserve availability. Faced with this predicament, the Account Manager compromised by selling more than \$300 million of the bills in the market and purchasing \$395 million for the System Account. By the settlement day, June 11, the effective rate on Federal funds fell to 6 per cent and the Desk executed \$500 million in overnight matched sale-purchase agreements—partially offsetting the reserve effect of the outright purchases. Even so, net borrowed reserves for the week averaged \$812 million, the lowest level since mid-April.

Reflecting in part advance preparations by both banks and corporations, the statement week encompassing the June corporate income tax date was relatively uneventful. However, System operations continued to be complicated by sales of bills for foreign accounts. Although money market conditions tended to be relatively comfortable and some reserve absorption was called for, the System purchased \$337 million of bills offered by foreign accounts rather than press them on a nervous bill market. The Desk partially offset this activity, however, by selling in the market \$124 million of short-dated bills for which there was a good demand and by arranging a \$200 million matched sale-purchase transaction over the weekend. When money market conditions became decidedly easier toward the end of the statement period, the System became more aggressive and sold \$1,350 million of bills under matched agreements in the market and \$150 million to foreign accounts on an outright basis.

Open market operations continued to supply and absorb reserves alternately in seeking to maintain prevailing pressure in the money and short-term credit markets over the next 4 weeks, which ended on July 16. During this interval the Account Manager arranged \$1,220 million of repurchase agreements and \$2,170 million of matched sale-purchase transactions. The System also purchased outright \$559 million of Treasury securities, including \$67 million of coupon issues, and sold \$300 million of short-term Treasury bills outright. Member bank borrowing from the Federal Reserve Banks and net borrowed reserves averaged \$1.3 billion and \$1.1 billion, respectively, about the same average levels as during the prior 4-week interval.

Preparations for the quarterly bank-statement publishing date at the end of June and the Independence Day holiday weekend elicited aggressive bidding for Federal funds, however, and rates reached high



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levels at times. Just before the end of June, for example, the effective rate rose to 10.5 per cent, a rate that was not to be exceeded in 1969. Tautness reemerged on the July 16 settlement date, and although the System combated pressures by repurchase agreements, Federal funds traded briefly at 11 per cent, also a record that was not to be surpassed for the remainder of the year. During the 4-week interval ended July 16, however, the effective rate averaged 8.9 per cent, the same as over the June–August period as a whole.

Indications of weakness in the credit proxy in July brought about a change of emphasis in open market operations after midmonth. Given some uncertainty about the actual course of credit and in view of the forthcoming Treasury financing, the Account Manager cautiously invoked the proviso clause but sought to avoid giving an impression of a basic shift in monetary policy. Interacting with a seasonal decline in money market pressures, open market operations were aimed at allowing a natural abatement of pressures to occur. The slight relaxation of the System's stance was not apparent in marginal measures of reserve availability, but the average effective Federal funds rate for the 2 weeks ended July 30 eased to about 8.25 per cent.

The Account Manager arranged \$216 million of overnight repurchase agreements on Thursday, July 17, in order to moderate early firmness in the money market. Soon, however, a swing of reserves to the money center banks generated an easier tone; in fact, the basic reserve positions of the 46 major money center banks improved by \$1.5 billion over the last 2 weeks of July. But the Desk did not allow the full effect to remain. On Tuesday and Wednesday, July 22 and 23, the System absorbed \$1 billion in reserves through matched sale–purchase agreements and \$186 million through outright sales of Treasury bills to foreign accounts.

The Desk took no additional significant action until the final 2 days of the July 30 statement period. At that time a large accumulation of excess reserves prompted the Desk to arrange a total of \$1.2 billion of matched sale–purchase agreements. The reserve absorption over the 2 weeks was sizable but not so large as it would have been if the Account Manager had not been acting under the proviso clause to permit some modification of money market conditions.

Firmer money market conditions emerged during the first 2 weeks of August as the major money center banks came under pressure and

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revised estimates of the credit proxy indicated that there was no need to continue the moderation of money market pressures engendered earlier. Open market operations aggressively supplied reserves during the first week of the interval to offset a heavy drain of reserves by market factors and to moderate mounting pressures. The Desk made a total of \$1.7 billion of repurchase agreements, arranging them on all but the first day of the statement week ended August 6. Even so, the effective Federal funds rate rose from 8.75 per cent on Thursday to 9.50 per cent over the next 2 days and to a 10.00 to 10.25 per cent range over the final 2 days of the period. One factor restraining the Account Manager from injecting still larger amounts of reserves was the possibility that publication of abnormal weekly reserve data might convey a misleading impression of System action to ease up in order to assist the Treasury financing then in progress.

Taut conditions persisted into the next statement week. Federal funds traded mainly at 10 per cent on Thursday, August 7, and in a 10.50–10.75 per cent range the next day. In this event, the Desk supplied \$789 million in reserves through repurchase agreements. Pressures abated after the weekend, however, reflecting heavy member bank borrowing at the Reserve Banks and the extremely cautious accumulation of \$4.8 billion in excess reserves over the weekend. The System resisted the easing that this generated after the weekend, but it did not do so aggressively in view of the high rates that had prevailed in the recent past and the desirability of giving banks an incentive to change their overly cautious behavior. On Tuesday the System absorbed \$350 million of reserves through overnight matched sale–purchase transactions, and on Wednesday it absorbed \$335 million through similar agreements. This token resistance did not prevent the Federal funds rate from declining to as low as 2 per cent before the close on the settlement date.

Open market operations during the three statement weeks ended September 3 consisted of alternately supplying and absorbing reserves in response to widely fluctuating money market conditions. The middle week of the interval provided some noteworthy variation, since banks apparently misjudged reserve availability. As usual, the weekend accumulation of excess reserves in the banking system began to be felt on Monday. Federal funds traded around 8 per cent but the System, aware that reserve availability was not unduly high, showed only token

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resistance to the easing in the funds market by arranging a modest amount of matched transactions. As expected, banks were too aggressive in paring excess reserves and a scramble for the remaining supply occurred on Tuesday. The Desk then injected reserves through repurchase agreements to relieve the stringency.

Over the 3 weeks ended September 3, the Account Manager arranged repurchase agreements totaling \$769 million and matched sale-purchase transactions aggregating \$973 million. On an outright basis, the System purchased \$512 million and sold \$222 million of Treasury bills. The effective rate on Federal funds averaged a shade over 9 per cent during the 3-week interval, while member bank borrowing from the Federal Reserve Banks and net borrowed reserves averaged \$1.2 billion and \$1 billion, respectively.

#### SEPTEMBER 4-DECEMBER 31:

#### FIRM CONDITIONS MAINTAINED IN THE MONEY MARKET WHILE DOWNWARD PRESSURE ON MONETARY AGGREGATES RELAXES SOMEWHAT

*Economic and financial environment.* The concluding 4 months of 1969 were an exceptionally trying period for the money and securities markets and for the conduct of open market operations. Despite intervals of market optimism, yields rose to historic highs as the markets reflected discouragement over the tenacity of inflationary pressures and expectations. Contributing to the deepening concern were disappointment over the progress made toward ending the Vietnam conflict and concern about a premature end to fiscal restraint, which might necessitate a prolongation of stern monetary policy.

The market for Treasury bills was subject to especially intense pressure during the last 2 months of the year as foreign accounts liquidated bills in large volume while the Treasury was adding to the supply. In these circumstances the System often faced the task of delicately balancing disparate objectives. The Account Manager sought both to maintain firm conditions in the money market and to avoid exacerbating the weakness in the Treasury bill market. But it was also necessary to avoid giving any false signals that monetary restraint was being relaxed.

Prices and costs continued to rise rapidly during the final months of the year, although real growth in the economy came to a halt. Industrial

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production declined each month after July, and expansion in personal income and in retail sales slowed markedly after August. Growth in employment also slowed. The unemployment rate jumped sharply in September, then fell just as sharply in November. Businessmen, however, tending to believe that the slowdown in the economy would be brief, continued to make plans for large capital outlays in 1970. A sharp improvement in the balance of payments in the fourth quarter reflected in large part a massive—and to some extent temporary—influx of funds from abroad in the latter half of December.

On the average, reserve availability eased slightly during the final 4 months of the year, but short-term interest rates rose. Net borrowed reserves during the September–December period averaged \$915 million, about \$100 million below the average of the preceding 3 months. And member bank borrowing from the Federal Reserve averaged \$1.1 billion, about \$150 million less than during the previous 3 months. However, Federal funds traded at an average effective rate of about 9 per cent, slightly above the average of the previous period. (See Chart 4.)

Rates on 90-day Euro-dollars fell from about 11¼ per cent in early September to less than 9 per cent in late October but climbed thereafter to a range of 11¼ to 11½ per cent in the latter half of December. Prime commercial paper rates rose ¾ of a percentage point over the final 4 months of the year to 9 per cent on 4- to 6-month maturities. (See Chart 4.) Posted rates on bankers' acceptances rose by the same margin to record highs of 9⅛ per cent bid and 8⅞ per cent offered.

The monetary aggregates were quite volatile during the last 4 months of 1969, but on the average they showed more strength than had prevailed during the summer. Total member bank deposits were little changed on balance over the last 4 months of the year, following the steep decline of the previous 3-month period. Euro-dollar liabilities of member banks, after more than doubling during the first 8 months of the year to more than \$14 billion, also showed little net change during the succeeding 4 months. A number of large banks, however, obtained substantial amounts of funds through sales of commercial paper by holding companies or subsidiaries, and lesser amounts were obtained through branches in U.S. territories and possessions. After adjustment to include these funds, the bank credit proxy grew at an annual rate of about 2 per cent over the last 4 months of the year, compared with a 4 per cent rate

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of decline during the preceding 3 months. The expanded proxy rose slightly in September, but then declined sharply in October—prompting the Account Manager to modify operations temporarily under the proviso clause of the Committee's directive. The expanded proxy rebounded strongly in November but increased only slightly further in December.

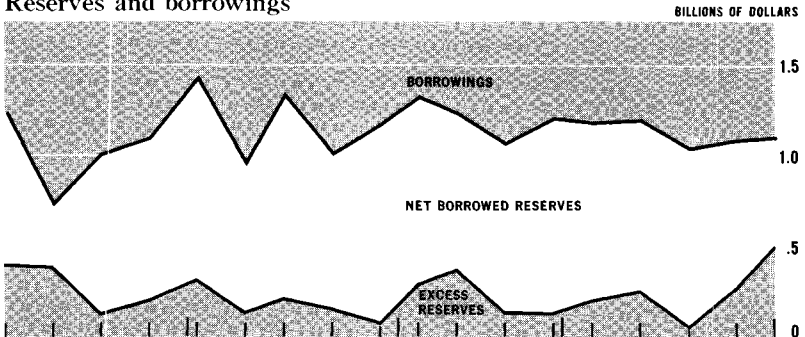
The rapid growth of commercial paper issued by affiliates of banks to raise funds for the banks prompted the Board of Governors to consider steps to stop the flow. Bank-related commercial paper outstanding had increased from \$1 billion at the end of June to \$3.6 billion by October 29. On that date the Board of Governors proposed amendments to Regulation Q that would impose interest rate ceilings on paper issued by bank holding companies. At the same time it ruled that such paper issued by subsidiaries of banks was already subject to Regulations Q and D (reserve requirements). However, the Board of Governors suspended interest rate ceilings and waived reserve-requirement penalties on the latter paper, to the extent that the volume did not exceed amounts outstanding on October 29, and it took no final action on holding company paper before the end of the year. Bank-related commercial paper continued to grow during the final 2 months of the year, but at a slower pace than in immediately preceding months.

Loan demand remained strong during the interval, and in view of the lack of significant deposit growth, the banks were hard pressed for funds. To obtain funds, they liquidated U.S. Government securities at a rapid rate and continued to reduce holdings of tax-exempt securities during the last 4 months of the year. Over the period the rate of decline in time deposits slowed considerably as some banks, particularly those in New York City, succeeded in placing negotiable CD's with foreign and international official accounts, which are exempt from Regulation Q ceilings on interest rates. Although total CD's in the banking system continued to decline over the final 4 months of the year—bringing the decrease for the year to nearly \$12 billion—CD's at the New York City banks rose by about \$500 million. The money supply grew at an annual rate of 1 per cent—about the same as over the previous 3 months.

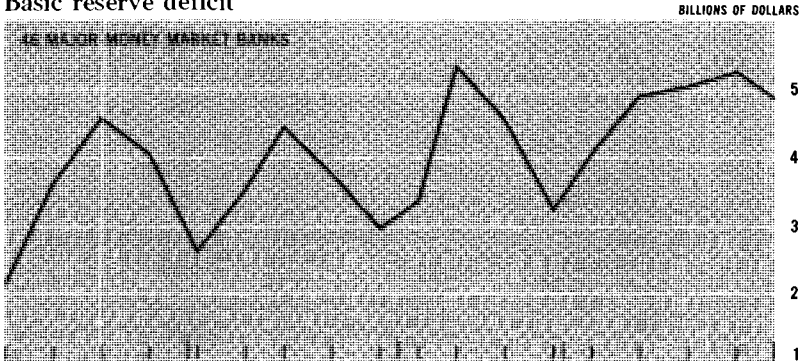
In the securities markets, a spirited rally during October provided the only respite from the bleak atmosphere that engulfed the markets during most of the final 4 months of the year. In September bond yields had risen to new highs as a result of heavy financing demands and mar-

4. SEPTEMBER 3, 1969 – DECEMBER 31, 1969

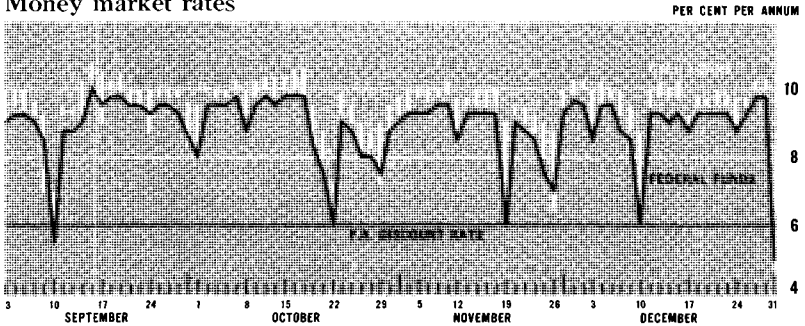
Reserves and borrowings



Basic reserve deficit

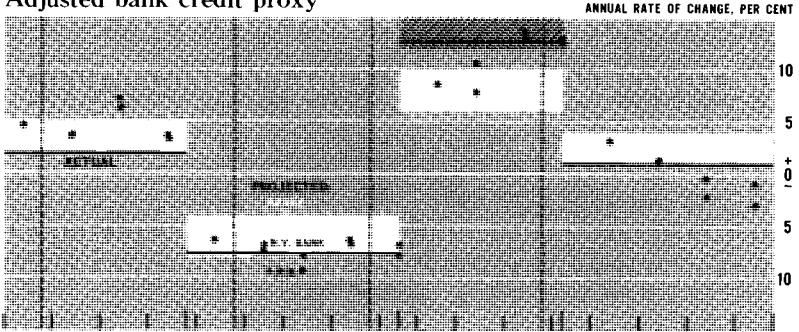


Money market rates

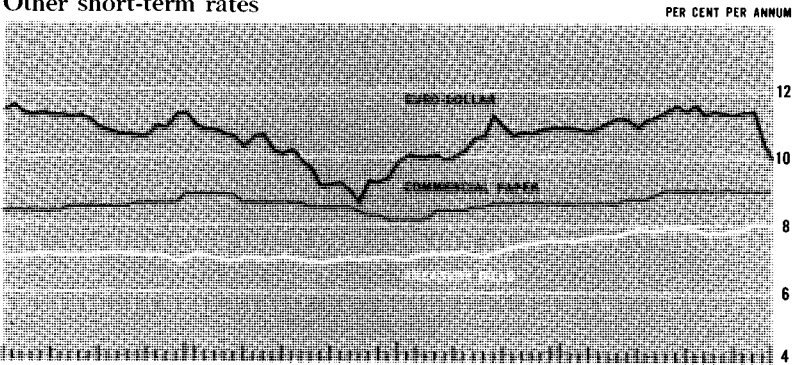


*Adjusted bank credit proxy* is adjusted, beginning Sept. 3, not only for liabilities to foreign branches but also for commercial paper issued to bank affiliates, liabil-

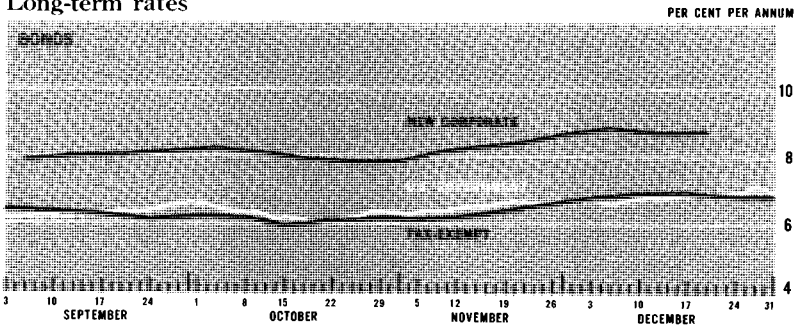
**Adjusted bank credit proxy**



**Other short-term rates**



**Long-term rates**



ities to branches in U.S. territories and possessions, and loans sold under re-purchase agreements to others than banks and banks' own affiliates. For other notes see pp. 212-13.

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ket fears. The news in early October that the unemployment rate had leaped to 4 per cent in September sparked a shift in sentiment, but as time passed, hopes for a fundamental change in the market environment faded. The President's policy statement on Vietnam on November 3 disappointed those market participants who had hoped for a more dramatic peace initiative.

Even more discouraging were subsequent statements by the monetary authorities suggesting the need for restraint well into the future. Disillusionment—even disarray—was caused by the possibility that the combined effects of congressional spending and tax reform measures would be inflationary. Heavy sales of Federal agency issues were a major factor in the rise in interest rates during the period. Against this background, the average yield on long-term Treasury bonds climbed from an average of 6.02 per cent in August to a high of 7.13 per cent in late December, while the average yield on 3- to 5-year issues rose from 7.08 per cent to a high of 8.36 per cent.

The Treasury's massive refunding in October was the highlight of activity in the market for Treasury notes and bonds during the interval. Three new notes were offered in exchange for \$6.4 billion of notes and bonds maturing on October 1 and almost \$2.5 billion of bonds maturing on December 15. The new notes included a 19½-month maturity yielding 8 per cent; a 3-year, 7½-month maturity yielding 7¾ per cent; and a 6-year, 10½-month maturity offered with a 7½ per cent coupon at a discount to yield about 7.59 per cent. The public's response to the offering was better than had been expected in light of the unsettled market conditions, and 76 per cent of the private holdings of the eligible issues were exchanged for the new notes. The exchange attrition was met the next month by the sale of \$2 billion of tax-anticipation bills.

Altogether, through sales of tax bills and additions to the regular weekly auctions, the Treasury increased the amount of bills outstanding by a net of \$6.5 billion during the last 3 months of 1969. In addition, the supply of bills was augmented by heavy sales by foreign accounts in the wake of the revaluation of the German mark; such sales exerted strong upward pressure on bill rates. The System often facilitated orderly adjustments in rates by purchasing a substantial part of the bills sold by foreign accounts. Over time, of course, these purchases correspondingly reduced System purchases in the market to



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meet seasonal reserve needs. Faced with high financing costs, dealers often sought aggressively in this period to reduce their swollen inventories. Against this background, average issuing rates on both the 3- and 6-month bills rose to records of 8.10 per cent in the weekly auction on December 29. For the 3-month bill, this represented an increase of 108 basis points from early September and 190 basis points from the end of 1968.

During the final 4 months of 1969, the Federal home loan banks and the Federal National Mortgage Association each came to the market about once a month to obtain a large volume of new funds. Federally sponsored credit agencies as a whole raised nearly \$3.4 billion of net new money during the last 4 months of the year, with most offerings having maturities of 3 years or less. The highest offering rate occurred in mid-December, when the Federal intermediate credit banks sold a 9-month issue yielding 8.80 per cent; earlier these banks had sold issues with similar maturities at 8.125 per cent (in mid-August) and at 7.95 per cent (in mid-October).

The corporate bond market labored under a heavy schedule of new issues from September through mid-December. Illustrative of the yield movements, a new Aaa-rated issue of a telephone company was sold at a record 9.10 per cent on December 2, compared with 8 per cent on a similar issue 6 weeks earlier. New-issue yields on Aa-rated electric utility bonds rose from 8.10 per cent in late August to a high of 9.20 per cent on December 1; the last such offering of the year yielded 8.95 per cent.

Gloom also pervaded the tax-exempt bond market during most of the interval. To be sure, the Bond Buyer's index of yields on 20 bonds declined to 5.92 per cent in mid-October, reflecting in part news that the tax-exempt status of municipal bonds would not be modified by the pending tax-reform legislation. But as in other market sectors, hopes for a sustained market improvement were soon deflated. The inability of many borrowers to market issues under local rate ceilings remained the dominant characteristic of the market during the interval. Indeed, nearly half of the federally guaranteed bonds of local housing authorities offered in September and November failed to receive bids under the statutory 6 per cent ceiling. Although new-issue activity remained severely hampered by high levels of interest rates, investment demand was also limited by the steady pressure on bank liquidity.

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The Bond Buyer's index of yields on 20 municipal bonds rose to a new high of 6.90 per cent in mid-December and then closed the year at 6.79 per cent.

*Open market operations.* System open market operations during the final 4 months of 1969 were aimed at maintaining firm conditions in the money and short-term credit markets, while at the same time trying to moderate strains in these markets. Extraneous events made it extremely difficult to achieve these goals. Among the complicating factors were sharp swings in the Treasury's cash balance, unexpected changes in Federal Reserve float, erratic movements in the monetary aggregates, sharply escalating interest rates, and the threat of the emergence of disorderly markets. Speculation in the German mark and large-scale sales of Treasury bills by foreign accounts were added problems. Although weakness in the credit proxy prompted implementation of the proviso clause on the side of less restraint for a brief period in October, the Account Manager did not seek tighter conditions to resist the rebound in deposit growth in November because of sharply rising interest rates. Rather, as the year drew to a close, the Account Manager sought to alleviate undue pressures in financial markets—pursuant to the directives of November 25 and December 16, which called for modification of operations if unusual pressures arose—without forsaking reserve objectives or giving misleading signals of the System's intentions.

The System injected a net of \$2.7 billion of reserves through operations in Government securities during the period September 4–December 31, a time of heavy seasonal reserve drains. It purchased \$2.4 billion of Treasury bills and \$192 million of coupon securities in the market and \$3.3 billion of bills directly from foreign accounts, all on an outright basis. The System also purchased directly from the Treasury—and subsequently redeemed—\$1.6 billion of special certificates of indebtedness in anticipation of mid-September corporate income tax receipts; the maximum amount of such securities outstanding in this period was \$1.1 billion. In addition, the Account Manager arranged a total of \$9.5 billion of repurchase agreements against Treasury and Federal agency securities.

The System withdrew reserves during the interval through outright sales of \$663 million of Treasury bills in the market and \$1.9 billion to foreign accounts and through the redemption of \$649 million of

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maturing bills. Short-term reserve absorptions were also accomplished by means of \$8.2 billion of matched sale-purchase transactions.

The heavy recourse to direct Treasury borrowing from the System resulted from a substantial underestimation by the Treasury of its cash needs in early September. By September 10 the Treasury had found it necessary to borrow a total of \$1.1 billion through issuance of special certificates of indebtedness to the Federal Reserve; this was the highest volume of such certificates outstanding in 16 years. The resultant swing in reserves was pronounced: Treasury operations and other market factors injected \$1.9 billion of reserves on the average during the September 10 statement week; however, 2 weeks later \$1.3 billion of reserves were absorbed by Treasury operations and other market factors.

In order to maintain prevailing conditions in the money market early in the interval, the System absorbed reserves. Nevertheless, outright sales were hampered by the unwillingness of dealers to increase positions substantially under existing market conditions. Hence, the System sold only \$226 million of Treasury bills outright in the market and an additional \$247 million to foreign accounts during the statement week ended September 10. The matched sale-purchase technique again proved invaluable for short-term reserve absorptions. But there were still complications.

Normally this technique tends to be used when the money market is comfortable—that is, when banks have built up substantial excess reserve positions. Due to the urgency of the task, however, the System sought to execute matched agreements at a time when bidding for funds by banks was quite strong. For example, on Friday, September 5, after some outright sales of bills for foreign accounts proved the market to be unreceptive, the Desk attempted to generate between \$500 million and \$800 million of matched transactions. With Federal funds trading at around  $9\frac{1}{4}$  per cent, however, only \$360 million of over-the-weekend agreements could be arranged at reasonable rates.

On the following Monday and Tuesday banks were somewhat more responsive to System offers of matched agreements, and by Wednesday excess reserves were sufficiently plentiful that the System was able to conclude \$1.2 billion of overnight matched agreements. In all, \$2.7 billion of matched agreements were arranged over the four business days

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September 5–10. Nevertheless, the superfluity of reserves was not entirely offset, and net borrowed reserves fell to \$349 million, the lowest level since the first week of 1969.

To facilitate the necessary absorption of reserves during the following statement week, which included the tax date, the Desk indicated to dealers during the afternoon of Wednesday, September 10, that the System might seek the next day to arrange matched agreements of as long as 1 week in duration. The unusual advance notice made it possible for dealers to explore potential sources of funds and paved the way for the large operation that followed. Thursday's operation proceeded smoothly, and dealers submitted a broad range of propositions for matched agreements; of these the Desk accepted \$1 billion for 7 days and \$142 million for shorter periods. The next day it arranged \$750 million of matched agreements for 3 days. Float failed to provide the volume of reserves projected, however, and the System reversed gears the day after the September 15 tax date—providing \$430 million in repurchase agreements for 1 day to moderate the tautness that was emerging in the money market.

The drain of reserves from the banking system after the tax date was offset with a minimum of direct open market operations. The redelivery of Treasury bills sold earlier under matched agreements provided substantial reserves during the statement week ended September 24, and movements in market factors supplied a satisfactory cushion. The subscription books for the Treasury's final 1969 refunding were open at the end of this period—making it necessary for the System to maintain an even keel in the money market. Since reserve availability was ample, the System sold \$182 million of bills to foreign accounts on Monday, September 22, to keep money market conditions from easing and so as to be in a position to relieve upward pressures on rates if they should emerge. When trading in Federal funds did firm late in the period, the Desk arranged \$175 million of short-term repurchase agreements and also \$218 million of 8-day agreements—the latter against issues eligible for exchange in the Treasury's financing—to mature on the payment date, October 1.

For the three statement weeks ended September 24, the effective rate on Federal funds averaged about 9.10 per cent. Reflecting the superfluity of reserve availability early in the period, however, borrowings and net borrowed reserves over the interval averaged \$954 million and

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\$712 million, respectively—both about \$300 million below the average of the preceding 3 months. Market observers were aware of the unusual circumstances leading to these results, and there was no tendency to read any policy significance into these developments.

During the three statement weeks ended October 15 open market operations aggressively supplied reserves to offset the effects of market factors and to relieve taut money market conditions. The System arranged \$3.1 billion of repurchase agreements during the period and supplemented these agreements by outright purchases of \$1.1 billion of Treasury bills. In consideration of longer-term reserve needs, it also purchased \$129 million of Treasury coupon securities on October 1. Against this background, rates on Federal funds were held in a 9¼ to 9¾ per cent range, with the effective rate averaging about 9.40 per cent. Member bank borrowings and net borrowed reserves averaged about \$1.3 billion and \$1.0 billion, respectively, approximately the levels that had prevailed, on the average, over the 3 months before the September tax period.

Revised projections on Friday, October 17, indicated that the bank credit proxy was declining in October at an undesirably sharp rate. In line with the proviso clause of the Committee's directive, therefore, the Account Manager permitted somewhat more comfortable money market conditions to develop. On the first 2 days of the statement week ended October 22, the System purchased outright \$332 million of Treasury bills and arranged a total of \$679 million of repurchase agreements to combat lingering tautness in the money market. Thereafter, market factors began to supply a substantial volume of reserves, and the Federal funds rate eased steadily.

The System did not resist this trend aggressively, but it did absorb a portion of the superfluity of reserves by executing \$1.9 billion of matched sale-purchase agreements over the final 3 days of the statement week ended October 22. Reflecting the System's implementation of the proviso clause, net borrowed reserves averaged \$859 million, while the effective rate on Federal funds averaged 8.68 per cent, 1 percentage point lower than the previous week's average.

The estimate of the credit proxy was revised upward on October 24, and the Account Manager was less tolerant of comfortable money market conditions during that statement week. The Desk was swift in absorbing superfluous reserves—selling \$284 million of bills outright and,

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over 4 days, arranging \$1.4 billion in matched agreements. In this event net borrowed reserves rose to \$1.1 billion, a level at the higher end of the range prevailing since May, although the average effective Federal funds rate slipped to 8.39 per cent as reserves shifted toward the money center banks.

Money market developments during the three statement weeks ended November 19 were most unusual. Fortunately, the divergent pressures that emerged dovetailed satisfactorily and steady conditions were preserved, although an exceptional volume of open market operations was required. Market factors absorbed more than \$2.2 billion of reserves, net, during this interval. The reserves were drained chiefly from the 46 major money center banks, and during the second week of the period these banks had a basic reserve deficit averaging \$5.2 billion, the deepest deficit of the year.

The international money flows that followed in the wake of the revaluation of the German mark on October 24 had confronted the Desk with the task of selling a very large volume of Treasury bills for foreign accounts. Since the absorption of reserves by market factors was projected to be of a relatively long duration, the System was in a position to buy most of these bills on an outright basis, thereby leaving the apprehensive bill market largely undisturbed by the foreign liquidation of bills. Purchases from foreign accounts during the period October 29–November 13 totaled \$1.6 billion.

In spite of these reserve injections, money market conditions remained unduly firm, and the System injected \$1.4 billion of additional reserves through repurchase agreements from October 31 through November 10. The flow of bills from foreign accounts slowed toward the end of the interval, and since reserve injections were still called for, the Desk purchased \$526 million of Treasury bills and \$64 million of Treasury coupon securities in the market on an outright basis. In all, outright System holdings of Treasury securities rose by more than \$2 billion from October 30 through November 19, about matching the absorption of reserves by market factors. Federal funds traded at an average effective rate of slightly more than 9 per cent, and member bank borrowings and net borrowed reserves averaged \$1.2 billion and \$943 million, respectively, all within the range of recent experience. Treasury bill rates, however, edged somewhat higher, portending the sharper rise that was to follow.

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The Account Manager continued to seek to maintain the prevailing pressures on bank reserves over the next 3 statement weeks, which ended on December 10, but the conduct of open market operations reflected serious concern by the System over the distressed state of the securities markets. Apprehension over the possibility that an expansive fiscal policy would necessitate monetary restraint well into the next year altered market expectations and precipitated a sharp rise in Treasury bill rates. The incidence of three Treasury bill auctions on consecutive business days—that is, on November 21, 24, and 25—accentuated the decline of market confidence, and rates in each auction shattered previous records.

To facilitate orderly rate adjustments, the System purchased a total of \$571 million of Treasury bills through market go-arounds on November 21 and 24 and also avoided an increase in market supply by purchasing \$69 million of bills from foreign accounts. Further purchases were restrained by bank reserve considerations, however. After about midmonth the distribution of reserves had favored the money center banks and the money market had tended to be relatively comfortable. Therefore, the System sold a small amount of sought-after short-dated bills in the market to offset the earlier reserve injection, and on Wednesday, November 26, it sold \$331 million of bills to foreign accounts. The latter operations also provided room for outright purchases—should the extent of unsettlement in the bill market again become critical. In view of the decline in the Federal funds rate, the System also executed \$370 million of 2-day matched sale–purchase agreements.

The need to inject reserves to offset market factors over the next 2 weeks—November 28 to December 10—coincided with the secondary objective of preventing disorderly short-term rate adjustments. The System purchased \$241 million of bills outright in the market on the first day of the interval and an additional \$483 million from foreign accounts on three occasions early in the period. Taut money market conditions also prompted the Account Manager to arrange \$1.7 billion of repurchase agreements. On the other hand, projections of bank reserve availability indicated a need to absorb reserves in coming weeks. Accordingly, the System redeemed \$246 million of maturing Treasury bills. The Desk also sold \$417 million of bills to foreign accounts over the final 3 days of the period, an operation aimed in part

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at maintaining stability in the bill market. The foreign orders were for short-dated bills that were not in great supply in the market, and by selling these bills from its portfolio the System obtained leeway to purchase \$349 million of longer-dated bills in the market on the last day of the period for future delivery, thereby removing some of the glut of bills that was putting upward pressure on rates.

Open market operations during the final 3 weeks of 1969 were conducted against a background of seasonal uncertainties. Reserves were more plentiful, but money market conditions tended to be somewhat firmer on the average as desired excess reserves rose seasonally. Member bank borrowings from the System averaged about \$1.1 billion during the 3 weeks ended December 31—about \$100 million below the level of the preceding 3-week interval. And average net borrowed reserves fell by \$200 million, to \$800 million. Nevertheless, the average effective Federal funds rate rose to 9 per cent, approximately  $\frac{3}{8}$  of a percentage point higher than the average of the preceding 3-week period. In part this firmness reflected the mid-December tax date, the uncertainties accompanying reserve flows during the holiday season, and preparations for year-end financial statements.

Pressures during the tax period were not unusual, and Desk activity during the statement week ended December 17 was confined mainly to injecting reserves through repurchase agreements on two occasions after it was learned that reserve availability had fallen short of earlier expectations. Projections were unusually tenuous because of the uncertain effects of bad weather on float, but available data indicated a need to absorb reserves over the period extending into the new year. Therefore, the System chose to redeem at maturity a total of \$349 million of Treasury bills.

Sales orders for foreign accounts complicated the task of absorbing reserves during the week ended December 24. Because of the delicate state of the bill market, the System purchased from foreign accounts on Thursday, December 18, \$241 million of bills, the bulk of the sales orders that day. To offset the reserve effect of such purchases, the Desk sold almost \$225 million of Treasury bills to foreign accounts over the next 2 days and also sold \$100 million in the market in response to unsolicited bids. Sales for foreign accounts were again heavy on the 2 days before Christmas. On December 23 the System managed to sell most of these bills in the market—taking only a small



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amount into its own portfolio. But since money market tautness appeared to be emerging on Christmas Eve, the Account Manager injected reserves by buying \$119 million of bills from foreign accounts, supplemented by repurchase agreements with nonbank dealers.

Money market conditions and reserve projections were contradictory after Christmas. Consequently, the Desk stood ready either to supply or to absorb reserves, depending on developments. Since the money market remained quite taut before the December 31 settlement day, the Desk arranged a total of \$1.3 billion of repurchase agreements over the 3 days, December 29–31. As it later became clear, earlier projections of excessive reserve availability were somewhat off the mark, since float fell sharply below projections. Even so, average net borrowed reserves fell to \$596 million during the last week of the year, as member bank holdings of excess reserves rose seasonally. □

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## REVIEW OF OPEN MARKET OPERATIONS IN FOREIGN CURRENCIES

The disturbances in foreign exchange markets that had characterized the two preceding years continued in 1969. The root difficulty was the persistence of serious imbalances in international trade and payments, notably the German and Japanese trade surpluses and the French deficit, to which was added an abnormally heavy short-term capital flow from Europe to the United States via the Euro-dollar market. The revaluation of the mark and devaluation of the French franc dealt with the most acute of these problems, however, and by the year-end the foreign exchange markets were pervaded by an unaccustomed calm.

As 1969 opened, the speculative funds that had moved into Germany between late August and the November 1968 Bonn conference were still flowing out at a rapid pace. The Bank of France succeeded in recovering a substantial portion of the reserves it had lost the preceding autumn, while the pound sterling showed a healthier tone and the Bank of England made sizable dollar gains.

In late April, however, reports spread that the German Government might be prepared to consider a revaluation of the mark in the context of a multilateral realignment of parities, and speculation burst out in favor of the mark and against a number of other currencies. In 10 days the flow of funds into the German Federal Bank amounted to \$4.1 billion, with \$2.5 billion flooding into Germany on Thursday and Friday, May 8 and 9. A substantial share of this flow apparently resulted from hedging and related operations by U.S. corporations, with a consequent inflation of the U.S. payments deficit at that time. Many European countries were even more severely affected: 10 of them suffered reserve losses approximating \$1.9 billion during the speculative crisis. On May 9 a German Government communiqué flatly rejecting revaluation broke the speculative wave, and the exchange markets settled back to orderly trading as money flowed out of Germany through midsummer. The reflux of funds from Germany was accelerated by the strong pull of high Euro-dollar rates.

During the spring and early summer of 1969 the Euro-dollar market was subjected to unprecedented credit demands, generated in large part by the effects of increasing monetary restraint in the United States. As U.S. commercial banks borrowed heavily in the Euro-dollar market

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through their overseas branches, Euro-dollar rates moved steadily upward, reaching historic highs by mid-June and strongly attracting funds from foreign financial centers. As Euro-dollar pressures built up, a number of European countries took steps to protect their domestic money markets and international reserves, and in the summer months the Board of Governors issued amendments to its regulations in order to reduce the attractiveness of Euro-dollars to U.S. banks. Euro-dollar rates declined throughout July and early August, as the continuing flow of dollars from the United States was augmented by further dollar outflows from Germany.

Reacting to the payments difficulties that had beset France since the events of May 1968, the French Government devalued the franc by 11.1 per cent on August 8. Although the Belgian franc and, to some extent, sterling and the Italian lira experienced some backwash from the French move, other currencies were relatively unaffected as it became clear that the new franc rate could be readily accommodated within the international structure of currency parities.

Funds began to move into Germany again in early September, with the approach of that country's parliamentary elections in which the future parity of the mark was an issue. With the inflow mounting, the German authorities moved to forestall a repetition of the earlier speculative onslaughts by suspending official foreign exchange dealings during the last two business days before the September 28 elections. Moreover, when the election results pointed to the formation of a new government and a probable mark revaluation, the authorities decided not to attempt to maintain official trading limits for the mark until the new government could take office, some 3 weeks later.

The German mark immediately began to appreciate, reaching a premium of about  $7\frac{1}{4}$  per cent by midmonth. With little divergence of market views regarding the prospective size of a revaluation, and with the German Federal Bank, in effect, putting a floor under each successive advance of the rate, orderly conditions were maintained during the transition period. On October 24 the new government revalued the German mark by 9.3 per cent. The fixing of the new parity—at a higher level than the market had expected—was followed by a sustained capital outflow of massive proportions; for the entire period between September 29, when the mark was allowed to “float,” and December 31, German official net losses totaled some \$5 billion.

The reflux of funds ended the pressures to which the currencies of a

TABLE 1: FEDERAL RESERVE RECIPROCAL CURRENCY ARRANGEMENTS

Other party to arrangement	Amount of facility (in millions of dollars equivalent)	
	Dec. 31, 1968	Dec. 31, 1969
Austrian National Bank.....	100	200
National Bank of Belgium.....	225	500
Bank of Canada.....	1,000	1,000
National Bank of Denmark.....	100	200
Bank of England.....	2,000	2,000
Bank of France.....	1,000	1,000
German Federal Bank.....	1,000	1,000
Bank of Italy.....	1,000	1,000
Bank of Japan.....	1,000	1,000
Bank of Mexico.....	130	130
Netherlands Bank.....	400	300
Bank of Norway.....	100	200
Bank of Sweden.....	250	250
Swiss National Bank.....	600	600
Bank for International Settlements:		
Dollars/Swiss francs.....	600	600
Dollars/authorized European currencies other than Swiss francs.....	1,000	1,000
Total.....	10,505	10,980

number of other countries had been intermittently subjected earlier in the year. The Bank of England and the Bank of France, in particular, benefited from considerable market gains and thus were able to make good progress in reducing their short-term foreign debts. The outflow of funds from Germany also led to a substantial easing in the Euro-dollar market where, initially, interest rates dropped sharply. Starting toward the end of October, however, the expectation of continuing tight credit conditions in the United States, the announcement that the Board of Governors was contemplating steps to discourage excessive recourse by U.S. banks to the domestic commercial paper market, and, later, year-end withdrawals by U.S. corporate depositors and foreign banks pushed interest rates in the Euro-dollar market to exceptionally high levels.

During the year under review, the pressures on central bank reserves

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generated by trade imbalances, capital flows in response to interest rate differentials, and speculative disturbances were relieved to a large extent through financing by the Federal Reserve swap network, associated international short-term credit facilities, and substantial recycling arrangements.

At the beginning of 1969 the U.S. authorities had \$432.1 million of outstanding foreign currency commitments under central bank swaps—\$112.1 million to the German Federal Bank and \$320 million to the Swiss National Bank. The System's obligations to the German Federal Bank were fully liquidated in January, and those to the Swiss National Bank sharply reduced in February. New drawings of \$40 million equivalent on the Netherlands Bank and of \$100 million equivalent on the Swiss National Bank during the spring were fully repaid by May and July, respectively. By then the other outstanding Swiss franc drawings also had been repaid, so by mid-July the System was out of debt.

Beginning in October, however, the System had to reactivate some of its swap lines, drawing the equivalent of \$200 million on the Swiss National Bank, \$300 million on the Netherlands Bank, and, later, \$55 million on the National Bank of Belgium, as funds flowed into these countries with the unwinding of mark positions and on the expectation that the Netherlands and Belgium might follow Germany in revaluing. In subsequent weeks, however, it was possible for the Federal Reserve to reduce its outstanding commitments to the Netherlands Bank to \$130 million and to the Swiss National Bank to \$145 million equivalent. Thus, at the year-end over-all System commitments were down to \$330 million.

During the year foreign central banks and the Bank for International Settlements (BIS) continued to make substantial use of their swap lines with the System. Their repayments, however, exceeded their drawings by about \$1.0 billion, and total borrowings outstanding had been reduced to \$650 million by the end of the year. Since the inception of the swap network in March 1962, total drawings on the swap lines by the Federal Reserve and its partner foreign central banks have amounted to \$20.5 billion.

The Bank of England's swap borrowings from the Federal Reserve, which had totaled \$1,150 million at the end of 1968, were reduced in the early months of 1969, but rose to a peak of \$1,415 million during the speculative rush into German marks in early May. Subsequently,

TABLE 2: FOREIGN CURRENCY TRANSACTIONS OF THE FEDERAL RESERVE, 1969

In millions of dollars or their equivalent

Currency	Operations initiated by the System									Swap operations initiated by others	
	Transactions under swap lines				Other transactions						
	Drawings	Repayments	Disbursements of balances acquired through swaps	Acquisitions of funds for repaying swaps		With U.S. Treasury <sup>1</sup>		With others		Drawings	Repayments
				From U.S. Treasury	From others	Purchases	Sales	Purchases	Sales		
Austrian schilling . . . . .							0.8			50.0	50.0
Belgian franc . . . . .	55.0		55.0						2.4	513.0	520.5
Canadian dollar . . . . .							2.5		(2)		
Danish krone . . . . .										125.0	125.0
Sterling . . . . .						651.3	704.6		63.3	795.0	1,295.0
French franc . . . . .						199.5	199.5		4.7	290.0	720.0
German mark . . . . .		112.1			98.4		165.0	221.6		<sup>3</sup> 142.0	<sup>3</sup> 222.0
Italian lira . . . . .						124.2	124.2	15.1	10.2	300.0	300.0
Netherlands guilder . . . . .	340.0	210.0	340.0		209.8				0.5	5.0	191.9
Swiss franc . . . . .	300.0	475.0	300.0	144.7	326.5			0.7	2.9		
Total . . . . .	695.0	797.1	695.0	144.7	634.7	975.0	1,197.3	240.1	85.6	2,406.9	3,424.4

<sup>1</sup> Includes forward as well as spot transactions.<sup>2</sup> Less than \$0.05 million.<sup>3</sup> By the BIS.

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the Bank of England made additional repayments, but it had to draw again in August and September—primarily as a consequence of the French devaluation. In the final quarter of 1969, however, the Bank of England resumed its repayments, and by the year-end outstanding swap drawings had been reduced to \$650 million.

The Bank of France, after making repayments earlier in the year on its \$430 million swap indebtedness to the Federal Reserve, had to utilize its line again in February and March, bringing commitments outstanding to a high of \$461 million at the end of that month; subsequent pressures on the French franc during the rush into marks in early May were financed by drawings on the \$200 million credit provided by the U.S. Treasury under the Bonn credit package of November 1968 and on other foreign central banks. Before the end of June the Bank of France had repaid the entire \$461 million outstanding under the Federal Reserve swap line.

The National Bank of Denmark reactivated its swap facility with the Federal Reserve in January, drawing \$25 million; the full amount was repaid in mid-March. In April, however, the National Bank made a new drawing, of \$50 million, and it drew another \$50 million during the mark crisis in May. During June, an inflow of funds to Denmark enabled the National Bank to repay the \$100 million to the Federal Reserve, restoring the Federal Reserve swap line to a standby basis.

The Austrian National Bank made its first drawing on the swap facility, in the amount of \$50 million, to replenish reserves lost in the mark crisis early in May. This drawing was fully repaid in August.

The Netherlands Bank suffered reserve drains late in the second quarter as a result of the strong pull of the Euro-dollar market, and it drew on the Federal Reserve swap line during June and July for a total of \$192 million. Defensive measures by the Netherlands Bank subsequently reversed the flow of funds and enabled the Netherlands Bank to reduce its swap debt and, when speculative funds began flowing in, to fully liquidate such debt in October.

The National Bank of Belgium also experienced reserve pressures originating in the Euro-dollar market early in the year and raised its outstanding drawings on the Federal Reserve swap line to \$40.5 million by the end of January. After making some net repayment during the rest of the first quarter, the National Bank found it necessary to increase its swap drawings to \$175.5 million during the mark crisis in

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May, but it was able to bring down the total of this debt to \$114 million as of the end of June. At the end of July Belgium utilized resources immediately available to it at the International Monetary Fund in order to discharge its remaining commitments to the Federal Reserve. The devaluation of the French franc gave rise to rumors that the Belgian franc might also be devalued, and the National Bank made new drawings totaling \$244 million. These rumors were quickly dispelled, however, and the National Bank was able to repay its debt completely by the end of October.

The Bank of Italy activated its swap line with the Federal Reserve in late September, drawing \$300 million to cover market losses incurred after the French devaluation and prior to the German elections. With funds flowing back from Germany after mid-October, the Bank of Italy fully repaid the drawing in mid-November.

Finally, relatively minor drawings on its swap line were made by the BIS to finance brief imbalances in cash flows. In contrast to earlier years, the BIS did not draw on the swap line to finance intervention in the Euro-dollar market during either the June or the December window-dressing periods, since it was judged that the pressures then impinging on the Euro-dollar market had originated primarily in conditions governed by fundamental economic policy decisions.

No operations in forward markets were undertaken by the Federal Reserve during 1969. Technical forward commitments in lire assumed by the U.S. Treasury in earlier years were fully liquidated by the end of November 1969.

From time to time beginning in May 1969, the Federal Reserve bought foreign currencies on a 3-month swap basis from the Treasury's Exchange Stabilization Fund in order to free some of the Fund's resources for current operations, primarily gold purchases from foreign countries. These swaps reached \$975 million by the end of the year. (After rising to a peak of \$1 billion early in January 1970, the swaps were fully reversed later that month, when the U.S. Treasury had monetized \$1 billion of gold previously held by the Exchange Stabilization Fund.)

#### GERMAN MARK

During 1968 there were recurrent rumors of imminent revaluation of the mark as Germany continued to show a very large surplus in its balance of payments on current account. Although the current-account



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surplus was offset by an equally substantial outflow of long-term capital, the markets remained apprehensive that the outflow could not be sustained and that German competitive strength eventually would force a mark revaluation. These fears culminated in a huge rush of funds into Germany in November 1968, but speculation receded in the face of the determined refusal by the German Government to revalue the mark, backed up with border-tax measures designed to encourage imports and slow the growth of exports. Reversal of the massive influx took some time, but by early 1969 German monetary reserves were back to their pre-November 1968 level.

In order to encourage the outflow, the German Federal Bank offered in December 1968 to undertake swaps with its banks at more favorable rates and for a wider range of maturities than it had previously provided. The German banks responded to the improved incentives, enabling the authorities to roll over into 1969 the very large December maturities of earlier swaps. Moreover, the German Federal Bank sold very substantial amounts of spot dollars outright, as foreigners withdrew funds from Germany and commercial leads and lags began to unwind.

Heavy demand for dollars, both spot and on a swap basis, continued into January 1969, reinforced by seasonal reflows from the German money market. As the outflows continued, the spot mark eased below par and the Federal Bank raised the cost of its official swaps moderately in several steps. During the period of heavy outflows from Germany beginning in late 1968, the Federal Reserve was able to accumulate substantial amounts of German marks. By late January the System had purchased sufficient marks in the market and from the German Federal Bank to repay in full its outstanding \$112.1 million equivalent swap indebtedness to the Federal Bank.

The flow of funds from Germany continued unabated through most of the first quarter of 1969, as the authorities pursued a policy of monetary ease at a time when Euro-dollar rates were rising sharply. In addition to the substantial flow into the short-term Euro-dollar market, long-term capital exports rose to record levels as foreign borrowers flooded the German capital market with loan demands and securities issues in response to the relatively low borrowing costs in Germany. With the mark consequently trading below par, the Federal Reserve and the Treasury purchased marks to add to balances throughout the first quarter.

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Such capital outflows from Germany more than offset the current-account surplus and by mid-March had contributed to a tightening of the German money market and to the appearance of the first signs of indigestion in the capital market. Meanwhile, with domestic credit demand intensifying, German monetary policy shifted toward somewhat less ease. In order to prevent too rapid a tightening of domestic liquidity, however, the Federal Bank had raised its market swap rate, thereby reducing the incentive for banks to make covered placements abroad.

By early April congestion in the capital market was becoming severe and the West German Capital Market Committee acted to space out issuance of securities by foreign borrowers. With capital outflows dropping sharply, the steady decline in German reserves came to an end. Moreover, the gradual shift in official policy toward restraint aroused concern that reliance on monetary means to curb inflationary pressures might result in reflows of funds to Germany and hence to renewed buying pressure on the mark. The 1 percentage point increase to 4 per cent in the Federal Bank's discount rate on April 18 pointed up this potential dilemma inherent in official efforts to avert domestic inflation while avoiding internationally disruptive shifts of funds into Germany.

Against this background, the market grew increasingly apprehensive as the April 27 referendum in France approached—fearing that a defeat for President de Gaulle and his resignation from office might lead to new speculation on changes in currency parities. Demand for marks rose sharply, and on April 22 the Federal Bank began purchasing dollars. The bank immediately resumed swap operations with German banks, in order to push the dollars back into the market. The news of the referendum defeat for President de Gaulle touched off substantially heavier demand for marks on April 28, but the authorities permitted the spot rate to rise steeply and this helped to dissipate the buying pressure. Meanwhile, it soon became clear that the transfer of power in France following President de Gaulle's resignation would be orderly and that a franc devaluation by the interim government was unlikely. Consequently, demand for marks began to taper off, and the Federal Bank succeeded in rechanneling to the international money markets most of the \$500 million taken in during this period.

The market atmosphere changed dramatically overnight, however, following reports that German official circles might be willing to con-

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sider a mark revaluation as part of a multilateral realignment of parities. Demand for marks soared as firms with commitments in marks rushed to hedge them, as commercial payments leads and lags began to swing heavily in favor of the mark, and as outright speculation began again on a massive scale. The huge shifts of funds to Germany exerted strong pressure on the Euro-dollar market and dangerously strained the international reserves of some of Germany's trading partners. The speculation did not halt until the German Government announced late on May 9 that it would not revalue the mark and that supporting measures would be announced in a few days. By then the exchange markets had witnessed the heaviest flow in international financial history. The speculative onslaught between the end of April and May 9 increased German monetary reserves by some \$4.1 billion—including \$2.5 billion on May 8 and 9 alone—to a record level of \$12.4 billion.

The exchange markets began returning to normal following the German Government's decision not to revalue, which was backed up by an official communiqué from Basle declaring that agreement had been reached among the central banks on steps to recycle the speculative flows. The unwinding of speculative positions brought a sharp fall in the mark rate and the German Federal Bank began to sell dollars on a large scale.

On May 13 the German authorities announced new measures to be submitted to parliament, including: (1) authority for the German Federal Bank to impose minimum reserve requirements of up to 100 per cent on all foreign-owned mark deposits in German banks, and (2) extension beyond the March 31, 1970, expiration date of the border-tax adjustments introduced in late 1968 to raise export prices and lower import costs.

The outflow of funds from Germany continued through early June, as Euro-dollar rates moved higher and as the Federal Bank resumed market swap operations. A tightening of liquidity conditions in Germany around the mid-June tax date checked the outflow temporarily, but despite a further increase in the Federal Bank's discount rate to 5 per cent, the flow resumed toward the month-end and continued into early July. By then nearly \$3 billion had returned to the international markets.

In subsequent weeks the market began to show signs of nervousness once again, with the growing pre-election debate among German politi-

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cal figures keeping the issue of revaluation of the mark in the foreground. Thus, when the German Federal Bank moved to tighten monetary policy further by raising the minimum reserve requirements of commercial banks in mid-July, there was a brief flare-up of demand for marks. This scare passed quickly, however, and the outflow of funds resumed.

The devaluation of the French franc on August 8 introduced new uncertainties and triggered a fresh rush of demand for marks. The Federal Bank once again purchased dollars, but the buying pressures were not sustained as traders became convinced that there would be no change in the mark's parity, at least not until after the September 28 elections, and the authorities were able to swap back to the market a substantial part of the inflow. The mark remained firm into early September in relatively light trading, and there was no further official intervention in the spot market. With funds beginning to come into the reserves as a result of maturing swaps, however, the Federal Bank progressively reduced its swap rate in order to encourage banks to renew these transactions.

Demand for marks soon picked up again as the date of the German elections approached. There was sizable covering of foreign currency positions by Germans as well as mark hedging by foreigners, and the Federal Bank purchased increasing amounts of dollars as September progressed. The bank continued in the meantime to sell dollars on a swap basis, but on September 18, after such sales had reached \$0.7 billion over a 10-day period, it raised its swap rate, thus bringing to a virtual halt the covered movements of German bank funds into the Euro-dollar market. Although anxious to encourage a reflow of funds, the authorities felt that the market swaps were again beginning to be used to finance speculative purchases of marks. The spot inflow continued unabated, however, and by September 24, the Wednesday before the election weekend, the Federal Bank had purchased \$1.5 billion in active but orderly markets.

After the close of the Frankfurt market on that day, the German authorities announced their decision to suspend official foreign exchange dealings until after the elections, thereby forestalling an influx of funds into Germany that might well have approached the massive proportions of the two preceding crises—in November 1968 and May 1969. The mark continued to be traded that afternoon in New York and on Thursday and Friday in all international exchanges, but activity

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was limited. With no official intervention and with conflicting opinions swaying the market, the rate moved above its ceiling of \$0.2518 $\frac{7}{8}$ , to as high as \$0.2570 on Thursday, September 25.

The election returns, which came in Sunday night, showed that no party had won a parliamentary majority. Negotiations were promptly undertaken, however, by the Social Democratic and Free Democratic parties to form a coalition government, which would presumably favor revaluation. Against this political background, when the Federal Bank reentered the market on Monday morning, September 29, it was immediately flooded with \$245 million in the first hour and a half of trading. At that point the German Government accepted a recommendation by the Federal Bank that the mark be permitted to "float" temporarily—by suspension of intervention at the ceiling.

The mark immediately rose above the ceiling and within a week, by early October, it had reached a premium of about 6 $\frac{3}{4}$  per cent; it advanced more slowly thereafter to a premium of some 7 $\frac{1}{4}$  per cent by midmonth and then fluctuated narrowly around that level. Despite continuing nervousness, the market adapted to the changed circumstances satisfactorily as two factors combined to ensure orderly conditions during the transition period.

First, by October 2 it had become reasonably clear that a Social Democratic-Free Democratic coalition government would take office when the Bundestag reconvened on October 21 and would revalue the mark shortly thereafter. Thus, the main question in the market became the size, rather than the possibility, of a parity change. And even on this score there was little diversity of views in the market, with traders widely expecting the new parity to be set at \$0.27027 (DM 3.70).

Second, the German Federal Bank exerted a strongly stabilizing influence by standing ready each day to buy marks at rates slightly below those prevailing in the market, thereby in effect placing a floor just below each successive advance of the rate. Since the mark was technically weak at the time because of the withdrawal of foreign funds that was already under way, there could have been wide fluctuations in the spot rate and repeated departures from the longer-term equilibrium rate had the Federal Bank not stood ready to prevent disorderly fluctuations. The Federal Bank's dollar sales in these operations varied widely from day to day, but amounted to \$1 billion by the time the new parity was fixed.

On Friday, October 24, the German Government revalued the mark

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by 9.3 per cent, to \$0.2732¼. As had been expected, it also eliminated the special border-tax adjustments that had been introduced in November 1968 to make exports more expensive and imports cheaper, and which had been temporarily suspended on October 11, 1969. The revaluation was larger than had been generally anticipated, thus decisively removing the mark from the realm of speculation while setting into action economic forces that would foster both internal and external equilibrium. The move was well received by the market, which quickly became convinced that a period of much greater calm would ensue.

The German mark traded at its new floor of \$0.2710 as soon as the markets opened on Monday, October 27, and apart from a short-lived rally in early December, it remained there through the end of the year as the substantial positions built up in September and during earlier periods were being unwound. Moreover, with interest rates lower in Germany than abroad, foreign firms made large drawings on credit lines established with German banks earlier in the year. Consequently, there were extremely heavy dollar sales by the Federal Bank. By the year-end, such sales totaled more than \$6½ billion (including the \$1 billion sold during the period when the mark was permitted to float), but they were partly offset by almost \$1½ billion in maturing forward contracts. The net outflow of \$5 billion created both internal and external problems. Domestically, the authorities were not averse to having some additional pressure exerted on liquidity, since this would only reinforce their policy of monetary restraint, but they were anxious to avoid the development of too severe or abrupt a squeeze. Externally, a considerable reflow of capital was desirable, since it would help rebuild the reserves of other countries, but the size of the reflow was such as to reduce sharply Germany's holdings of liquid dollars.

To provide some relief to the commercial banks, the Federal Bank, effective November 1, reduced minimum reserve requirements by 10 per cent for resident deposits and by 30 per cent for nonresident deposits. The bank also eliminated the special 100 per cent marginal reserve requirement that had been imposed earlier on foreign deposits; reserve requirements against nonresident liabilities were thus again brought in line with those applying to domestic liabilities. Credit conditions continued to tighten, however, as the outflow persisted, and commercial banks were induced to borrow heavily from the Federal

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Bank. When year-end stringencies began to add to the pressure, the Federal Bank lowered reserve requirements by another 10 per cent, but for the month of December only. At the same time, to discourage both domestic credit expansion and capital outflows, the Federal Bank on December 4 raised its "Lombard" rate on secured advances by 1½ percentage points to 9 per cent—thus widening the spread between that rate and the discount rate (which had been raised to 6 per cent on September 11) to 3 percentage points, an unusually large amount. Furthermore, in mid-December the authorities eliminated the prohibition against payment of interest by German banks on foreign-owned deposits, which had been designed to discourage inflows of short-term funds.

On the external side, in financing the outflow, the Federal Bank had used up by mid-November most of its liquid dollar holdings, although total official reserves remained very large. As a consequence, the German authorities encashed in advance of maturity four mark-denominated U.S. Treasury notes totaling DM 800 million and had recourse to their creditor position within the IMF—drawing \$540 million on November 26 and, on December 9, an additional \$550 million that represented their claims under the General Arrangements to Borrow. There were further heavy outflows in the second half of December, and Germany sold \$500 million of gold to the U.S. Treasury on December 29.

#### STERLING

The unwinding of the speculative excesses of November 1968 had brought an improvement in sterling rates, but as the year 1969 began, the exchange markets continued to take a very cautious view of the future. Progress in reducing the U.K. trade deficit was slow and uneven during the winter months, and sporadic labor difficulties and tensions in the Mideast tended further to delay the return of confidence. In addition, increasing monetary restraint in the United States was quickly transmitted to the Euro-dollar market at the beginning of 1969 through the rapid rise in dollar placements with head offices by the European branches of U.S. banks. The contraseasonal upswing in Euro-dollar rates probably kept sterling from benefiting fully from the normal seasonal reflows of funds from continental centers, augmented on this occasion by the sizable outflows from Germany.

About mid-January Euro-dollar pressures eased temporarily, and

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as the market again expected favorable trade figures, buying of sterling picked up, only to taper off once more later in the month. Although the December trade results failed to measure up to expectations, the release in mid-February of sharply reduced deficit figures for January again gave a boost to the market, which was also encouraged by prospects for a considerable reduction in British Government domestic borrowing during the coming year. On February 27 the discount rate of the Bank of England was raised by 1 percentage point to 8 per cent, to help achieve the desired reduction in bank credit and to help insulate sterling from the pull of continuing high Euro-dollar rates.

The first quarter of the year, moreover, is generally favorable to sterling because of seasonal strength in the export trade of the overseas sterling area (OSA). Since most of the official sterling holdings of those countries are now guaranteed under the terms of the September 1968 arrangements, OSA countries were encouraged to retain rather than convert their sterling balances, thus strengthening the net demand for sterling in the markets. And with the London money market under tight official rein, foreigners tended to buy rather than borrow sterling.

In these circumstances, sterling was firm and the Bank of England was able to make substantial dollar gains. The British authorities used the dollar inflow to meet repayment obligations to the IMF and to begin repaying outstanding shorter-term indebtedness. By the end of March the Bank of England had reduced its drawings from the Federal Reserve by \$50 million to \$1,100 million. In addition, the bank had liquidated part of the credits drawn under the 1968 sterling balances arrangement.

Sterling remained seasonally strong in early April, and the Bank of England was able to make a further repayment of \$150 million to the Federal Reserve. As the month wore on, however, the seasonal strength began to fade, and at midmonth the latest U.K. trade figures showed a smaller improvement than the market had expected, with imports remaining high. In this setting the Government's new budget stirred little market enthusiasm, despite general satisfaction with the further tightening of fiscal policy. To bolster the austerity program, the U.K. authorities provided for substantially increased taxes and an over-all surplus of more than £ 800 million for the fiscal year 1969-70.

Sterling was also adversely affected in late April by developments abroad. Euro-dollar rates had advanced to relatively high levels in March, and pressures in that market were intensified in April when the



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Federal Reserve Banks raised their discount rates and several continental European central banks followed suit. Moreover, in a number of countries, steps were taken to curtail capital outflows or to induce repatriations of funds. Throughout this period there was no incentive to move covered funds into London, and indeed little net incentive for users of sterling to build their balances above minimum levels.

In these circumstances, sterling was vulnerable to the uncertainties generated by President de Gaulle's decision to stake his presidency on the outcome of the April 27 constitutional referendum. Sterling weakened as the voting date approached, but there was no large-scale selling and official support costs were modest. The rate dropped sharply following the referendum and President de Gaulle's resignation, but demands for sterling for month-end payments absorbed most of the immediate selling pressure.

Just as the market was beginning to regain its equilibrium, a new wave of speculation on possible parity realignments was set off by reports of German official willingness to consider revaluing the mark as part of a broader readjustment of parities. As funds flowed from virtually every major center into Germany, sterling was particularly hard hit, with the familiar build-up of selling pressure in advance of the weekends. Over 10 days of hectic speculation, Bank of England support costs in the spot market were very large, while forward sterling discounts widened sharply. This episode, of course, interrupted the progress that the U.K. authorities had been making in reducing their external indebtedness, and the Bank of England had to draw on the swap line with the Federal Reserve to help cover market losses. At their peak, swap drawings reached \$1,415 million.

Sterling had been very heavily oversold, however, and it rebounded sharply following the German Government's May 9 rejection of a revaluation of the mark. During the remainder of May and through June the Bank of England was able to make sizable reserve gains, despite the further upsurge of interest rates in the Euro-dollar market. The reserve gains once again were used to make repayments of debt under various international credit lines. By the end of June the Bank of England had reduced its outstanding drawings from the Federal Reserve to \$1,025 million, \$75 million below the end-of-March level. In addition, during May and June the United Kingdom made a large scheduled repayment to the IMF and liquidated the bulk of the credit still outstanding under the 1968 sterling balances arrangement.

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On the other hand, the Bank of England obtained new credit from the German Federal Bank under a recycling arrangement designed to neutralize part of the speculative flow from the United Kingdom into Germany, and it drew \$500 million from the IMF under a new standby facility. On balance, the British authorities succeeded in making sizable net repayments of debts during the second quarter. In July a generally quieter atmosphere prevailed and the Bank of England further reduced its drawings on the Federal Reserve, to \$815 million.

The basic situation was still of concern to the market, however, as the trade figures failed to show the expected gains and as hostilities in the Mideast intensified. Thus sterling was vulnerable to the uncertainties resulting from the devaluation of the French franc on August 8. Both spot and forward sterling rates dropped sharply, and pressures became substantial on August 13 with the release of figures showing an enlarged British trade deficit. Heavy market support was required for a few days, and the Bank of England drew \$160 million on its swap line with the Federal Reserve. But once again, more sterling had been sold than the market could deliver, and as speculators paid high prices to cover short sales, the Bank of England recouped a significant part of its losses. Nevertheless, the underlying tone of the market remained pessimistic, and once the cash squeeze had ended, sterling again drifted down close to its floor and required modest support. At the end of August drawings on the swap line stood at \$975 million.

This atmosphere persisted into early September, and on September 2 and 3 the Bank of England again drew on its swap line with the System. Thereafter, however, sterling recovered strongly, particularly following the release of data indicating that the United Kingdom's underlying balance of payments had been in substantial surplus during the second quarter. The approach of the German elections brought sterling under modest pressure, but the Bank of England had to make only a small additional drawing on its Federal Reserve swap line, bringing the total outstanding to \$1,145 million. When the German mark was allowed to appreciate, sterling moved up smartly and the Bank of England resumed its dollar purchases. The bank then made repayments on the swap line, reducing drawings outstanding to \$1,100 million at the end of September. It also liquidated the remainder of its commitments under the 1968 sterling balances arrangement.

The recovery continued throughout October, sustained by oil company purchases of sterling for tax and royalty payments, by the an-

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nouncement of the second consecutive monthly trade surplus, and by the rise in the market value of the German mark (which made further speculation in marks unattractive and induced some profit-taking). The spot sterling rate reached the \$2.39 level by mid-October, for the first time since early August; it rose further in the second half of the month and fluctuated just below parity during most of the remaining 2 months of the year. At the same time forward sterling discounts narrowed sharply, the 3-month rate moving down to less than 1 per cent per annum from a range of 6 to 9 per cent in August-September.

The much improved tone of the market reflected a new confidence in the basic soundness of the U.K. balance of payments position, a belief that was bolstered by continued monthly trade surpluses and reserve gains as well as by the announcement that, in the third quarter, the United Kingdom had achieved its second consecutive quarterly surplus on current and long-term capital accounts. The renewed confidence led to a strong reversal of the unfavorable shift in commercial leads and lags that had occurred in late summer, and enabled sterling to remain firm even toward the year-end, when the very high levels to which Euro-dollar interest rates had advanced were exerting a considerable pull.

With this strong undertone in the market, the Bank of England was able to purchase dollars throughout the fourth quarter. Although U.K. reserves were allowed to increase moderately, the bulk of the reserve gains were used to repay debts to the United States, to other countries, and to the IMF. Thus, the Bank of England's swap drawings on the Federal Reserve were reduced by \$450 million during the fourth quarter—\$200 million were repaid in both October and November, and an additional \$50 million in December—bringing outstanding drawings down to \$650 million by year-end. Also during this quarter the U.S. Treasury and the Federal Reserve received scheduled repayments of borrowings associated with the June 1966 sterling balances arrangement, of which the System's share was \$19.5 million.

## FRENCH FRANC

The French franc had come under heavy speculative attack during the rush for German marks in November 1968, and the Bank of France had sustained large reserve losses in support of the franc. In the aftermath of that assault, the French Government had bolstered its defenses with anti-inflationary measures, \$2 billion in new international credits,

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and reimposition of exchange controls. Late in 1968 and early in 1969 the exchange controls were tightened to require French commercial and banking interests to surrender substantial amounts of foreign exchange to the Bank of France. The French authorities used these exchange inflows partly to cover the large current deficit in the French balance of payments, but also to reduce their outstanding indebtedness under short-term international credits. Thus, by early March the Bank of France had cut its swap drawings from the Federal Reserve to \$306 million from the November 1968 peak of \$611 million and had repaid credits drawn from other members of the European Economic Community (EEC) and the BIS.

As these induced reserve inflows tapered off, however, the current-account deficit again began to drain French official reserves. Apart from the weakening reserve position, a number of background factors were cause for continuing concern. Inflationary pressures were still in evidence, and large unresolved wage demands were a potential threat to France's international competitive position. At the same time, recalling the November 1968 Bonn conference, the market remained fearful of a possible currency realignment involving both the German mark and the French franc. These uncertainties kept the franc market off balance, and in spite of tight exchange controls, the franc remained in an exposed position.

New fears of devaluation emerged on March 6 when the French trade union leadership backed up its wage claims by calling a general strike for March 11. The strike call triggered the heaviest burst of selling since November 1968. The devaluation scare receded almost as quickly as it had arisen, however, when the general strike was orderly and, as scheduled, lasted only one day. Although it appeared that the unions were not yet prepared to force the issue on wage claims that far exceeded the official guidelines, uncertainties persisted through the end of March and the official reserves were subjected to further erosion. Accordingly, the Bank of France made new drawings on the Federal Reserve swap line, raising its swap obligations to \$461 million by the end of March, and sold \$50 million of gold to the U.S. Treasury.

In early April the Bank of France was able to repay \$25 million of its swap drawings from the Federal Reserve, but selling of francs soon resumed before the Easter holidays. Near the middle of April a new

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element of doubt suddenly was injected into the situation by President de Gaulle's decision to stake his political future on a constitutional referendum on April 27. At the same time, news of a large trade deficit in March underscored the difficulties involved in restoring the franc to a position of strength. Market tensions increased with the approach of the referendum date. The Bank of France met the pressure in both the Paris and New York markets, at heavy cost to its reserves.

As was to be expected, the news of President de Gaulle's referendum defeat and immediate resignation from office generated still heavier selling pressure on April 28. The selling soon began to fade, however, as it became clear that France's calm response to President de Gaulle's withdrawal from office presaged an orderly transfer of governmental authority. Moreover, the market quickly concluded that no official decision on the franc parity was likely before the formation of a new government in June.

Just as the uncertainties in the franc market were receding, new speculation on a possible revaluation of the German mark and adjustments in other currency parities burst upon the markets. The franc again came under heavy pressure and forward franc rates declined precipitously. The speculative fever abated after the German Government announced on May 9 that it would not revalue the mark, and thereafter the spot franc moved from its floor and the Bank of France began to recoup some of its losses.

Although the latter part of May was a quieter period for the franc, the impending presidential elections, scheduled for June 1 and June 15, aroused renewed uneasiness. Mr. Georges Pompidou's impressive victory was seen by the market as assuring the continuity of stable government in France, but there remained an overriding concern for the viability of the parity. Sharply rising Euro-dollar rates also aggravated the strain on the franc. On June 13 the Bank of France reinforced the authorities' anti-inflationary program by raising its basic discount rate a full percentage point to 7 per cent. Even so, during June the franc required further sizable official support.

In view of the heavy strain on official reserves, the Bank of France made substantial drawings during the second quarter on the international assistance available under the November 1968 package, including the full \$200 million provided by the U.S. Treasury. France

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also sold \$275 million of gold to the U.S. Treasury in the second quarter. In order to avoid an undue prolongation of credits outstanding under the Federal Reserve swaps, the Bank of France used part of the proceeds of these gold sales, and some of the new drawings on the November 1968 credits, to liquidate its obligation to the System. During the second quarter the Bank of France repaid the \$461 million outstanding on the swap line—restoring the \$1 billion facility to a fully available standby basis.

The underlying situation remained unchanged as the summer progressed. Although the exchange market received favorably the new cabinet appointments of President Pompidou and the vacation period contributed to quieter markets, the franc remained weak. Faced with a continuing attrition of official reserves, the French Government announced on August 8 that it had decided to devalue the franc, rather than impose too severe a deflation on the French economy. The 11.1 per cent devaluation, to a new parity of \$0.180044, had been discussed at the Group of Ten meeting of Finance Ministers in November 1968 at Bonn and was judged to be within the limits that could be accommodated by the existing framework of exchange rates.

Explaining the reasons for the devaluation, the French Minister of Finance and Economic Affairs, Mr. Giscard d'Estaing, noted that French reserve losses had averaged \$500 million a month in the second half of 1968 and \$300 million a month in the first half of 1969. Thus, France was faced with the prospect of seeing its reserves dwindle to practically nothing by the end of the year. Moreover, he said, further defense of the former par value would have left the franc overvalued and France with a weak competitive position in world markets. The Minister made clear that devaluation would be backed up by a further tightening of economic policy and by continuation of exchange controls. For the rest of the month of August the franc held firmly above its new par and the Bank of France began to accumulate dollars as a steady reflow of funds to France developed.

At the end of August the French Government announced that it had \$1.6 billion of international credits available and was applying to the IMF for a standby credit of \$985 million. In support of the devaluation, the authorities strengthened their austerity program in early September with further curbs on consumer credit, closer limitation of bank lending, measures to encourage savings, and substantial cuts in public spending. A temporary price freeze imposed immediately

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after devaluation was replaced by strict official surveillance of domestic prices. Minister Giscard d'Estaing declared that the new measures were designed to bring the French trade balance into equilibrium by July 1, 1970.

These measures at first met with a rather lukewarm reception in the exchange market, since even more severe action had been expected, and the French franc tended to weaken early in September in both spot and forward markets. It came under increasing pressure later that month as renewed labor militancy and several major strikes added to the uncertainties generated by the approaching German elections. The franc remained under pressure through mid-October, even after the German mark had been allowed to appreciate considerably above its old ceiling, because the market remained disturbed by France's large current-account deficit and by its labor situation. As a consequence, the Bank of France had to provide substantial support to the spot market throughout this period. On September 25 the Bank of France reactivated its swap line with the Federal Reserve—drawing \$65 million to help cover recent market losses; this credit was repaid the following day with the initial \$500 million takedown on France's standby agreement with the IMF.

A clear improvement began after mid-October. By the end of that month the spot franc was firmer and—although forward discounts remained relatively large—the Bank of France was purchasing dollars almost every day. While reflows of funds from Germany provided the initial strength, it is now clear that the firming of the spot franc reflected the improved underlying situation as well as both tight domestic credit conditions and a change in market sentiment. Several measures underscored the French authorities' resolve to restrain the growth of domestic demand: The Bank of France raised its basic discount rate from 7 per cent to the exceptionally high level of 8 per cent on October 8; the Government approved a very tight budget for 1970; and it was announced that bank credit would not be permitted to expand between December 1969 and June 1970.

This significant stiffening of French economic policy was well received by the market and the atmosphere was also improved by Finance Minister Giscard d'Estaing's reaffirmation of his confidence that France's trade deficit would be eliminated by mid-1970. The release of trade figures that showed considerable progress in October and November reinforced that forecast.

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Benefiting from the shift in sentiment, as well as from the very taut credit conditions in France, the spot franc remained firm in November and the first half of December while forward rates strengthened markedly. The franc rose sharply toward the close of the year, bolstered by corporate purchases for year-end needs. In November and December the Bank of France more than recouped its losses of the two previous months and used the major portion of these gains to repay short-term international debts and maturing foreign exchange deposits of French commercial banks.

#### BELGIAN FRANC

At the beginning of 1969 outflows of funds to the Euro-dollar market put the Belgian franc under some pressure, and the National Bank of Belgium provided support for the franc rate. To cover the consequent reserve losses, it made use of its swap line with the Federal Reserve, drawing a net of \$33 million during January and raising its swap debt to the System to \$40.5 million. A temporary easing of market pressures in February enabled the Belgian authorities to repay \$27.5 million of these drawings, but by late March they again had to support the franc as the outflow of funds accelerated. On March 31 drawings of the National Bank of Belgium on the Federal Reserve stood at \$23 million.

With little prospect that the demand for funds in the Euro-dollar market would soon abate, and with domestic credit expanding at an excessive rate, the National Bank of Belgium raised its discount rate in two steps in March and April to 5½ per cent. In addition, to relieve pressures on the franc rate, the authorities instructed the Belgian banks to reduce substantially their net foreign asset positions in several stages by the end of June. These measures were followed by an immediate firming of the franc, and by late April the rate had advanced to par.

But the strength was short-lived, as the worldwide rush for marks in early May generated heavy sales of francs along with other currencies. The spot rate declined sharply, and the National Bank of Belgium sold large amounts of dollars to support the spot franc at its floor. The National Bank covered the heavy losses by further drawings on the Federal Reserve swap line. Although pressures eased after the German Government rejected a mark revaluation, there was no important immediate reflux of funds, and at mid-May the National



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Bank's outstanding obligations under the swap line stood at \$175.5 million. During the month the swap facility was increased by \$75 million to \$300 million.

Subsequently, as the exchanges calmed further, the Belgian franc began to strengthen. Although there were occasional moderate outflows to the Euro-dollar market through shifts of nonbank funds, the franc was reasonably well insulated from the heavy pressures in that market in May and June by the directive regarding the commercial banks' foreign asset positions. In late April, moreover, the National Bank of Belgium placed ceilings on the credit expansion and rediscount privileges of commercial banks and, on May 29, raised its discount rate by a further  $\frac{1}{2}$  percentage point, to 6 per cent. The National Bank was able to purchase sufficient exchange to reduce its outstanding swap obligation to the Federal Reserve by a net of \$61.5 million to \$114 million by the end of June.

The franc generally stayed firm in July as Euro-dollar rates eased and there was also a modest commercial demand for francs, but market conditions did not permit significant reserve gains by the National Bank. At the end of the month the authorities moved further to reinforce both the curbs on domestic monetary expansion and the efforts to reduce capital outflows. The National Bank raised its discount rate by a full percentage point to 7 per cent and abolished its preferential discount rates for export credits extended by Belgian banks to countries outside the EEC. These preferential rates had tended to shift financing of other countries' trade to Belgian financial markets rather than to stimulate Belgian exports and consequently had added to the strain on the franc.

By this time the National Bank had been making use of the Federal Reserve swap facility to some extent for a period of 10 consecutive months. In keeping with the principle that whenever possible the use of central bank credit should not be unduly prolonged, the Belgian authorities decided to utilize some of the resources previously accumulated by them with the IMF to repay the swap drawings. Consequently, the Belgians drew \$116.5 million from the IMF, representing the credit available to Belgium as a result of IMF use of Belgian francs under the General Arrangements to Borrow plus part of the Belgian gold tranche. The National Bank used nearly all the proceeds to liquidate completely its \$114 million swap obligation outstanding to the

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Federal Reserve. The \$300 million facility then reverted to a standby basis.

Devaluation of the French franc on August 8 raised widespread market rumors that the Belgian franc might also be devalued. Under renewed pressure, the spot rate dropped to its floor, and in the first week following the French move the National Bank of Belgium suffered substantial reserve losses. To cover the drain, the National Bank reactivated its swap line with the System, drawing a total of \$244 million out of the \$300 million then available. A calmer atmosphere soon emerged, however, as the market came to appreciate the strength of Belgium's underlying balance of payments position. The franc strengthened markedly and the authorities began to recoup some of the reserve loss. In late August Belgium repaid \$20 million of the outstanding drawings, reducing the total to \$224 million. Meanwhile, negotiations had been completed for an increase in the reciprocal credit facility with the Federal Reserve by \$200 million to \$500 million and this was put into effect on September 2. The National Bank of Belgium simultaneously obtained a new \$100 million equivalent credit facility from the German Federal Bank.

The Belgian franc began rising sharply in September, despite growing speculation in German marks. The improved tone of the franc was especially pronounced after midmonth when the Belgian authorities announced a number of anti-inflationary measures: The introduction of the value-added tax, scheduled for January 1, 1970, was postponed for another year so as to avoid further increases in domestic prices, while the National Bank raised its discount rate another  $\frac{1}{2}$  percentage point to  $7\frac{1}{2}$  per cent, effective September 18, and tightened quantitative credit restrictions. Supported by these domestic measures and the increased availability of foreign official credit, the franc firmed toward the end of September. As the rate strengthened, the National Bank purchased dollars in the market, enabling it to repay \$20 million of outstanding drawings on its swap line with the Federal Reserve System by the end of the month.

As soon as the German mark was allowed to rise above its ceiling, the exchange markets again demonstrated their capacity for abrupt changes; the Belgian franc suddenly was seen as a candidate for revaluation along with the mark only 2 months after it had been subjected to heavy speculative selling. The spot rate moved to parity

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early in October and rose to its ceiling later that month, while the National Bank made increasingly large market gains. The speculation reached its climax on Monday, October 27, the first business day after the German revaluation. The next day the Belgian Government stated firmly that the franc would not be revalued, and the speculation died down. By that time the National Bank had acquired an amount of dollars more than sufficient to repay in full during the course of October its remaining \$204 million swap indebtedness to the Federal Reserve.

Even after the speculative outburst had ended, however, the demand for francs remained very strong. Commercial leads and lags, which had moved sharply against Belgium in August and September, were being reversed in subsequent months. Credit conditions, moreover, remained very tight, causing short-term funds to flow in. With the spot rate not far from its ceiling, the National Bank took in dollars from time to time throughout the rest of 1969. In order to provide cover for some of these dollars, the Federal Reserve reactivated its swap line with the National Bank, drawing a total of \$55 million equivalent in November and December.

#### DUTCH GUILDER

Early in 1969 there was a net inflow on current-account transactions into the Netherlands, but the spot guilder rate fell below par as short-term funds flowed to the relatively high-yielding Euro-dollar market. At the beginning of March the Dutch money market tightened, and on March 6 the flare-up of currency fears strengthened the guilder along with the mark, and the Netherlands Bank purchased dollars to slow the advance in the spot rate. On March 12 the Federal Reserve drew \$40 million equivalent of guilders from the Netherlands Bank and used the guilders to purchase an equivalent amount of dollars from that bank. This was the first Federal Reserve use of the swap line since April 1968.

The flurry of demand for guilders soon ended and the market calmed; with Euro-dollar investments becoming increasingly attractive, the spot guilder eased once again. Outflows of funds from the Netherlands were small, however, since the domestic money market was still tight. In early April, liquidity conditions in Amsterdam eased and short-term capital outflows increased. The Netherlands Bank sold dol-

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lars in support of the spot guilder rate, and then it replenished its dollar balances by selling \$20 million equivalent of guilders to the Federal Reserve. The System used the guilders to reduce its outstanding swap drawings from the Netherlands Bank to \$20 million equivalent.

Although the pressure on the guilder reflected mainly the high interest rates in the Euro-dollar market, inflationary price increases in the Netherlands also began to threaten the guilder's underlying position. Accordingly, on April 8 the Dutch Government imposed a price freeze, and the Netherlands Bank announced a  $\frac{1}{2}$  percentage point increase in its discount rate to  $5\frac{1}{2}$  per cent, both to reinforce domestic anti-inflationary policies and to reduce the incentive to move Dutch funds abroad. Following these measures, the guilder market generally remained in equilibrium in the latter part of April, and the Netherlands Bank discouraged covered outflows through modest swap purchases of dollars against forward sales, thus widening the forward premium on the guilder.

Near the end of April and in early May, however, the new eruption of mark revaluation fears began pulling funds out of the Netherlands. On May 8 the spot rate dropped to its floor, and the Netherlands Bank provided support that day as the rush for marks reached major proportions. Following the German Government's announcement on May 9 that the mark would not be revalued, speculative pressures lifted throughout the exchanges and the spot guilder moved up from its floor.

The support operation had reduced the dollar position of the Netherlands Bank, which then replenished its holdings by selling the System \$20 million equivalent of guilders. This enabled the System to liquidate completely its outstanding swap drawing from the Netherlands Bank, and on May 12 the entire facility reverted to a standby basis. Meanwhile, consultations had been taking place among the Federal Reserve, the Netherlands Bank, and the National Bank of Belgium with a view to restoring the previous equality of the Federal Reserve swap lines with those two banks. On May 15 the System's swap facility with the Netherlands Bank was lowered by \$100 million to \$300 million while the line with the National Bank of Belgium was increased from \$225 million to \$300 million.

Higher Euro-dollar rates brought renewed selling of guilders starting at the end of May. With Euro-guilder rates at relatively low levels, there was an incentive to borrow in guilders; as funds flowed out of the

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Netherlands through such transactions, the spot rate again declined to its floor during the early part of June. As a result, the Netherlands Bank was obliged to provide a substantial amount of support and by June 12 found it necessary to draw upon its swap facility with the System. Selling pressure on the guilder continued through June, and by the end of the month the bank's outstanding swap drawings on the Federal Reserve had reached a total of \$82.2 million.

Accordingly, in early July the Dutch authorities took measures to prevent the pull of interest rates abroad from imposing a prolonged strain on local interest rates, domestic liquidity, and official reserves. The Netherlands Bank requested that during the latter half of 1969 the Dutch commercial banks reduce their net foreign exchange positions by 10 per cent from either the March–April average or the levels reached in May 1969. Nevertheless, the pressures continued, and with the guilder requiring further official support, the Netherlands Bank drew again on the swap facility.

In the latter part of July the pressure on the spot guilder began to ease, as Euro-dollar rates dropped and Euro-guilder rates rose to levels that discouraged further shifts of liquidity into dollars. At the same time Dutch commercial banks began to repatriate funds in compliance with the earlier official request, thus adding to the demand for guilders. The spot rate consequently was firmer and the Netherlands Bank's support operations tapered off. The Netherlands Bank, however, delivered a sizable amount of dollars to the market in connection with maturing forward contracts, and it drew further on the swap facility with the System to replenish its reserves. By the end of July outstanding drawings by the Netherlands Bank on the Federal Reserve swap line had reached a total of \$192 million.

On August 1 the Netherlands Bank announced an increase in its discount rate by  $\frac{1}{2}$  percentage point (to 6 per cent) and in its other rates by 1 percentage point as an adjustment to the rise of domestic and foreign interest rates. Following these increases, the spot guilder moved up sharply, as the higher interest rates in the Netherlands further discouraged outflows of funds and as commercial bank repatriations under the July directive continued. With seasonal strength in the balance of payments also exerting an influence, the spot guilder soon moved above par, and the Netherlands Bank began adding to its reserves. Later in the month the Netherlands Bank repaid \$82.2 million in drawings outstanding on the swap facility, thereby reducing the

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amount outstanding to \$109.7 million. During the remainder of August and in early September the market was quiet and the guilder was firm.

In mid-September the Dutch Government, after having lifted the general price freeze earlier in the month, reinforced its anti-inflationary program. In the same month agreement was reached between the Netherlands Bank and the commercial banks to reduce further their net foreign asset positions to the average of the first 9 months of 1968. As September proceeded, market nervousness over the outcome of the German elections built up, giving rise to further demand for guilders.

At the end of the month, as the German Federal Bank suspended its intervention margins for the mark, buying of guilders intensified, and inflows into the Netherlands became increasingly heavy through October. With the mark rate well above its old ceiling, there was no longer an incentive to move funds into Germany and, more importantly, the market widely expected that the guilder, the only currency to be revalued along with the mark in 1961, would again follow suit. The Netherlands Bank at first held the spot rate just below the ceiling, but later allowed the rate to move up to that level. By October 24, the inflow into Dutch reserves during the period of the "floating" mark had reached \$785 million. Part of these gains had been used to liquidate by October 8 the \$109.7 million commitment outstanding under the Federal Reserve swap line. In order to provide cover for some of the Netherlands Bank's additional dollar intake, the System in turn subsequently reactivated the swap arrangement, drawing the full \$300 million equivalent of guilders available under it, and sold guilders from balances to absorb a further \$5 million. In addition, on October 29 the U.S. Treasury covered \$200 million of the intake through a special 1-week swap with the Netherlands Bank.

On the same weekend that the mark was formally revalued, the Dutch Government made known its decision not to revalue the guilder. The spot rate then quickly moved away from its ceiling as speculative positions were unwound. By November 5 the Netherlands Bank had sold slightly more than one-third of the dollars it had purchased in October. Consequently, the U.S. Treasury had no difficulty in repaying its swap, and the System repaid \$70 million equivalent of its commitments on November 6—reducing its outstanding swap commitments in guilders to \$230 million.

More normal trading activity prevailed throughout November, with the spot rate remaining fairly strong as local interest rates tended to

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rise. The domestic money markets were further tightened by the rise in the amount of penalty deposits to be held at the central bank by those commercial banks that had exceeded the designated expansion of credit in earlier months. In addition, several new issues on the Dutch capital market strained liquidity positions and attracted funds from abroad. During November the measures to reduce the commercial banks' net external position were put on a standby basis and banks were again permitted, within certain limits, to increase their net foreign assets. With trading in guilders generally balanced, the Federal Reserve was able to repay a further \$30 million equivalent on its swap debt, using guilders purchased from the Netherlands Bank after that bank had converted into dollars guilders that Germany had obtained as part of an IMF drawing at the end of the month.

Early in December domestic liquidity positions became somewhat easier, especially after the penalty deposits to be made in mid-December were sharply reduced. As a consequence, funds moved to the Euro-dollar market where interest rates were rising rapidly, and the spot guilder began to weaken. At times the Netherlands Bank provided support to ease the decline in the rate. The dollar losses of the Netherlands Bank enabled the System to repay a further \$70 million equivalent of its swap debt, reducing its outstanding commitments in guilders to \$130 million equivalent by the year-end.

### SWISS FRANC

In early 1969 the seasonal reflux of funds from Switzerland was reinforced by the pull of high interest rates in the Euro-dollar market. The Swiss franc rate declined and the Swiss National Bank sold a large amount of dollars, providing the Federal Reserve with the opportunity to purchase \$190 million equivalent of francs from the National Bank. The System used the francs to repay part of its outstanding swap indebtedness to that bank of \$320 million equivalent. Additional repayments were made with \$75 million equivalent of francs obtained through U.S. Treasury issues of Swiss franc securities to the Swiss National Bank and the BIS and with \$15 million of francs from balances. (At the same time the Swiss National Bank purchased \$25 million of gold from the Treasury.) Thus, by the end of February, the System had reduced its Swiss franc swap drawings to only \$40 million equivalent.

The flow of excess liquidity from Switzerland tapered off by early

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March, however, and the Swiss franc strengthened steadily. The rate did not reach its official ceiling until late in the month, when the Swiss commercial banks began to repatriate funds to cover their usual quarter-end needs, but at that point the Swiss National Bank took in \$244 million. Despite the strong pull of Euro-dollar rates, there was little reflow of funds after the quarter-end. In these circumstances a special transaction was required to liquidate the residual \$40 million obligation outstanding under the swap line. On April 29 the U.S. Treasury issued to the Swiss National Bank a 15-month, Swiss franc-denominated note equivalent to \$39.5 million. The Treasury sold the francs to the System, which used them, together with a small amount of francs from balances, to liquidate the swap. On April 30, however, in view of the eruption of new uncertainties regarding currency parities, the Swiss National Bank requested the System to reactivate the swap line to provide cover for \$100 million of the funds that had come into its reserves at the end of the first quarter.

In early May the rush for German marks began pulling funds from Switzerland, and as the franc rate declined, the Swiss National Bank sold a small amount of dollars. These pressures subsided when the German Government rejected a revaluation of the mark, but the pull of the Euro-dollar market on Swiss franc funds grew stronger during the remainder of May. As the Swiss franc weakened, the Federal Reserve was able to accumulate a small amount of francs in market transactions, and it reduced its outstanding swap obligation by \$5 million equivalent to \$95 million on May 28.

Swiss banks added substantially to their Euro-dollar assets during June, offsetting the large Swiss balance of payments surplus on current account. At midyear, in particular, the heavy pull from the Euro-dollar market had a strong effect on Swiss banks' portfolio decisions, as the banks preferred to reduce their seasonal repatriation of funds rather than forego the high yields on Euro-dollar placements. Moreover, the Swiss National Bank, while again offering market swap facilities to bridge the quarter-end, limited such facilities to no more than \$250 million. For the balance of their liquidity needs the Swiss banks rediscounted an unusually large volume of eligible paper with the central bank. Following past practice, the Swiss National Bank rechanneled to the Euro-dollar market the dollar proceeds of its market swap purchases of dollars, so that over-all there was no drain on the Euro-dollar market from the midyear positioning of the Swiss banks.



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Throughout July the Swiss franc market was quiet, and during the month the Federal Reserve liquidated completely its outstanding \$95 million swap drawing on the Swiss National Bank. Against the background of generally calm exchange markets and some Swiss Government need for dollars, the System purchased a total of \$60 million equivalent of francs directly from the Swiss National Bank and obtained \$30 million of francs from the U.S. Treasury, which had issued to the Swiss National Bank a Swiss franc-denominated certificate of indebtedness for the same amount. Most of the remaining \$5 million Swiss francs needed to repay the swap drawing were acquired in the market. On July 17 the entire \$600 million facility with the Swiss National Bank reverted to a standby basis.

Trading in Swiss francs remained quiet in August, with only a minimal reaction to the devaluation of the French franc. The spot rate continued very strong but held below the ceiling, and there was no need for official intervention. Late in the month—in view of increasing pressures on the labor supply, industrial capacity, and prices—the Swiss authorities began to move toward a more restrictive policy stance. An understanding was worked out with the commercial banks to limit domestic credit expansion to 9 per cent over the coming year, and the Swiss cantons and municipalities were requested to hold back on their expenditures. In mid-September, in response to rising interest rates at home and abroad, the Swiss National Bank raised its discount rate by  $\frac{3}{4}$  of a percentage point to  $3\frac{3}{4}$  per cent and its “Lombard” rate on secured advances by a full percentage point to  $4\frac{3}{4}$  per cent. The Swiss National Bank also advised the commercial banks that it would undertake no September-quarter-end swaps and that discount facilities would be limited. Accordingly, it requested the banks to repatriate funds from abroad to meet their liquidity needs.

With domestic credit conditions beginning to tighten and the Swiss banks meeting their quarterly requirements in large part through the repatriation of funds, the franc rate was pushed to its ceiling and the Swiss National Bank took in a substantial amount of dollars. The Federal Reserve consequently reactivated its swap facility with the National Bank on October 10, drawing \$200 million equivalent of francs to absorb most of that bank's dollar holdings. After the quarter-end, however, the pull of high Euro-dollar interest rates began to draw funds out of Switzerland and the franc soon began to weaken, reaching an 18-month low on November 6. During this period the Federal Reserve

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acquired small amounts of Swiss francs in the New York market and from a correspondent and on November 10 repaid \$25 million equivalent of its swap debt to the Swiss National Bank.

Although there had been considerable press and market discussion of the possibility of a Swiss franc revaluation linked to a large revaluation of the German mark, there was no speculative rush into francs when the mark parity was changed. In mid-November a flurry did occur, however, and the spot rate advanced sharply, but the rumors were quickly dispelled by a reaffirmation of the Swiss Government's decision not to revalue the franc.

The franc began to firm again in the second half of November, reflecting largely the usual year-end demand. As in previous years, to help the commercial banks cover their year-end liquidity requirements, the Swiss National Bank offered market swaps of Swiss francs against dollars. These swaps, the first of which were contracted in early December, totaled \$793 million by the end of the month—a record amount—and helped keep the spot rate below its ceiling. As in the past, the Swiss National Bank returned the dollars thus acquired to the Euro-dollar market so as to neutralize the effects of the year-end withdrawals on that market. On December 30 the System repaid a further \$30 million equivalent of swap debt, using mainly francs purchased in the market in the latter part of November and early in December. The Federal Reserve's outstanding Swiss franc swap commitment was thereby reduced to \$145 million equivalent.

### ITALIAN LIRA

During the early months of 1969 the upward surge of interest rates in the Euro-dollar and Euro-bond markets resulted in heavy capital exports by Italy. Moreover, domestic political uncertainties spurred additional outflows of funds, particularly through the export of Italian bank notes. Italian lire consequently were heavily offered in the foreign exchange markets, and the Bank of Italy provided substantial support for the lira while allowing the rate to drop sharply below par.

In view of the continued outflow from Italy during the early spring, the Italian authorities took several steps to protect the official reserves and to alleviate the growing strain on domestic capital markets. Italian banks were asked to repatriate by midyear an amount of foreign exchange equivalent to their net foreign assets (then about \$800 million).

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Steps were taken to discourage long-term investment abroad, and the authorities moved to reduce excess domestic liquidity and to align Italian interest rates more closely with those prevailing elsewhere.

The cumulative impact of these measures and the beginning of the tourist season brought the lira rate above par by late April, and the Bank of Italy purchased some dollars. The recovery ended in early May, however, with the renewed speculation on the mark. Italian residents joined the rush into marks and also sold lire in order to cover the commitments in German marks, and to some extent in Swiss francs, that they had undertaken because of relatively low interest rates in Germany and Switzerland. The spot rate dropped to its official floor and the Bank of Italy provided substantial support through May 9.

Once the speculation in marks subsided, the lira market improved, and during late spring and early summer there was some reflow from Germany. This reflow, combined with repatriations of funds by Italian banks acting under the official request to eliminate their net foreign asset positions, more than offset the further capital outflows via export of Italian currency. Effective July 1, the Bank of Italy reinforced its defensive measures by imposing a penalty rate  $1\frac{1}{2}$  points above its discount rate of  $3\frac{1}{2}$  per cent for banks making excessive use of central bank borrowing.

New uncertainties unsettled the lira market with the fall of the Italian Government in early July. Despite the subsequent formation of a new government, a strong undercurrent of apprehension persisted. When the French franc was devalued, the lira dropped to its floor, and during the next few days of exchange market uncertainties lire were offered in heavy volume, with the Bank of Italy extending sizable support. On August 14 that bank raised its discount rate to 4 per cent, and as the speculative pressures subsided, the lira firmed. It held well above the floor through the end of August, and the Bank of Italy was able to take in dollars. The Italian authorities also replenished their dollar balances that month by encashing prior to maturity a \$100.2 million equivalent lira note issued by the U.S. Treasury to the Italian Exchange Office in late 1968 in conjunction with the understanding with Italy on the neutralization of U.S. military expenditures.

At the beginning of September, however, the lira came under renewed pressure as sporadic strikes presaged difficult wage negotiations and possibly inflationary settlements late in the year, when large

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labor contracts were due to expire. Moreover, with the German elections approaching, Italian residents who had commitments outstanding in German marks and Swiss francs moved quickly to cover themselves by buying these currencies. The lira dropped to its floor, and the Italian authorities had to provide substantial support to the market. To cover market losses, the Bank of Italy activated its swap line with the Federal Reserve on September 23, drawing \$300 million. Under these circumstances, the U.S. and Italian authorities agreed that it was appropriate to terminate the U.S. Treasury's remaining technical forward lira commitments that had arisen in connection with dollar-lira swaps extended by the Italian Exchange Office to its commercial banks. Consequently, these commitments were reduced progressively during the autumn, and by the end of November they had been fully liquidated.

Although the lira remained at the floor in early October, pressures eased considerably as soon as the German mark was permitted to appreciate. By midmonth a firmer tone had set in as the unwinding of mark positions got under way. With repatriations from Germany continuing, the lira moved close to its parity by the middle of November. During this period the Bank of Italy was a frequent purchaser of dollars, and on November 14 it repaid its outstanding \$300 million commitment to the Federal Reserve. Thus, at the year-end the swap line was again fully available.

#### CANADIAN DOLLAR

Canada's trade position remained relatively strong in 1969—though the surplus was less than in 1968—and Canadian residents continued to borrow heavily in the U.S. capital market. Throughout much of the year, however, the Canadian dollar, like other major currencies, was increasingly affected by short-term capital outflows in response to the high and rising level of interest rates in the United States and in the Euro-dollar market. By mid-February the Canadian dollar had moved down from its effective ceiling and the Bank of Canada had provided a small amount of assistance. As of March 3 the Bank of Canada raised its discount rate by  $\frac{1}{2}$  percentage point to 7 per cent in order to reduce the incentive to move funds abroad and to combat the strong demand for bank credit in Canada.

One major channel for these outflows was through the so-called "swapped deposits" with Canadian banks. In these transactions, de-

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posits in Canadian funds are converted into U.S. dollars on a covered basis. Using the dollars thus obtained, Canadian banks acquired a substantial amount of short-term assets directly from U.S. banks in forms not subject to Regulation Q. Some of the U.S. dollar proceeds also were invested in the Euro-dollar market, although placements were limited by Canadian official directives issued in 1968 (in conjunction with Canada's exemption from all U.S. balance of payments programs) to prevent Canadian financial institutions from acting as a "pass-through" channel for U.S. resident funds.

The pull of abnormally high yields on U.S. dollar instruments not subject to Regulation Q contributed to a sharp rise in outstanding swapped deposits during the spring and summer months. The large short-term outflows from Canada resulting from these transactions and other Canadian investments abroad were largely offset by a surplus on current and long-term capital accounts combined and by short-term capital inflows from the United States. American investors, seeking outlets not subject to Regulation Q and discouraged by the U.S. balance of payments program from taking advantage of the high rates available in the Euro-dollar market, moved short-term funds to Canada.

Such investments were attractive because the covered outflows from Canada generated equally heavy demand for Canadian dollars in the forward market, and as a result the forward rate moved out to a substantial premium. This premium increased the attraction of covered investments in Canada, where interest rates were rising not only in line with the increase in rates abroad, but also as a result of the tightening of Canada's anti-inflation program. This tightening included an increase of  $\frac{1}{2}$  percentage point in the Bank of Canada's discount rate to  $7\frac{1}{2}$  per cent on June 11.

By early July, however, the spot Canadian dollar had dropped below par as a result of the overriding effect of short-term capital outflows. To restrain such short-term outflows, the Bank of Canada asked the Canadian banks to regard the existing level of their swapped deposits as a temporary ceiling and, effective July 16, announced a further  $\frac{1}{2}$  percentage point increase in its discount rate to 8 per cent. These measures sharply curtailed the outflow of short-term bank capital, and the spot rate quickly moved up above par.

The Canadian dollar remained above its parity throughout the rest of the year in orderly and uneventful trading. The rolling-over of a

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large amount of maturing swapped deposits temporarily depressed the spot rate in September and early October. However, the rate was soon pushed up sharply again by strong commercial demand. Furthermore, because the Canadian chartered banks had previously built up positions in U.S. dollars, they were able to accommodate the usual year-end demand for U.S. dollars without having much recourse to the spot market. This, along with tight monetary conditions in Canada, helped push the Canadian dollar to its effective ceiling (\$0.9324) by the year-end. During this period of strength, the Bank of Canada did not intervene very actively in the market, making only modest purchases of dollars. For the year as a whole Canada's reserves, including the IMF creditor position, rose by \$60 million, to \$2,908 million.

#### OPERATIONS IN OTHER CURRENCIES

In January the National Bank of Denmark drew \$25 million on the swap facility with the Federal Reserve; this drawing was repaid in March. Subsequently, the Danish krone was brought under pressure by sharply higher interest rates abroad, as Danish commercial firms shifted part of their borrowings from international to domestic markets. The National Bank suffered a sizable reserve drain in supporting the krone rate and in the latter part of April drew \$50 million under the \$100 million Federal Reserve swap arrangement.

Even greater outflows from Denmark occurred as speculation on the German mark developed in late April and early May. To bolster its reserves, the National Bank drew the remaining \$50 million under the Federal Reserve swap facility and drew \$45 million under the Danish gold tranche with the IMF. With the regular swap line with the Federal Reserve fully utilized, the U.S. Treasury provided a supplementary standby facility for \$50 million. The Danish authorities also took several measures to stem the outflow, including a 2 percentage point increase in the discount rate to 9 per cent. Thus reinforced, the krone firmed after the end of the May crisis, and in June the National Bank of Denmark was able to repay the full \$100 million of swap drawings on the Federal Reserve. In early October the swap arrangement was increased by \$100 million to \$200 million and the Treasury line was allowed to lapse. Substantial repatriations of funds followed the German mark revaluation, and as tight domestic credit

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conditions contributed to a resumption of commercial borrowing abroad, the krone firmed further. It traded around par through the end of the year, and the National Bank of Denmark made considerable reserve gains.

The Austrian National Bank also lost reserves during the international rush into marks and in late May drew \$50 million under the Federal Reserve swap facility—its first drawing since the arrangement was established in 1962. During the summer tourist season the National Bank began to accumulate reserves, and in August it fully liquidated its \$50 million swap drawing. In early October the Federal Reserve's swap arrangement with the Austrian National Bank was raised to \$200 million from \$100 million. Later in the month the revaluation of the German mark raised market expectations of an upward adjustment in the schilling parity. The Austrian National Bank took in some funds, but the inflow was soon reversed after the Austrian authorities indicated that the schilling would not be revalued.

At the same time that the swap facilities with Austria and Denmark were raised from \$100 million to \$200 million, a similar increase was made in the swap line with the Bank of Norway.

#### EURO-DOLLAR MARKET

As 1969 began, interest rates in the Euro-dollar market rose, despite the unwinding of year-end positioning, as major U.S. banks looked to that market to relieve liquidity drains imposed by large run-offs of CD's. The advance in rates gained new momentum following the  $\frac{1}{4}$  percentage point rise in U.S. banks' prime loan rates to 7 per cent per annum on January 7. U.S. banks bid aggressively for Euro-dollars through their European branches, raising their takings to a new peak of \$8.5 billion by the end of January. Meanwhile, market supplies were being augmented by further flows of funds from Germany and reflows from Switzerland, and there was some reversal of the heavy U.S. corporate repatriations just prior to the end of 1968. With demand for funds heaviest in the short-term maturities, interest rates for 1-month deposits advanced sharply, to nearly 8 per cent per annum in early January compared with 7 per cent per annum at the year-end.

In late January, however, the heavy flow of funds to the Euro-dollar market from Germany lessened temporarily, while French commercial banks soon began to withdraw funds from the market. Conse-

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quently, even though U.S. banks increased their borrowings through their foreign branches only a little in February, Euro-dollar rates moved sharply higher. Then early in March, in anticipation of higher demands for loans in connection with the March 15 corporate tax date, U.S. banks began to bid more aggressively for Euro-dollars and by mid-month their aggregate dollar borrowings through foreign branches had reached \$9.7 billion. Euro-dollar rates, however, were not substantially affected; with the 3-month rate around  $8\frac{1}{2}$  per cent, funds were attracted from a great many money markets. Indeed, several European central banks increased their discount rates late in February and in March, as pressures on their reserves mounted and domestic short-term rates rose.

Meanwhile, the growing stringency in U.S. financial markets caused commercial banks in this country to raise their prime rates, on March 17, to  $7\frac{1}{2}$  per cent from 7 per cent. Moreover, in early April Federal Reserve discount rates were increased by  $\frac{1}{2}$  percentage point to 6 per cent and reserve requirements against demand deposits were raised. The impact of these measures was quickly transmitted to European money market centers, and three central banks followed the Federal Reserve move by raising their discount rates in April. Furthermore, in March the Italian authorities, and in early April the Belgian authorities, imposed restrictions on their commercial banks' net foreign asset positions—in effect requiring the banks to repatriate funds from the Euro-dollar market.

The fresh outbreak of speculative activity in the foreign exchange markets in late April and early May—especially the expectations of a revaluation of the German mark—put very strong pressures on the Euro-dollar market. As huge amounts of funds moved into marks and U.S. banks attempted to maintain the level of their Euro-dollar borrowings, Euro-dollar rates jumped sharply, with the call rate bid up to 10 per cent per annum by May 8. Following the German Government's rejection of a mark revaluation, rates declined briefly.

In June there was a heavy surge of borrowings by U.S. banks in the Euro-dollar market. During the first 3 weeks of the month, when the runoff of CD's was particularly severe, the liabilities of banks to their foreign branches rose more than \$3 billion, to \$13.1 billion, and generated extreme pressures on Euro-dollar rates. On June 10—the day after U.S. banks had raised their prime loan rates by a full percentage



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point to  $8\frac{1}{2}$  per cent—the Euro-dollar call rate rose to  $11\frac{1}{2}$  per cent and the 3-month rate was bid up to 13 per cent. The market withstood the high rates without serious dislocation, and rates eased somewhat once preparations for the mid-June U.S. corporate tax date had been completed.

Throughout this period there was evidence that a number of foreign central banks were making substantial placements in the Euro-dollar market, to which U.S. funds were also being drawn. Yet toward the end of the month, there were indications that U.S. corporations pulled substantial amounts of dollar balances and other foreign currency deposits out of Europe, only to redeposit these funds early in July following the month-end reporting date under regulations issued by the Commerce Department's Office of Foreign Direct Investments. At the same time, midyear window dressing by continental European commercial banks was on a much smaller scale than in past years.

In July U.S. banks' demand for Euro-dollars continued at a high level, though the increase in the banks' liabilities to their branches, which reached \$14.4 billion on July 30, proceeded at a much slower pace than in June. Euro-dollar rates declined substantially throughout July, and by the end of the month call money was bid at 9 per cent and 3-month deposits at  $10\frac{7}{16}$  per cent. The market continued to attract substantial amounts from several European financial centers, and additional central banks took steps to protect their domestic money markets and monetary reserves from the pull of high Euro-dollar rates.

The devaluation of the French franc on August 8 triggered new pressures in the Euro-dollar market. The 3-month Euro-dollar rate jumped to 11 per cent by August 12 and moved irregularly around that level through the rest of the month. The level of U.S. bank borrowings changed little, however, and at the end of August the liabilities of U.S. banks to their foreign branches stood at \$14.7 billion.

In the light of the heavy reliance of some U.S. banks on Euro-dollar borrowings and the repercussions on foreign monetary reserves and financial markets, the Board of Governors took a series of measures in order to moderate the flow of Euro-dollars to U.S. banks. First, the Board amended Regulation D (which governs reserves of member banks) so as to eliminate a technical loophole that had led banks to increase their use of overnight borrowings of Euro-dollars. Subsequently, it amended Regulation M (which governs the foreign activi-

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ties of member banks) by placing a reserve requirement of 10 per cent on member bank liabilities to foreign branches in excess of the levels outstanding in a base period, and on U.S. assets acquired by foreign branches from their home offices. Also, Regulation D was further amended to establish reserve requirements against borrowings from nonaffiliated foreign banks.

These measures reduced the incentive for U.S. banks to seek Euro-dollar funds and encouraged them to look for other sources of funds. One alternative that many banks found attractive was the commercial paper market, and as Euro-dollar liabilities stabilized, commercial paper borrowings rose sharply during the summer months. In September U.S. banks' liabilities to their own foreign branches declined slightly, thus helping to bring about some easing of Euro-dollar rates for the shorter maturities: the 3-month rate declined to less than 11 per cent by September 17. After a sharp but brief recovery around the time of the German elections, the rates resumed their decline, and under the pressure of the heavy reflux of funds from Germany in October, they dropped below 9 per cent.

As the use of the commercial paper market by banks through the intermediary of bank-affiliated holding companies or subsidiaries grew, the Board of Governors became concerned that such borrowing might reduce the impact of monetary restraint. Consequently, the Board announced, on October 29, that it was considering an amendment to Regulation Q that would subject all such bank-related commercial paper to the interest rate ceilings that apply to large CD's. Moreover, in a separate but related action, the Board ruled that commercial paper issued by subsidiaries of member banks already is covered by existing provisions of Regulations Q and D.

The prospect of closer regulation of member banks' use of the commercial paper market was swiftly reflected in the Euro-dollar market, and this—in combination with the expectation of continuing tight credit conditions in the United States—contributed to a surge in interest rates from late October to mid-November. In December short-term rates moved even higher as banks attempted to maintain their Euro-dollar borrowings in the face of year-end repatriations of funds by U.S. corporations and foreign banks. By December 18 call money was at 11 per cent, the rate for 1-month deposits had reached 12 $\frac{3}{4}$  per cent, and that for 3-month funds 11 $\frac{1}{16}$  per cent. After allowance

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for the 10 per cent marginal reserve requirement, the effective cost of 1-month Euro-dollars for U.S. banks that were above the ceiling of their base period at times reached 14 per cent, exceeding the record levels attained in June. However, during the last 2 weeks of December, as repatriations of funds by U.S. corporations preparing to meet their balance of payments guidelines reached yet a new year-end high, U.S. banks lost some \$1.6 billion of Euro-dollar funds, bringing the level of their liabilities to their foreign branches to \$13.0 billion. □

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## *Legislation Enacted*

*Interest on deposits; deposit insurance coverage; commercial paper as deposits; reserves against Euro-dollar borrowings; selective credit controls.* By Joint Resolution approved September 22, 1969 (Public Law 91-71), Congress extended until December 22, 1969, the flexible authority of the Board, 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. By Act of December 23, 1969 (Public Law 91-151), Congress further extended such authority until March 22, 1971.

The Act of December 23 also increased from \$15,000 to \$20,000 the insurance coverage of deposits insured by the Federal Deposit Insurance Corporation and of accounts insured by the Federal Savings and Loan Insurance Corporation.

Included among other provisions of the Act are explicit authorizations for the Board (1) to apply rate limitations and reserve requirements to commercial paper issued "directly by a member bank or indirectly by an affiliate of a member bank or by other means" and (2) to require member banks to maintain reserves against borrowings from foreign banks in a ratio up to 22 per cent.

By repealing certain provisions of the Defense Production Act of 1950, the Act of December 23 restored to the President authority to encourage representatives of all major sectors of the private economy to enter into voluntary agreements and programs furthering the objectives of the Defense Production Act, and it exempted participants from prosecution under the antitrust laws because of their activities in such programs. In addition, the Act empowers the President to authorize the Board to institute selective credit controls when necessary to curb inflation.

*State taxation of national banks.* An Act of Congress approved December 24, 1969 (Public Law 91-156), expands the authority of States to tax national banks. Certain limited expansion was effective immediately, and effective January 1, 1972, a national bank will, for the purposes of any State tax law, be treated as a bank organized under the law of the State within which its principal office is located. The Board is required to study the probable consequences of the latter provision

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and to report the results of its study to the Congress by December 31, 1970.

*Salaries of members of the Board.* Section 10 of the Federal Reserve Act was in effect amended by the Executive, Legislative, and Judicial Salary Recommendations included in the President's Budget Message to Congress on January 15, 1969. Those recommendations, in accordance with the Act of December 16, 1967 (Public Law 90-206), raised—effective March 1, 1969—the salary of the Chairman of the Board from \$30,000 to \$42,500, and the salary of each other member from \$29,500 to \$40,000. □

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## *Legislative Recommendations*

*Lending authority of Reserve Banks; "par clearance"; reserve requirements; purchase by Reserve Banks of obligations of foreign governments; loans to bank examiners.* For several years the Board has urged enactment of legislation:

(1) to permit a member bank, subject only to regulations of 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 does not meet statutory "eligibility" requirements for the basic rate;

(2) to require all federally insured banks to pay at par all checks drawn on them (without deducting "exchange charges");

(3) to establish required reserve-percentage ranges on a graduated basis according to the amount of a bank's deposits, regardless of its location, and to make such requirements applicable to all federally insured banks (rather than to member banks only);<sup>1</sup>

(4) to permit Reserve Banks to invest in obligations of foreign governments or monetary authorities that mature within 12 months and are payable in a convertible currency; and

(5) to permit federally insured banks to make home mortgage loans to bank examiners under appropriate statutory safeguards.

For the reasons stated in earlier ANNUAL REPORTS and reiterated in its ANNUAL REPORT for 1968, the Board again urges enactment of legislation to accomplish the recommendations outlined above.

*Bank holding companies.* Following its 1968 study of the problems presented by the trend toward the formation of one-bank holding companies, the Board on February 20, 1969, issued the following statement of principles with respect to amendments to the Bank Holding Company Act:<sup>2</sup>

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<sup>1</sup> In its ANNUAL REPORT for 1968 the Board submitted an alternative recommendation under which the Congress would establish only for member banks a system of graduated reserve requirements on the basis of the amount of a bank's demand deposits.

<sup>2</sup> Vice Chairman Robertson did not join in the statement. He issued a separate statement expressing his views as follows: "(1) [O]ne-bank holding companies should be brought within the coverage of the Bank Holding Company Act with-

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### *Statement of Principles*

For several months the Board of Governors has been engaged in an intensive study of the problems presented by the recent trend in the formation of one-bank holding companies. The Board's deliberations have led it to adopt the following statement of principles with respect to possible amendments to the Bank Holding Company Act of 1956:

1. The Board believes that it is essential that one-bank holding companies be included within the purview of the Act.

2. The Board considers that under present circumstances the law should not permit a bank to become a part of a conglomerate organization. The unique characteristics of banks led the Congress in 1933 to separate banking from nonbanking businesses, and in 1956 to reinforce that policy by limiting the activities of multi-bank holding companies to the management and control of banks and closely related activities. The Board believes that this separation should be maintained.

It also believes, however, that, consistent with continued growth and development of a dynamic and increasingly complex economy, banks should be granted greater freedom to innovate new services and procedures, either directly, or through wholly owned subsidiaries, or through affiliates in a holding company system, subject to administrative approval of entry and acquisitions to prevent activities inconsistent with the purpose of the Act.

3. Certain kinds of activities in holding company systems are in the public interest if accompanied by proper safeguards against perverse consequences. In determining whether a particular activity by bank holding company organizations is consistent with the

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out a 'grandfather clause' (although small one-bank holding companies might be given special consideration); and (2) some expansion of the powers of banks through subsidiary corporations or through collateral affiliates in a holding company system is justified; but (3) the most important consideration is that the administration of the Holding Company Act should be vested in one Federal agency to assure uniformity in its application, which is essential from the standpoints of the banking community, the Government, and the public." Governor Brimmer agreed with all elements of the Board's statement except item 7, regarding dispersal of authority among the three Federal bank regulatory agencies. He issued a separate statement indicating that "as a matter of principle . . . the administrative authority under the Bank Holding Company Act should be vested in a single agency."

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public interest, consideration must be given to whether the benefits of such affiliation outweigh the potential dangers at which the separation of banking from nonbanking businesses has been directed. Such benefits would include greater convenience to the public, increased competition, and gains in efficiency for the economy generally as well as for the holding company organization. The potential dangers which might result from bank affiliation with nonbanking businesses are undue concentration of resources, decreased competition, conflicts of interest leading to less equality in the availability of credit, and dangers to the soundness of the Nation's banking business.

4. The Board considers that one-bank holding companies and multibank holding companies should be afforded equal treatment under the law with respect to bank and nonbank acquisitions or approvals of *de novo* entry.

5. Bank holding companies should be allowed to enter certain nonbanking areas of activity, specified in statute or agency regulation, which would facilitate broader services for the public. Determinations by the appropriate banking agency would involve an evaluation of the benefits and dangers of such entry. Unless otherwise provided by law, entry by acquisition, purchase of assets, merger, consolidation, or otherwise should be on the basis of considerations similar to the competitive and banking factors contained in the present Act.<sup>1</sup>

6. The Board believes that it would be most effective for one agency (preferably the Board) to continue to administer the Bank

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<sup>1</sup> Because of the risk of undue concentration of resources, an applicant proposing an acquisition involving a relatively large amount of nonbank assets would ordinarily bear a greater burden of proving that the acquisition was not contrary to the public interest.

Any expansion of bank holding company activities is predicated on the assumption that the economy generally will also benefit from the ability of such institutions to operate more efficiently in performing certain functions. However, it should be recognized that entry into new activities, particularly those that are financially related—whether *de novo* or by acquisition—raises the question of the effect on competition between bank and nonbank institutions. Preserving the viability of such competition may be of overriding importance. The probability of anticompetitive consequences appears greater in acquisitions of existing concerns than in *de novo* entry.



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Holding Company Act with respect to the holding companies themselves and with respect to the approval of acquisitions by the holding companies. Just as it believes the present system of a single agency determining the approval of new acquisitions by holding companies is proper, the Board believes that the approval for acquisition of subsidiaries by individual banks should be dispersed among the three bank regulatory agencies.

7. Alternatively, and less desirably, if the Bank Holding Company Act were to be amended so that administrative authority over bank holding companies would be dispersed among the three agencies which now share in the regulation of banks, dispersion might occur in the following manner:

(a) Vest authority over multibank holding company acquisitions of banks and of nonbanking activities in the Board.

(b) Disperse authority over one-bank holding companies in the three agencies with a requirement that regulations be jointly promulgated as to permitted nonbank lines of activity and containing guidelines as to acquisitions and mergers, which because of size, or market, or related activities would be presumed to be opposed to the public interest. These regulations would also be applicable to nonbank acquisitions by multibank holding companies.

8. Although one-bank holding companies should generally be subject to the Act to the same extent as multibank holding companies, one-bank holding companies in existence before the recent trend to their formation should be given special consideration. This would mean a qualified exemption for those companies with respect to which the Congress or the agency determines that the combination of bank and nonbank assets does not give rise to any significant extent to the evils at which the Act is directed.<sup>2</sup>

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<sup>2</sup> There are various possible forms such an exemption might take: (1) exempting one-bank holding companies with relatively small bank and nonbank assets; (2) exempting one-bank holding companies in existence before the recent trend began (generally accepted as July 1, 1968) as long as they conduct no activities other than those conducted on the cut-off date and do not acquire (by purchase of assets, merger, consolidation, or otherwise) any interest in any other enterprise; (3) exempting such companies irrespective of their activities as long as they make no acquisitions; and (4)

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On April 18, 1969, before the House Banking and Currency Committee, Chairman Martin expressed the views of the Board on holding company legislation (H.R. 6778 and H.R. 9385), and Vice Chairman Robertson expressed his personal views. In response to the committee's request, the Board submitted the following proposed revision of Section 4(c)(8) of the Holding Company Act, including the following list of activities in which the Board considers a registered holding company should be permitted to engage through subsidiary corporations, with the safeguards specified:

(8) shares retained or acquired with the approval of the Board in any company that engages solely in one or more of the following activities:

(A) lending funds on its own account or for the account of others,

(B) acting as investment adviser,

(C) operating a diversified open-end investment company registered under section 8 of the Investment Company Act of 1940, if the shares of such company are sold at a public offering price that does not include a sales load and if any redemption fee or similar charge imposed with respect to such shares does not exceed 1 per cent of the value of the shares redeemed,

(D) leasing equipment, where the initial lease provides for payment of rentals that will reimburse the lessor for the full purchase price of the equipment,

(E) acting as insurance agent or broker where more than half of the premium income is derived from sales to customers who are also customers of a noninsurance subsidiary of the holding company,

(F) acting as insurer principally in connection with extensions of credit by one or more subsidiaries of the holding company,

(G) providing accounting or data processing services functionally related to banking,

(H) acting as fiduciary,

(I) originating, servicing and selling mortgage loans,

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exempting such companies irrespective of their activities or acquisitions but require agency approval of any acquisition.

NOTE.—This statement of principles is directed to the major issues involved in bringing one-bank holding companies within the coverage of the Bank Holding Company Act. Other amendments to the Act also merit favorable action by Congress. Among these are amendments (1) to bring partnerships within the coverage of the Act; (2) to broaden the Board's authority to determine that a company owns or controls a bank; (3) to give the Board jurisdiction over mergers where the resulting bank is a subsidiary of a multibank holding company; (4) to prohibit a bank from voting bank stock held in trust unless it has voting instructions from the beneficiary; and (5) to prohibit tie-in arrangements.

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- (J) acting as travel agent or issuing travelers checks,
- (K) making equity investments in community rehabilitation and development corporations engaged in providing better housing and employment opportunities for the low-income and moderate-income population, or
- (L) performing any other activity that the Board has determined, after notice and opportunity for hearing, is functionally related to banking in such a way that its performance by an affiliate of a bank holding company can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased competition, conflicts of interest, or unsound banking practices.

The Board shall not approve any retention or acquisition under this paragraph (8) except in accordance with regulations prescribed by it, which shall include guidelines taking into account any potential anticompetitive effects, and any other risks of undue concentration of economic resources in any market. Limitations on permissible activities may be established on the basis of any relevant factors, including the size of the bank holding company or its subsidiary banks, the size of the company to be acquired or retained, and the size of the communities in which such activities are to be performed. The Board shall not approve any retention or acquisition under this paragraph which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize any part of trade or commerce in any part of the United States, or whose effect in any line of commerce 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. In every case, the Board shall take into consideration the financial and managerial resources and future prospects of the companies and banks concerned, and the convenience and needs of the community to be served.

On November 5, 1969, the House passed legislation (H.R. 6778) that in some respects is inconsistent with the Board's statement of principles and its proposed list of permissible activities for holding companies. Specifically, H.R. 6778 would add a new paragraph (f) to Section 4 of the Bank Holding Company Act that would prohibit holding companies and their subsidiaries from engaging in certain of the foregoing activities and limit their activities in certain other areas to a greater extent than would be the case under the Board's recommendations. However, the Board continues to favor legislation in this area.

**Credit cards.** On several occasions during 1969, the Board was asked for its views on legislative proposals relating to credit cards

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issued by banks and other lenders. In responding, the Board indicated that it does not favor legislation prohibiting unsolicited mailings of credit cards because it believes that such mailings are essential to enable new competitors to enter the field. However, the Board stated that it favors Federal legislation that would, by statute, limit a cardholder's liability for unauthorized use of a credit card and impose some restrictions on unsolicited mailings, designed to protect consumers. Specifically, the Board favored legislation requiring issuers who mail unsolicited credit cards to use unmarked envelopes enclosing (1) an unmarked return envelope containing the card and (2) a statement notifying the addressee of the contents of the return envelope and that the card may be refused merely by mailing the unopened return envelope. □

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## *Litigation*

***Investment Company Institute, et al. v. Camp.*** On appeals by the Comptroller of the Currency and the First National City Bank of New York, a ruling by the U.S. District Court for the District of Columbia in favor of the plaintiffs (see ANNUAL REPORT for 1967, page 333) was overturned by the U.S. Court of Appeals. The appellate court held that a commingled managing agency account is a bona fide fiduciary activity authorized for national banks under 12 U.S.C. 92a; it upheld the validity of the provisions of the Comptroller's Regulation 9 (12 CFR 9) that permit national banks to operate that type of account; and it concluded that the Comptroller was authorized to empower First National City Bank to create, organize, and manage the account in question. The appellate court rejected the view of the lower court that the Federal banking laws (12 U.S.C. 24, 78, 377, and 378) make it illegal for a national bank to establish, operate, or be affiliated with such a fund, but agreed with the District Court that the Investment Company Institute had standing to bring the law suit. A petition for certiorari, seeking review by the U.S. Supreme Court, is pending.

***United States v. First at Orlando Corporation, et al.*** The U.S. Department of Justice filed suit in December 1969 in the U.S. District Court for the Middle District of Florida, attacking a proposal of First at Orlando Corporation, a registered bank holding company, for the acquisition of 80 per cent or more of the voting shares of each of three banks in Volusia County, Florida, namely, Commercial Bank at Daytona Beach, Peninsula State Bank at Daytona Beach Shores, and Exchange Bank at Holly Hill. Acting pursuant to its authority under the Bank Holding Company Act, the Board had granted approval of the proposed acquisitions (Federal Reserve *Bulletin*, December 1969, page 945). The suit alleges that the effect of the proposed acquisitions will be substantially to lessen competition, or to tend to create a monopoly in violation of Section 7 of the Clayton Act (15 U.S.C. 18). □

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# *Bank Supervision and Regulation by the Federal Reserve System*

**Examination of member banks.** Each State member bank is subject to examinations made by direction of the Board of Governors or the Federal Reserve Bank of the district in which it is located by examiners selected or approved by the Board. The established policy is for the Federal Reserve Bank 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 concurrent examinations are made in cooperation with the State banking authorities, while in others alternate independent examinations are made. All but 59 of the 1,202 State member banks were examined during 1969.

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 upon request, and each Federal Reserve Bank purchases from the Comptroller copies of reports of examination of national banks in its district.

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 State member banks within its jurisdiction under 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. 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 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.

#### LOANS TO EXECUTIVE OFFICERS

Period covered (condition report dates)	Total loans to executive officers		Range of interest rate charged (per cent) <sup>1</sup>
	Number	Amount (dollars)	
Oct. 21, 1968— Dec. 31, 1968...	6,468	14,715,895	1¼—18
Jan. 1, 1969— Apr. 4, 1969...	9,758	20,678,788	2—15
Apr. 5, 1969— June 30, 1969...	6,365	14,799,980	2½—18
July 1, 1969— Oct. 21, 1969...	18,256	20,864,076	0—18
Oct. 22, 1969— Dec. 31, 1969...	(2)	(2)	(2)

<sup>1</sup> 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.

<sup>2</sup> Compilation of data for condition report of Dec. 31, 1969, has not been completed.

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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 1968 ANNUAL REPORT was released, member banks have submitted, as required by law, the data that appear in the table on the preceding page.

*Federal Reserve membership.* As of December 31, 1969, member banks accounted for 43 per cent of the number of all commercial banks in the United States and for 62 per cent of all commercial banking offices, and they held approximately 81 per cent of the total deposits in such banks. State member banks accounted for 13 per cent of the number of all State commercial banks and 37 per cent of the banking offices, and they held 54 per cent of total deposits in State commercial banks.

Of the 5,871 banks that were members of the Federal Reserve System at the end of 1969, there were 4,669 national banks and 1,202 State banks. During the year there were net declines of 47 national and 60 State member banks. The decline in the number of national banks reflected 42 conversions to branches incident to mergers and absorptions and 28 conversions to nonmember banks. The decline was offset in part by the organization of 16 new national banks and the conversion of 9 nonmember banks to national banks. The decrease in State member banks reflected mainly 42 withdrawals from membership and 17 conversions to branches incident to mergers and absorptions.

At the end of 1969 member banks were operating 15,204 branches, 663 more than at the close of 1968; this included 753 *de novo* establishments.

Detailed figures on changes in the banking structure during 1969 are shown in Table 18, pages 351 and 352.

*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.



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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 of Governors 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 1969 the Board disapproved three and approved 20 of these applications, and it submitted 135 reports on competitive factors to the Comptroller of the Currency and 77 to the Federal Deposit Insurance Corporation. As required by Section 18(c) of the Federal Deposit Insurance Act, a description of each of the 20 applications approved by the Board, together with other pertinent information, is shown in Table 21 on pages 355–81.

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 1969, pursuant to Section 3(a)(1) of the Bank Holding Company Act of 1956, the Board ap-

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proved 21 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 66 applications by bank holding companies, and denied three applications. To provide necessary current information, annual reports for 1968 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 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 1969, 53 member banks had in active operation a total of 460 branches in 59 foreign countries and overseas areas of the United States; 36 national banks were operating 428 of these branches, and 17 State member banks were operating 32 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 1969 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 85 branches overseas.

*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. Of these five approvals, three granted banks 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. Two of the approvals granted banks 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 1969 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

[Tabulation referred to on opposite page.]

<i>Latin America</i> . . . . .	235	<i>Europe—Cont.</i>	
Argentina . . . . .	38	Netherlands . . . . .	7
Bahamas . . . . .	32	Switzerland . . . . .	6
Barbados . . . . .	3	United Kingdom . . . . .	37
Bolivia . . . . .	4		
Brazil . . . . .	15	<i>Africa</i> . . . . .	1
Chile . . . . .	18	Liberia . . . . .	1
Colombia . . . . .	23	<i>Near East</i> . . . . .	6
Dominican Republic . . . . .	11	Dubai . . . . .	1
Ecuador . . . . .	9	Lebanon . . . . .	3
El Salvador . . . . .	1	Saudi Arabia . . . . .	2
Guatemala . . . . .	3		
Guyana . . . . .	1	<i>Far East</i> . . . . .	77
Honduras . . . . .	3	Hong Kong . . . . .	13
Jamaica . . . . .	3	India . . . . .	11
Leeward Islands . . . . .	4	Indonesia . . . . .	6
Mexico . . . . .	5	Japan . . . . .	13
Netherlands Antilles . . . . .	2	Korea . . . . .	3
Nicaragua . . . . .	3	Malaysia . . . . .	5
Panama . . . . .	26	Okinawa . . . . .	2
Paraguay . . . . .	6	Pakistan . . . . .	4
Peru . . . . .	8	Philippines . . . . .	5
Trinidad and Tobago . . . . .	6	Singapore . . . . .	9
Uruguay . . . . .	4	Taiwan . . . . .	2
Venezuela . . . . .	4	Thailand . . . . .	2
Virgin Islands (British) . . . . .	3	Vietnam . . . . .	2
		<i>U.S. overseas areas and trust territories</i> . . . . .	38
<i>Europe</i> . . . . .	103	Canal Zone . . . . .	2
Austria . . . . .	1	Guam . . . . .	3
Belgium . . . . .	10	Puerto Rico . . . . .	18
Germany . . . . .	17	Marshall Islands . . . . .	1
France . . . . .	11	Truk Islands . . . . .	1
Greece . . . . .	8	Virgin Islands . . . . .	13
Ireland . . . . .	2		
Italy . . . . .	3	<b>Total</b> . . . . .	<b>460</b>
Luxembourg . . . . .	1		

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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 1969, under the provisions of Section 25(a) of the Federal Reserve Act, the Board issued final permits to eight corporations to engage in international or foreign banking or other international or foreign financial operations, and seven corporations commenced operations. At the end of the year there were 63 corporations in active operation under Section 25(a); 32 have home offices in New York City; five in Philadelphia; three each in Boston, Chicago, Detroit, and San Francisco; two each in Dallas, Los Angeles, and Seattle; and one each in Cleveland, Pittsburgh, Norfolk, Winston-Salem, Atlanta, Miami, St. Louis, and Portland. One of the corporations with headquarters in Seattle has five branches in Hong Kong; one of the corporations in Philadelphia and one in New York operate branches in London, and one New York corporation operates a branch in Nassau. Examiners for the Board of Governors examined 57 of these corporations during 1969.

*Actions under delegation of authority.* Pursuant to the provisions of Section 11(k) of the Federal Reserve Act, the Board of Governors has delegated to the Reserve Banks (1) authority to approve, on behalf of the Board, certain applications of State member banks to establish domestic branches, to invest in bank premises, to declare certain dividends, and to grant a waiver of 6 months' notice by a bank of its intention to withdraw from membership in the Federal Reserve System, and (2) certain other less frequently used authorities. Under such authority the Reserve Banks approved 116 branch applications, 39 investments in bank premises, 43 waivers of notice of intention to withdraw from membership in the Federal Reserve System, and 41 applications of various other kinds.

The Board has delegated to the Director or Acting Director of the Division of Supervision and Regulation authority to approve certain applications to establish domestic branches and various other authorities. Under this authority 77 branches and 88 applications of other kinds were approved.

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The Board has also delegated to any member of the Board, designated by the Chairman, the authority to approve certain applications involving the establishment of a foreign branch or agency by a member bank or corporation organized under Section 25(a) (an "Edge" corporation) or operating under an agreement with the Board pursuant to Section 25 (an "agreement" corporation) and also to grant specific consent to stock acquisitions by an Edge or agreement corporation and to permit Edge or agreement corporations to exceed limitations prescribed by statute. Under this authority a member of the Board has approved 12 branches and 90 investments by Edge or agreement corporations.

**Bank Examination Schools.** In 1969 the Bank Examination School conducted four sessions of the School for Examiners, four sessions of the School for Assistant Examiners, and two sessions of the School for Trust Examiners. The Bank Examination School was established in 1952 by the three Federal bank supervisory agencies, and since 1962 it has been conducted jointly by the Federal Reserve System and the Federal Deposit Insurance Corporation.

Since the establishment of this program, 4,149 persons have attended the various sessions. This number includes representatives of the Federal bank supervisory agencies; the State Banking Departments of Arkansas, Arizona, California, Connecticut, Florida, Idaho, Indiana, Kentucky, Louisiana, Maine, Michigan, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Utah, Vermont, Virginia, Washington, and Wyoming; the Treasury Department of the Commonwealth of Puerto Rico; and 19 foreign countries.

**Truth in Lending.** A report entitled *Annual Report to Congress on Truth in Lending for the Year 1969* was submitted separately, pursuant to the Truth in Lending Act (Title I of the Consumer Protection Act (Public Law 90-321)). □

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# 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 1969 and 1968.

## EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1969 AND 1968

In thousands of dollars

Item	1969	1968
Current earnings.....	3,373,360	2,764,446
Current expenses.....	274,973	242,350
Current net earnings.....	3,098,387	2,522,096
Net addition to or deduction from (–) current net earnings.....	–557	8,520
Net earnings before payments to U.S. Treasury . . .	3,097,830	2,530,616
Dividends paid.....	39,237	36,960
Payments to U.S. Treasury (interest on F.R. notes).	3,019,161	2,463,629
Transferred to surplus . . . . .	39,432	30,027

Current earnings of \$3,373 million in 1969 were 22 per cent higher than in 1968, reflecting increases of \$527 million on U.S. Government

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securities, \$45 million on foreign currencies, and \$36 million on discounts and advances.

Current expenses were \$33 million more than in 1968, or 13 per cent. Statutory dividends to member banks amounted to \$39 million, an increase of \$2 million from 1968. The 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 \$3,019 million for the year, compared with \$2,464 million in 1968. This amount consists of all net earnings after dividends and the amount necessary to bring surplus to the level of paid-in capital.

The cost to the Federal Reserve Banks for separating silver coin from clad coin during the year amounted to \$83,921. This operation was performed during the period May 1968 through July 1969, at the request of the Bureau of the Mint, and yielded approximately \$101 million in silver dimes and quarters, which were then made available to the Mint for melting. Expenses of the Reserve Banks for the project in both years totaled \$391,141, after recovery of \$12,000 from the sale of separating equipment.

Expenses of the Federal Reserve Banks also included costs of \$210.32 for two regional meetings incident to the Treasury Department savings bond program.

A detailed statement of earnings and expenses of each Federal Reserve Bank during 1969 is shown in Table 7 on pages 336 and 337, and a condensed historical statement in Table 8 on pages 338 and 339.

*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 1969 amounted to \$55,198 million—an increase of \$3,263 million over 1968. Holdings of acceptances decreased \$6 million, whereas there were increases of \$2,736 million in U.S. Government securities and \$533 million in discounts and advances.

The average rates of interest on holdings were up from 5.22 per cent to 5.93 per cent on discounts and advances, from 5.75 per cent to 7.01 per cent on acceptances, and from 5.17 per cent to 5.89 per cent on U.S. Government securities.

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1967-69

Item and year	Total	Discounts and advances	Acceptances	U.S. Govt. securities <sup>1</sup>
In millions of dollars				
Average daily holdings: <sup>2</sup>				
1967.....	46,417	178	104	46,135
1968.....	51,935	569	73	51,293
1969.....	55,198	1,102	67	54,029
Earnings:				
1967.....	2,164.6	7.7	4.8	2,152.1
1968.....	2,687.4	29.7	4.2	2,653.5
1969.....	3,250.8	65.3	4.7	3,180.8
In per cent				
Average rate of interest:				
1967.....	4.66	4.33	4.62	4.66
1968.....	5.17	5.22	5.75	5.17
1969.....	5.89	5.93	7.01	5.89

<sup>1</sup> Includes Federal agency obligations.

<sup>2</sup> Based on holdings at opening of business.

*Volume of operations.* Table 9 on page 340 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1966-69.

Discounts and advances were the highest in number since 1959, and the dollar volume reached a new peak as the number of banks borrowing rose to 1,714 against 1,310 in 1968.

The number of coins received and counted also rose sharply during the year, a reflection of the continuing increase in coins in circulation. Volume was again higher in most of the other operations, particularly in checks handled, food stamps redeemed, and 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



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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 1969 the guaranteeing agencies did not authorize the issuance of any new guarantee agreements. Loan authorizations outstanding on December 31, 1969, totaled \$72 million, of which \$71 million represented outstanding loans and \$1 million additional credit available to borrowers. Of total loans outstanding, 29 per cent on the average was guaranteed. During the year approximately \$66 million was disbursed on guaranteed loans; of this total, \$49 million was disbursed on a loan authorized in 1968 as part of the financing for expansion of domestic copper production.

Authority for the V-loan program, unless extended, will terminate on June 30, 1970.

Table 11 (page 341) 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 declined \$2,609 million in 1969. At the end of the year they amounted to \$19,217 million: \$10,506 million of earmarked gold; \$7,030 million of U.S. Government securities (including securities payable in foreign currencies); \$134 million in dollar deposits; \$146 million of bankers' acceptances purchased through Federal Reserve Banks; and \$1,401 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 \$964 million to \$7,157 million.

In 1969 new accounts were opened in the names of the People's Bank of the Union of Burma, Central Bank of Kuwait, Southern Yemen Currency Authority, and National Bank of Somalia.

The System did not make any gold collateral loans during 1969.

The Federal Reserve Bank of New York continued to act as depository 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

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North Korea, and their nationals, and to transactions with those countries and their nationals.

***Bank premises.*** During 1969 the Board authorized construction of new buildings for the Minneapolis Bank and the Cincinnati and Memphis Branches.

With the approval of the Board, a site was obtained for the new building authorized for the Minneapolis Bank, and property adjacent to the Los Angeles Branch was acquired for future expansion.

Table 6 on page 335 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. □

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## *Board of Governors*

*Building annex.* In April 1969 the Board of Governors announced it had postponed indefinitely the construction of an annex to its present building in order to minimize competition for scarce goods and services during a period of strong inflationary pressures. Construction had been scheduled to begin in 1969 with completion in 1971.

*Income and expenses.* The accounts of the Board for the year 1969 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, 1969, 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, 1969 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.  
February 2, 1970

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEET  
DECEMBER 31, 1969

ASSETS

OPERATING FUND:

Cash.....	\$ 1,241,526
Miscellaneous receivables and advances.....	56,380
Stockroom and cafeteria inventories at first-in, first-out cost.....	33,318
	1,331,224

PROPERTY FUND:

Land and improvements.....	792,852
Building.....	4,330,488
Furniture and equipment.....	1,215,113
Construction in progress.....	1,744,297
	8,082,750
	\$ 9,413,974

LIABILITIES AND FUND BALANCES

OPERATING FUND:

Current liabilities:	
Accounts payable and accrued expenses.....	\$1,247,215
Income taxes withheld.....	158,752
Accrued payroll.....	143,542
	\$ 1,549,509
Fund balance:	
Balance, January 1, 1969.....	902,719
Excess of expenses over assessments for the year ended December 31, 1969.....	1,121,004
	( 218,285)
	1,331,224

PROPERTY FUND:

Fund balance:	
Balance, January 1, 1969.....	6,841,299
Additions.....	1,265,217
Property adjustments and disposals.....	( 23,766)
	8,082,750
	\$ 9,413,974

The accompanying notes are an integral part of the financial statements.  
(See page 324 for notes.)

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**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

**STATEMENT OF ASSESSMENTS AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 1969**

**ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS:**

For Board expenses and additions to property.....	\$15,067,500
For expenditures made on behalf of the Federal Reserve Banks...	21,234,263
Total assessments.....	36,301,763

**EXPENSES:**

Expenditures for printing, issue and redemption of Federal Reserve Notes, paid on behalf of the Federal Reserve Banks.....	21,234,263
<b>For the Board:</b>	
Salaries.....	\$9,425,813
Retirement and insurance contributions.....	1,861,627
Travel expenses.....	503,338
Legal, consultant and audit fees.....	356,802
Contractual services.....	389,038
Printing and binding—net.....	479,736
Equipment and other rentals.....	1,036,928
Telephone and telegraph.....	194,247
Postage and expressage.....	200,402
Stationery, office and other supplies.....	117,561
Heat, light and power.....	63,901
Operation of cafeteria—net.....	77,843
Repairs, maintenance and alterations.....	85,845
Books and subscriptions.....	37,779
System membership, Center for Latin American Monetary Studies.....	27,000
Miscellaneous—net.....	89,193
For property additions.....	14,947,053
Total expenses.....	37,422,767

**EXCESS OF EXPENSES OVER ASSESSMENTS.....** \$ 1,121,004

The accompanying notes are an integral part of the financial statements.

[See page 324 for notes.]

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**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 \$339,638 under leases expiring in 1972. These leases may be terminated with six months notice.

**CONSTRUCTION**

Except for those items previously committed amounting to approximately \$1,500,000, construction of the planned Federal Reserve North Building and North Garage has been postponed indefinitely. The architect has estimated the total cost as approximately \$30,000,000.

**RETIREMENT PLAN**

There are two contributory retirement programs for employees of the Board. About 75% of the employees are covered by the Federal Reserve Board Plan. All new members of the staff who do not come directly from a position in the Government are covered by this plan. The second, the Civil Service Retirement Plan, covers all new employees who come directly from government service. Employee contributions and benefits are the same under both plans and are based upon the Civil Service Plan.

Under the Civil Service Plan, Board contributions match employee payroll deductions while under the Federal Reserve Plan, Board contributions are actuarially determined annually.

Total Board contributions to these plans in 1969 totaled \$1,797,467 including \$446,000 required to fund cost of living allowances to annuitants under the Federal Reserve Plan. There are no unfunded prior service costs under either plan.

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# *Statistical Tables*

1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS  
COMBINED, DECEMBER 31, 1969

(In thousands of dollars)

ASSETS		
Gold certificates on hand . . . . .		1,278
Gold certificates due from U.S. Treasury:		
Interdistrict settlement fund . . . . .	6,813,114	
F.R. Agents' fund . . . . .	<u>3,222,000</u>	
Total gold certificate account . . . . .		10,036,392
F.R. notes of other F.R. Banks . . . . .		770,380
Other cash:		
United States notes . . . . .	1,453	
Silver certificates . . . . .	71	
National bank notes and F.R. Bank notes . . . . .	43	
Coin . . . . .	<u>108,794</u>	
Total other cash . . . . .		110,361
Discounts and advances secured by U.S. Govt. obligations:		
Discounted for member banks . . . . .	130,487	
Discounted for others . . . . .		<u>130,487</u>
Other discounts and advances:		
Discounted for member banks . . . . .	52,885	
Foreign loans on gold . . . . .		<u>52,885</u>
Total discounts and advances . . . . .		183,372
Acceptances:		
Bought outright . . . . .		63,914
Held under repurchase agreement . . . . .		
Federal agency obligations:		
Held under repurchase agreement . . . . .		
U.S. Govt. securities:		
Bought outright:		
Bills . . . . .	22,265,236	
Certificates . . . . .		
Notes . . . . .	31,391,861	
Bonds . . . . .	<u>3,496,413</u>	
Total bought outright . . . . .		57,153,510
Held under repurchase agreement . . . . .		
Total U.S. Govt. securities . . . . .		<u>57,153,510</u>
Total loans and securities . . . . .		57,400,796
Cash items in process of collection:		
Transit items . . . . .	12,021,944	
Exchanges for clearing house . . . . .	292,310	
Other cash items . . . . .	<u>567,707</u>	
Total cash items in process of collection . . . . .		12,881,961
Bank premises:		
Land . . . . .		33,274
Buildings (including vaults) . . . . .	126,091	
Fixed machinery and equipment . . . . .	<u>71,181</u>	
Total buildings . . . . .	197,272	
Less depreciation allowances . . . . .	<u>114,019</u>	
Total bank premises . . . . .		116,527
Other assets:		
Claims account closed banks . . . . .		
Denominated in foreign currencies . . . . .	1,966,722	
Gold due from U.S. Treasury for account International Monetary Fund . . . . .	219,110	
Reimbursable expenses and other items receivable . . . . .	5,342	
Interest accrued . . . . .	414,340	
Premium on securities . . . . .	527	
Deferred charges . . . . .	2,960	
Real estate acquired for banking-house purposes . . . . .	2,383	
Suspense account . . . . .	15,230	
All other . . . . .	<u>972</u>	
Total other assets . . . . .		2,627,586
Total assets . . . . .		<u><u>83,944,003</u></u>



## LIABILITIES

F.R. notes:		
Outstanding (issued to F.R. Banks).....		50,412,404
Less: Held by issuing F.R. Banks.....	2,155,596	
Forwarded for redemption.....	13,645	2,169,241
		<u>48,243,163</u>
F.R. notes, net (includes notes held by U.S. Treasury and by F.R. Banks other than issuing Bank).....		
		<b>48,243,163</b>
Deposits:		
Member bank reserves.....	21,979,906	
U.S. Treasurer—General account.....	1,312,290	
Foreign.....	133,608	
Other deposits:		
Nonmember bank—Clearing accounts.....	49,356	
Officers' and certified checks.....	23,105	
Reserves of corporations doing foreign banking or financing.....	77,570	
International organizations.....	305,788	
All other.....	351,339	
		<u>807,158</u>
Total other deposits.....		<b>807,158</b>
Total deposits.....		<b>24,232,962</b>
Deferred availability cash items.....		<b>9,549,756</b>
Other liabilities:		
Accrued dividends unpaid.....		
Unearned discount.....	661	
Discount on securities.....	562,256	
Sundry items payable.....	9,077	
Suspense account.....	7,702	
All other.....	24	
		<u>579,720</u>
Total other liabilities.....		<b>579,720</b>
Total liabilities.....		<b>82,605,601</b>

## CAPITAL ACCOUNTS

Capital paid in.....	669,201
Surplus.....	669,201
Other capital accounts <sup>1</sup> .....	.....
Total liabilities and capital accounts.....	<b>83,944,003</b>
Contingent liability on acceptances purchased for foreign correspondents.....	<b>145,948</b>

<sup>1</sup> 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. 336 and 337.

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, 1969 AND 1968

(In millions of dollars)

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1969	1968	1969	1968	1969	1968	1969	1968	1969	1968	1969	1968
<b>ASSETS</b>												
Gold certificate account.....	10,036	10,026	570	554	2,325	2,813	526	494	862	739	927	861
F.R. notes of other F.R. Banks.....	771	784	76	63	159	162	35	35	68	67	68	83
Other cash.....	110	207	5	11	8	21	5	5	10	24	6	13
Discounts and advances:												
Secured by U.S. Govt. securities.....	130	163	2		47	74	1	*	4	11	11	3
Other.....	53	25			5						1	
Acceptances:												
Bought outright.....	64	58			64	58						
Held under repurchase agreements.....												
Federal agency obligations held under repurchase agreements.....												
U.S. Govt. securities:												
Bought outright.....	57,154	52,937	2,899	2,762	13,921	12,687	3,072	2,810	4,431	4,175	4,273	3,978
Held under repurchase agreements.....												
Total loans and securities.....	57,401	53,183	2,901	2,762	14,037	12,819	3,073	2,810	4,435	4,186	4,285	3,981
Cash items in process of collection.....	12,883	11,817	786	605	2,494	2,663	730	635	870	807	1,070	886
Bank premises.....	116	113	2	3	9	10	2	2	6	5	11	10
Other assets:												
Denominated in foreign currencies.....	1,967	2,061	94	101	500	529	102	109	175	185	102	107
IMF gold deposited <sup>1</sup> .....	219	230			219	230						
All other.....	441	481	28	24	109	118	22	27	35	39	36	39
Total assets.....	83,944	78,902	4,462	4,123	19,860	19,365	4,495	4,117	6,461	6,052	6,505	5,980

LIABILITIES												
F.R. notes.....	48,244	45,510	2,755	2,637	11,264	10,511	2,757	2,616	3,953	3,700	4,327	4,142
Deposits:												
Member bank reserves.....	21,979	21,737	834	731	5,826	5,897	986	870	1,551	1,538	1,090	1,021
U.S. Treasurer—General account.....	1,312	703	65	•	303	681	71	•	94	•	131	1
Foreign.....	134	216	6	11	137	52	7	12	12	20	7	11
Other:												
IMF gold deposits <sup>1</sup> .....	219	230			219	230						
All other.....	588	517	16	13	320	287	18	13	24	18	29	21
Total deposits.....	24,232	23,403	921	755	6,705	7,147	1,082	895	1,681	1,576	1,257	1,054
Deferred availability cash items.....	9,549	8,334	693	649	1,398	1,292	557	520	663	632	809	688
Other liabilities and accrued dividends.....	581	395	29	20	139	95	31	20	44	32	44	30
Total liabilities.....	82,606	77,642	4,398	4,061	19,506	19,045	4,427	4,051	6,341	5,940	6,437	5,914
CAPITAL ACCOUNTS												
Capital paid in.....	669	630	32	31	177	160	34	33	60	56	34	33
Surplus.....	669	630	32	31	177	160	34	33	60	56	34	33
Other capital accounts.....												
Total liabilities and capital accounts.....	83,944	78,902	4,462	4,123	19,860	19,365	4,495	4,117	6,461	6,052	6,505	5,980
Contingent liability on acceptances purchased for foreign correspondents.....	146	109	7	5	37	28	8	6	13	10	8	6
F.R. NOTE STATEMENT												
F.R. notes:												
Issued to F.R. Bank by F.R. Agent and outstanding.....	50,412	47,560	2,875	2,714	11,793	11,038	2,829	2,684	4,200	3,933	4,456	4,272
Less held by issuing Bank, and forwarded for redemption.....	2,168	2,050	120	77	529	527	72	68	247	233	129	130
F.R. notes, net <sup>2</sup> .....	48,244	45,510	2,755	2,637	11,264	10,511	2,757	2,616	3,953	3,700	4,327	4,142
Collateral held by F.R. Agent for notes issued to Bank:												
Gold certificate account.....	3,222	4,057	180	280	500	500	300	300	510	600	545	665
Eligible paper.....												
U.S. Govt. securities.....	48,152	44,691	2,717	2,451	11,400	10,600	2,620	2,500	3,750	3,400	3,955	3,690
Total collateral.....	51,374	48,748	2,897	2,731	11,900	11,100	2,920	2,800	4,260	4,000	4,500	4,355

For notes see end of table.

## 2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1969 AND 1968—Continued

(In millions of dollars)

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1969	1968	1969	1968	1969	1968	1969	1968	1969	1968	1969	1968	1969	1968
<b>ASSETS</b>														
Gold certificate account.....	494	524	1,468	1,491	345	353	131	229	424	338	324	344	1,640	1,286
F.R. notes of other F.R. Banks.....	91	80	49	58	29	33	21	18	44	35	29	43	102	107
Other cash.....	15	27	14	27	10	25	3	3	7	16	8	12	19	23
Discounts and advances:														
Secured by U.S. Govt. securities.....	6		19	50	5	1	3	4	17	8	14	5	1	7
Other.....	33	10		15	10	*			1		3			
Acceptances:														
Bought outright.....														
Held under repurchase agreements.....														
Federal agency obligations held under repurchase agreements.....														
U.S. Govt. securities:														
Bought outright.....	3,188	2,937	9,499	8,698	2,106	1,869	1,150	1,023	2,231	2,050	2,458	2,253	7,926	7,695
Held under repurchase agreements.....														
Total loans and securities.....	3,227	2,947	9,518	8,763	2,121	1,870	1,153	1,027	2,249	2,058	2,475	2,258	7,927	7,702
Cash items in process of collection.....	1,119	907	2,187	2,028	622	574	432	403	882	824	714	577	977	908
Bank premises.....	18	18	17	17	10	8	6	3	18	19	8	9	9	9
Other assets:														
Denominated in foreign currencies.....	126	130	291	301	69	70	45	48	85	91	112	118	266	272
IMF gold deposited <sup>1</sup> .....														
All other.....	23	26	70	76	15	17	10	9	16	18	19	20	58	68
Total assets.....	5,113	4,659	13,614	12,761	3,221	2,950	1,801	1,740	3,725	3,399	3,689	3,381	10,998	10,375

LIABILITIES														
F.R. notes .....	2,642	2,476	8,458	8,076	1,797	1,677	819	764	1,775	1,679	1,747	1,575	5,950	5,657
Deposits:														
Member bank reserves .....	1,322	1,306	2,950	2,988	824	784	538	678	1,056	1,039	1,222	1,229	3,780	3,656
U.S. Treasurer—General account .....	96	1	108	1	68	1	49	15	128	*	81	1	118	2
Foreign .....	8	14	19	32	4	7	3	5	6	10	7	13	18	29
Other:														
IMF gold deposit <sup>1</sup> .....														
All other .....	18	12	51	39	12	8	6	6	15	10	13	11	66	79
Total deposits .....	1,444	1,333	3,128	3,060	908	800	596	704	1,205	1,059	1,323	1,254	3,982	3,766
Deferred availability cash items .....	909	749	1,734	1,373	449	415	344	234	666	591	520	464	807	727
Other liabilities and accrued dividends .....	32	21	96	66	21	14	12	10	23	16	25	16	85	55
Total liabilities .....	5,027	4,579	13,416	12,575	3,175	2,906	1,771	1,712	3,669	3,345	3,615	3,309	10,824	10,205
CAPITAL ACCOUNTS														
Capital paid in .....	43	40	99	93	23	22	15	14	28	27	37	36	87	85
Surplus .....	43	40	99	93	23	22	15	14	28	27	37	36	87	85
Other capital accounts .....														
Total liabilities and capital accounts .....	5,113	4,659	13,614	12,761	3,221	2,950	1,801	1,740	3,725	3,399	3,689	3,381	10,998	10,375
Contingent liability on acceptances purchased for foreign correspondents .....	9	7	22	16	5	4	3	2	6	5	8	6	20	14
F.R. NOTE STATEMENT														
F.R. notes:														
Issued to F.R. Bank by F.R. Agent and outstanding .....	2,798	2,597	8,793	8,390	1,876	1,738	844	790	1,841	1,754	1,863	1,715	6,244	5,935
Less held by issuing Bank, and forward- ed for redemption .....	156	121	335	314	79	61	25	26	66	75	116	140	294	278
F.R. notes, net <sup>2</sup> .....	2,642	2,476	8,458	8,076	1,797	1,677	819	764	1,775	1,679	1,747	1,575	5,950	5,657
Collateral held by F.R. Agent for notes issued to Bank:														
Gold certificate account .....		350	1,000	1,000	155	180	27	27			5	155		
Eligible paper .....														
U.S. Govt. securities .....	2,850	2,300	7,950	7,650	1,780	1,670	825	775	1,875	1,775	1,930	1,630	6,500	6,250
Total collateral .....	2,850	2,650	8,950	8,650	1,935	1,850	852	802	1,875	1,775	1,935	1,785	6,500	6,250

\* Less than \$500,000.

<sup>1</sup> 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.

<sup>2</sup> 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, 1967-69

(In thousands of dollars)

Type of issue and date	Rate of interest (percent)	December 31			Increase or decrease (-) during—	
		1969	1968	1967	1969	1968
<b>Treasury bonds:</b>						
1963-68.....	2½			169,085		-169,085
1964-69 June.....	2½		307,840	307,840	-307,840	
1964-69 Dec.....	2½		358,199	358,199	-358,199	
1965-70.....	2½	573,540	573,540	573,540		
1966-71.....	2½	154,007	145,007	145,007	9,000	
1967-72 June.....	2½	55,566	54,566	54,566	1,000	
1967-72 Sept.....	2½	47,552	46,552	46,552	1,000	
1967-72 Dec.....	2½	99,858	95,858	95,858	4,000	
1968 May.....	3½			304,315		-304,315
1968 Aug.....	3¾			348,200		-348,200
1968 Nov.....	3¾			104,900		-104,900
1969 Feb.....	4		1,140,500	1,135,100	-1,140,500	5,400
1969 Oct.....	4		310,750	217,550	-310,750	93,200
1970 Feb.....	4	107,850	102,850	86,150	5,000	16,700
1970 Aug.....	4	169,750	150,400	142,300	19,350	8,100
1971 Aug.....	4	184,400	181,900	170,400	2,500	11,500
1971 Nov.....	3¾	255,900	249,900	213,900	6,000	36,000
1972 Feb.....	4	165,650	158,650	151,650	7,000	7,000
1972 Aug.....	4	120,050	117,150	114,150	2,900	3,000
1973 Aug.....	4	179,150	176,250	168,450	2,900	7,800
1973 Nov.....	4½	295,350	292,450	268,950	2,900	23,500
1974 Feb.....	4½	123,650	116,150	94,300	7,500	21,850
1974 May.....	4½	239,650	238,450	213,950	1,200	24,500
1974 Nov.....	3¾	46,700	46,700	46,700		
1975-85.....	4½	90,340	82,340	73,590	8,000	8,750
1978-83.....	3½	6,250	6,250	6,250		
1980 Feb.....	4	66,200	53,550	42,650	12,650	10,900
1980 Nov.....	3½	33,850	32,850	30,400	1,000	2,450
1985 May.....	3¼	27,800	27,800	24,800		3,000
1987-92.....	4½	285,200	246,900	217,200	38,300	29,700
1988-93.....	4	23,500	23,500	23,500		
1989-94.....	4½	42,350	37,350	36,200	5,000	1,150
1990 Feb.....	3½	74,450	72,450	72,450	2,000	
1995 Feb.....	3	2,100	2,100	2,100		
1998 Nov.....	3½	25,750	25,750	25,750		
<b>Total.....</b>		<b>3,496,413</b>	<b>5,474,502</b>	<b>6,086,502</b>	<b>-1,978,089</b>	<b>-612,000</b>
<b>Treasury notes:</b>						
Feb. 15, 1968—A.....	5½			839,300		-839,300
May 15, 1968—B.....	4¾			3,313,432		-3,313,432
Aug. 15, 1968—C.....	4½			4,378,582		-4,378,582
Nov. 15, 1968—D.....	5¼			5,975,165		-5,975,165
Feb. 15, 1969—A.....	5½		7,441,343	7,353,993	-7,441,343	87,350
May 15, 1969—B.....	5½		148,050	148,050	-148,050	148,050
Aug. 15, 1969—C.....	6		40,500	40,500	-40,500	40,500
May 15, 1970—B.....	5½	5,297,750	5,293,450		4,300	5,293,450
May 15, 1970—C.....	6½	6,123,543			6,123,543	
Aug. 15, 1970—D.....	6½	305,590			305,590	
Nov. 15, 1970—A.....	5	1,179,250	1,128,150	1,065,500	51,100	62,650
Feb. 15, 1971—C.....	5¾	70,590	64,590	33,100	6,000	31,490
Feb. 15, 1971—D.....	7¾	46,400			46,400	
May 15, 1971—A.....	5¼	1,571,850	1,557,350	1,533,300	14,500	24,050
May 15, 1971—E.....	8	435,599			435,599	
Nov. 15, 1971—B.....	5¾	79,650	62,650	54,800	17,000	16,850
Feb. 15, 1972—A.....	4¾	119,300	94,850	55,500	24,450	39,350
Apr. 1, 1972—EA.....	1½	1,800	1,800	1,800		
May 15, 1972—B.....	4¾	2,357,660	2,331,810	2,282,860	25,850	48,950
May 15, 1972—C.....	7¾	130,500			130,500	
Aug. 15, 1972—B.....	5¾	4,938,382	4,864,882		73,500	4,864,882
Nov. 15, 1974—A.....	5¾	1,092,050	1,053,250	40,050	38,800	1,013,200
Feb. 15, 1975—A.....	5¾	954,650	934,150		20,500	934,150
May 15, 1975—B.....	6	3,689,297	3,689,297		3,000	3,689,297
Feb. 15, 1976—A.....	6¼	2,506,000			2,506,000	
May 15, 1976—B.....	6½	292,100			292,100	
Aug. 15, 1976—C.....	7½	196,900			196,900	
<b>Total.....</b>		<b>31,391,861</b>	<b>28,706,122</b>	<b>26,918,382</b>	<b>2,685,739</b>	<b>1,787,740</b>

3.—CONTINUED

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (—) during—	
		1969	1968	1967	1969	1968
<b>Treasury bills:</b>						
Tax anticipation.....		606,500	453,400	278,000	153,100	175,400
Other due—						
Within 3 mos.....		12,522,479	10,890,298	9,245,160	1,632,181	1,645,138
3-6 mos.....		6,679,301	5,379,095	4,497,150	1,300,206	881,945
After 6 mos.....		2,456,956	2,033,412	1,955,023	423,544	78,389
<b>Total.....</b>		<b>22,265,236</b>	<b>18,756,205</b>	<b>15,975,333</b>	<b>3,509,031</b>	<b>2,780,872</b>
<b>Repurchase agreements.....</b>				132,200		—132,200
<b>Total holdings.....</b>		<b>57,153,510</b>	<b>52,936,829</b>	<b>49,112,417</b>	<b>4,216,681</b>	<b>3,824,412</b>
<b>Maturing—</b>						
Within 90 days.....		13,315,369	19,584,141	9,878,080	—6,268,772	9,706,061
91 days to 1 year.....		22,707,140	8,919,246	21,662,432	13,787,894	—12,743,186
Over 1 year to 5 years.....		12,811,264	12,879,723	16,184,615	—68,459	—3,304,892
Over 5 years to 10 yrs.....		7,641,947	10,942,879	832,400	—3,300,932	10,110,479
Over 10 years.....		677,790	610,840	554,890	66,950	55,950

4. FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1954-69

(In millions of dollars)

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1954		1959		1968		1969	
Jan. 14	22	1960	} none	Sept. 9	87	Sept. 5	322
15	169	1961		Dec. 10	92	6	322
16	169	1962		12	45	7*	322
17*	169	1963		13	430	8	653
18	323	1964		14	430	9	830
19	424	1965		15*	430	10	1,102
20	323			16	447	11	862
21	306			17	596	12	759
22	283					13	759
23	283	1966				14*	759
24*	283	Dec. 9	169		15	513	
25	203	10	169		16	972	
26	3	11*	169				
Mar. 15	134			1969			
16	190			Apr. 8	151		
		1967		9	519		
1955	} none	Mar. 10	149	10	490		
1956		11	149	11	976		
1957		12*	149	12	976		
		June 15	87	13*	976		
1958		Sept. 8	153	14	514		
Mar. 17	143	9	153	15	502		
18	207	10*	153	16	627		

\* 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 1969

(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.....	4,011	4,590	231	4,011	4,590	231			
February.....	1,234	1,110	175	1,149	1,110	175	23		-8,479
March.....	385	65	381	217	65	381	49		574
April.....	2,121	1,346	206	2,121	1,346	206			
May.....	2,368	1,444		2,173	1,444		33		10,883
June.....	4,586	3,993	7	4,586	3,993	7			
July.....	3,495	3,251	200	3,428	3,251	200	10		
August.....	2,201	1,658		2,201	1,658				407
September.....	4,762	5,483	115	4,762	5,483	115			
October.....	5,145	3,704		5,016	3,704		1		-694
November.....	2,915	735	148	2,852	735	148	28		+1,177
December.....	1,250	1,029	386	1,250	1,029	386			
Total...	34,473	28,409	1,848	33,766	28,409	1,848	143		3,867

	1-5 years			5-10 years			Over 10 years		
	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts
January.....									
February.....	33		6,095	24		2,384	6		
March.....	73		-574	26			20		
April.....									
May.....	78		-10,895	60		12	24		
June.....									
July.....	24			23			10		
August.....			4,514			-4,921			
September.....									
October.....	74		519	52		175	3		
November.....	29		-40	3		-1,137	4		
December.....									
Total...	311		-380	187		-3,488	67		

	Repurchase agreements (U.S. Govt. securities)		Net change in U.S. Govt. securities	Federal agency obligations (net repurchase agreements)	Bankers' acceptances		Net change <sup>1</sup>
	Gross purchases	Gross sales			Net outright	Net purchases	
January.....	371	371	-810		-8		-818
February.....	2,517	2,318	148	20	1	40	209
March.....	2,044	1,854	130	5	-4	7	137
April.....	1,929	1,790	708	54	5	43	810
May.....	4,192	4,470	646	1	-5	-60	582
June.....	1,312	1,562	336	-80	-5	-30	220
July.....	560	560	44		-1		43
August.....	2,721	2,491	773	39		22	834
September.....	1,121	1,062	-777	-39	-3	-22	-841
October.....	2,655	2,715	1,381	17	4		1,402
November.....	1,031	1,260	1,803	-17	8		1,794
December.....	3,336	3,336	-165		15		-150
Total...	23,790	23,790	4,217		6		4,223

<sup>1</sup> 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, 1969

(In dollars)

F.R. Bank or branch	Cost				Net book value
	Land	Buildings (including vaults) <sup>1</sup>	Fixed ma- chinery and equipment	Total	
Boston . . . . .	1,628,132	5,929,169	2,943,179	10,500,480	2,445,228
New York . . . . .	5,215,656	13,074,174	7,262,901	25,552,731	5,822,133
Annex . . . . .	592,679	1,491,116	716,472	2,800,267	535,324
Buffalo . . . . .	673,076	2,562,224	1,565,400	4,800,700	2,639,882
Philadelphia . . . . .	1,884,357	5,034,418	2,154,452	9,073,227	2,475,075
Cleveland . . . . .	1,295,490	6,642,801	3,571,958	11,510,249	1,023,422
Cincinnati . . . . .	1,331,016	2,132,391	1,587,495	5,050,902	2,298,895
Pittsburgh . . . . .	1,667,994	3,007,764	2,525,243	7,201,001	3,137,487
Richmond . . . . .	513,524	4,207,163	2,497,936	7,218,623	1,602,714
Annex 1 . . . . .	146,875	256,000	2,313	405,188	277,008
Annex 2 . . . . .	91,644	6,451,457	.....	6,543,101	6,543,101
Baltimore . . . . .	250,487	2,009,381	1,097,455	3,357,323	1,315,870
Charlotte . . . . .	347,071	1,069,026	625,121	2,041,218	1,119,498
Atlanta . . . . .	1,304,755	5,804,778	3,558,580	10,668,113	7,478,943
Birmingham . . . . .	410,775	2,000,619	1,019,618	3,431,012	1,839,654
Jacksonville . . . . .	164,004	1,706,794	778,871	2,649,669	1,364,012
Annex . . . . .	107,925	76,236	15,842	200,003	182,645
Nashville . . . . .	592,342	1,474,678	1,098,924	3,165,944	1,742,591
New Orleans . . . . .	1,557,663	2,754,271	1,448,181	5,760,115	5,043,794
Chicago . . . . .	6,275,490	17,656,444	10,119,048	34,050,982	14,393,119
Detroit . . . . .	1,147,734	3,030,742	1,580,801	5,759,277	2,764,653
St. Louis . . . . .	1,675,780	3,215,472	2,541,989	7,433,241	1,720,802
Little Rock . . . . .	800,104	1,963,152	962,372	3,725,628	3,408,368
Louisville . . . . .	700,075	2,859,819	1,056,659	4,616,553	2,904,487
Memphis . . . . .	731,122	1,087,369	218,883	2,037,374	1,558,319
Minneapolis . . . . .	958,535	7,180,196	2,688,921	10,827,652	5,481,488
Helena . . . . .	15,709	126,401	62,977	205,087	51,791
Kansas City . . . . .	1,340,561	6,989,491	2,984,751	11,314,803	6,128,335
Denver . . . . .	2,319,280	3,783,339	2,218,604	8,321,223	8,071,038
Oklahoma City . . . . .	647,685	1,511,600	834,845	2,994,130	2,081,716
Omaha . . . . .	996,489	1,551,742	731,925	3,280,156	2,098,278
Dallas . . . . .	713,302	4,826,831	3,570,804	9,110,937	4,292,434
El Paso . . . . .	262,477	787,728	393,301	1,443,506	861,151
Houston . . . . .	695,615	1,408,574	714,187	2,818,376	1,773,175
San Antonio . . . . .	278,180	1,400,390	570,847	2,249,417	1,314,469
San Francisco . . . . .	684,339	3,783,530	1,801,463	6,269,332	1,043,431
Annex . . . . .	247,201	124,000	30,000	401,201	343,921
Los Angeles . . . . .	777,614	4,103,844	1,608,576	6,490,034	2,692,152
Portland . . . . .	207,380	1,678,512	649,432	2,535,324	1,259,248
Salt Lake City . . . . .	480,222	1,878,238	707,575	3,066,035	1,945,247
Seattle . . . . .	274,772	1,890,966	1,049,264	3,215,002	1,452,280
<b>Total . . . . .</b>	<b>42,005,131</b>	<b>140,522,840</b>	<b>71,567,165</b>	<b>254,095,136</b>	<b>116,527,178</b>

OTHER REAL ESTATE ACQUIRED FOR BANKING-HOUSE PURPOSES

Boston . . . . .	500,000	.....	.....	500,000	500,000
Cleveland . . . . .	395,875	381,000	.....	776,875	592,725
Richmond . . . . .	326,403	.....	.....	326,403	326,403
Baltimore . . . . .	548,656	.....	.....	548,656	548,656
San Antonio . . . . .	170,416	.....	.....	170,416	170,416
Los Angeles . . . . .	245,082	.....	.....	245,082	245,082
<b>Total . . . . .</b>	<b>2,186,432</b>	<b>381,000</b>	<b>.....</b>	<b>2,567,432</b>	<b>2,383,282</b>

<sup>1</sup> Includes expenditures for construction at some offices pending allocation to appropriate accounts.

## 7. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1969

(In dollars)

Item	Total	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
<b>CURRENT EARNINGS</b>													
Discounts and advances.....	65,335,755	5,341,655	15,458,720	2,015,031	2,559,153	3,404,671	4,736,538	13,014,720	2,456,725	1,990,330	3,860,139	3,116,739	7,381,3
Acceptances.....	4,676,398		4,676,398										
U.S. Govt. securities.....	3,180,795,133	162,446,132	797,619,706	164,711,278	247,350,276	236,068,720	169,987,147	522,446,794	111,125,961	62,198,740	121,922,461	134,495,990	450,421,5
Foreign currencies.....	121,716,257	5,848,589	30,941,748	6,335,724	10,841,635	6,333,271	7,790,914	17,951,710	4,259,251	2,800,982	5,239,692	6,941,538	16,431,2
All other.....	837,015	23,271	145,841	19,618	68,456	49,695	82,506	136,157	34,917	52,134	79,499	70,455	74,4
<b>Total.....</b>	<b>3,373,360,557</b>	<b>173,659,647</b>	<b>848,842,412</b>	<b>173,081,651</b>	<b>260,819,520</b>	<b>245,856,357</b>	<b>182,597,105</b>	<b>553,549,381</b>	<b>117,876,854</b>	<b>67,042,186</b>	<b>131,101,791</b>	<b>144,624,722</b>	<b>474,308,5</b>
<b>CURRENT EXPENSES</b>													
Salaries:													
Officers.....	11,633,105	638,904	2,309,927	799,329	762,411	979,116	844,607	1,139,626	986,564	666,038	855,006	715,120	936,4
Employees.....	134,467,820	8,588,482	34,935,880	6,168,209	8,981,523	9,373,859	9,227,533	18,805,893	7,485,308	5,073,616	7,674,483	5,927,334	12,225,7
Retirement and other benefits <sup>1</sup> .....	24,447,229	1,601,165	5,854,610	1,158,424	1,658,654	1,776,014	1,677,535	3,299,431	1,378,210	984,146	1,494,792	1,134,719	2,429,2
Fees—Directors and others.....	2,362,186	93,057	1,002,668	97,162	180,211	77,970	261,958	100,771	83,195	113,037	80,523	92,447	179,1
Traveling expenses.....	3,335,513	194,864	541,864	129,579	227,656	243,801	377,230	373,066	233,400	240,732	213,986	228,823	330,4
Postage and expressage.....	31,028,329	1,924,784	3,818,226	1,211,155	2,675,296	3,663,093	2,838,991	3,979,576	2,012,778	1,326,343	2,202,885	1,850,604	3,524,4
Telephone and telegraph.....	3,265,357	155,165	712,281	128,311	215,220	263,174	370,560	394,765	170,507	133,727	219,102	207,993	294,4
Printing and supplies.....	11,644,957	758,596	2,064,250	624,504	834,719	1,025,731	964,551	1,645,244	862,154	454,215	880,177	523,995	1,006,8
Insurance.....	446,472	33,259	61,750	18,275	42,428	27,729	43,345	44,837	33,829	20,489	28,860	30,586	61,0
Taxes on real estate.....	6,689,840	717,655	1,161,661	179,904	576,031	253,582	433,063	1,171,900	266,099	385,510	551,723	326,185	666,4
Depreciation (buildings).....	5,355,387	133,777	896,544	76,596	370,760	191,797	924,585	689,810	308,729	75,145	802,325	522,252	363,0
Light, heat, power, and water.....	2,592,155	149,724	389,822	99,338	270,571	222,460	238,072	345,061	179,171	107,284	286,566	140,771	163,3
Repairs and alterations.....	1,805,300	72,405	307,165	154,806	139,536	189,217	70,016	268,165	196,773	46,664	201,925	45,528	113,1
Rent.....	411,475	96,768	190,995	6,167	43,330	7,071	1,744	55,147	2,193	1,470	3,832	1,180	1,4
Furniture and equipment:													
Purchases.....	7,526,093	176,712	2,628,855	281,365	835,811	461,697	362,900	353,409	259,170	178,024	321,834	308,286	1,358,0
Rentals.....	11,692,121	735,275	1,393,141	468,688	675,032	1,239,254	932,255	2,275,223	809,614	593,497	834,216	786,420	949,4
All other.....	4,389,455	219,067	1,053,198	179,669	417,252	179,953	209,585	889,104	207,417	198,426	289,068	370,958	175,3
Inter-Bank expenses.....	92,279	—	1,312,575	95,882	163,878	3,087	124,794	276,107	68,854	45,731	84,032	109,416	248,4
Subtotal.....	263,092,787	16,381,938	58,010,262	11,877,363	19,070,319	20,178,605	19,903,325	36,107,135	15,543,965	10,644,094	17,025,335	13,322,617	25,027,8
F.R. currency.....	22,125,657	1,212,752	3,804,462	1,262,305	1,477,920	1,892,778	2,040,237	3,553,830	925,934	376,623	1,346,175	1,214,216	3,018,4
Assessment for expenses of Board of Governors <sup>1</sup> .....	15,020,084	729,000	3,869,800	778,500	1,341,900	780,700	961,400	2,225,000	523,800	344,600	598,384	852,600	2,014,4
<b>Total.....</b>	<b>300,238,529</b>	<b>18,323,690</b>	<b>65,684,524</b>	<b>13,918,168</b>	<b>21,890,139</b>	<b>22,852,083</b>	<b>22,904,963</b>	<b>41,885,965</b>	<b>16,993,699</b>	<b>11,365,317</b>	<b>18,969,894</b>	<b>15,389,433</b>	<b>30,060,6</b>

Less reimbursement for certain fiscal agency and other expenses . . . . .	25,265,206	1,416,862	5,251,835	1,176,421	2,479,458	1,335,108	1,800,951	4,486,505	1,479,092	792,671	1,691,198	960,534	2,394,5 <sup>1</sup>
Net expenses . . . . .	274,973,322	16,906,828	60,432,689	12,741,747	19,410,681	21,516,975	21,104,011	37,399,460	15,514,607	10,572,646	17,278,696	14,428,899	27,666,01

**PROFIT AND LOSS**

Current net earnings . . . . .	3,098,387,238	156,752,820	788,409,724	160,339,904	241,408,839	224,339,381	161,493,094	516,149,921	102,362,247	56,469,541	113,823,095	130,195,823	446,642,8
Additions to current net earnings:													
Profits on foreign exchange transactions . . . . .	5,854,460	281,014	1,487,033	304,432	521,047	304,432	374,685	866,460	204,906	134,653	251,742	333,704	790,3
All other . . . . .	556,286	20,400	30,661	14,908	338,504	2,190	1,161	23,567	31,298	3,281	3,795	9,217	77,31
Total additions . . . . .	6,410,747	301,414	1,517,694	319,340	859,551	306,622	375,847	890,027	236,204	137,934	255,537	342,921	867,6
Deductions from current net earnings:													
Losses on sales of U.S. Govt. securities . . . . .	6,037,587	309,164	1,493,272	316,620	471,314	448,948	324,458	997,497	210,810	119,195	229,842	255,237	861,2
All other . . . . .	930,712	9,547	3,967	25,103	560,092	55,976	3,428	2,358	28,285	1,622	203,552	4,304	32,4
Total deductions . . . . .	6,968,300	318,711	1,497,239	341,723	1,031,406	504,925	327,886	999,855	239,094	120,817	433,394	259,541	893,71
Net addition to or deduction from (-) current net earnings.	-557,553	-17,297	20,455	-22,384	-171,855	-198,302	47,961	-109,828	-2,890	17,117	-177,857	83,380	-26,0
Net earnings before payments to U.S. Treasury . . . . .	3,097,829,687	156,735,523	788,430,179	160,317,521	241,236,984	224,141,079	161,541,055	516,040,093	102,359,358	56,486,657	113,645,238	130,279,204	446,616,7 <sup>1</sup>
Dividends paid . . . . .	39,236,598	1,884,421	10,237,179	1,999,838	3,544,719	2,008,398	2,524,011	5,779,678	1,350,761	888,334	1,668,102	2,205,326	5,145,8
Payments to U.S. Treasury (interest on F.R. notes) . . . . .	3,019,160,636	153,469,452	761,717,549	157,082,482	233,808,166	220,778,681	155,964,193	504,505,165	100,168,047	55,080,773	110,834,786	126,489,927	439,261,4
Transferred to surplus . . . . .	39,432,450	1,381,650	16,475,450	1,235,200	3,884,100	1,354,000	3,052,850	5,755,250	840,550	517,550	1,142,350	1,583,950	2,209,5
Surplus, January 1 . . . . .	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
Surplus, December 31 . . . . .	669,201,100	31,924,600	176,548,750	34,017,000	59,891,800	34,203,350	43,214,800	98,996,250	22,840,500	14,992,250	28,264,900	37,349,700	86,957,21

<sup>1</sup> For 1970 will include contributions to Thrift Plan for Employees of the Federal Reserve System.

NOTE.—Details may not add to totals because of rounding.

## 8. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, 1914-69

(In dollars)

Period or Bank	Current earnings	Current expenses	Net earnings before payments to U.S. Treasury <sup>1</sup>	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	352,224
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		86,772	8,366,350
1948.....	304,160,818	72,710,188	197,132,683	11,919,809			75,223,818	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		61,603,882	
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	
1969	3,373,360,559	274,973,320	3,097,829,686	39,236,599		3,019,160,638		39,432,450	
Total 1914-69	25,561,496,883	4,307,041,192	21,326,297,812	767,100,656	149,138,300	2,188,893	19,610,000,320	-3,657	797,873,299
Aggregate for each F.R. Bank, 1914-69:									
Boston	1,400,898,001	291,155,927	1,115,602,995	43,419,983	7,111,395	280,843	1,022,635,936	135,411	42,019,425
New York	6,469,178,167	925,315,502	5,566,816,963	231,703,726	68,006,262	369,116	5,053,365,948	-433,413	213,805,321
Philadelphia	1,444,959,097	253,675,725	1,199,605,895	53,433,901	5,558,901	722,406	1,091,252,804	290,661	48,347,222
Cleveland	2,124,518,080	370,485,183	1,758,666,367	73,016,790	4,842,447	82,930	1,607,608,514	-9,906	73,125,593
Richmond	1,700,456,436	303,524,041	1,401,479,165	35,130,593	6,200,189	172,493	1,319,964,246	-71,517	40,083,158
Atlanta	1,373,428,277	279,681,696	1,096,125,620	36,546,470	8,950,561	79,264	1,002,062,494	5,491	48,481,340
Chicago	4,185,058,505	609,640,350	3,581,808,632	100,908,776	25,313,526	151,045	3,341,098,600	11,682	114,325,004
St. Louis	1,010,592,926	237,321,487	774,498,234	26,378,179	2,755,629	7,464	717,423,349	-26,515	27,960,128
Minneapolis	580,020,973	151,162,748	431,630,866	17,905,540	5,202,900	55,615	389,532,479	64,874	18,869,463
Kansas City	1,071,626,119	238,645,019	835,279,502	29,835,301	6,939,100	64,213	766,044,713	-8,674	32,404,850
Dallas	1,046,300,253	208,879,434	840,421,552	36,380,971	560,049	102,083	761,695,931	55,337	41,627,178
San Francisco	3,154,460,049	437,554,080	2,724,362,021	82,440,426	7,697,341	101,421	2,537,315,306	-17,089	96,824,617
Total	25,561,496,883	4,307,041,192	21,326,297,812	767,100,656	149,138,300	2,188,893	19,610,000,320	-3,657	<sup>2</sup> 797,873,299

1 Current earnings less current expenses, plus or minus adjustment for profit and loss items.

<sup>2</sup> The \$797,873,299 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 \$669,201,100 on Dec. 31, 1969.

NOTE.—Details may not add to totals because of rounding.

9. VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL RESERVE BANKS, 1966-69

(Number in thousands; amounts in thousands of dollars)

Operation	1969	1968	1967	1966
<b>NUMBER OF PIECES HANDLED<sup>1</sup></b>				
Discounts and advances.....	23	11	6	16
Currency received and counted...	5,720,491	5,561,500	5,338,781	5,232,806
Coin received and counted <sup>2</sup> .....	12,931,413	10,957,259	10,958,606	9,304,120
Checks handled:				
U.S. Govt. checks.....	575,118	554,813	540,065	504,049
Postal money orders.....	187,123	195,871	205,343	217,473
All other <sup>3</sup> .....	6,504,161	5,904,929	5,419,583	5,021,454
Collection items handled:				
U.S. Govt. coupons paid.....	13,160	13,255	14,355	14,305
All other.....	27,902	26,299	25,203	26,712
Issues, redemptions, and exchanges of U.S. Govt. securities.....	283,151	267,826	246,289	235,555
Transfers of funds.....	6,660	5,894	5,444	4,832
Food stamps redeemed.....	519,393	384,763	273,983	166,615
<b>AMOUNTS HANDLED</b>				
Discounts and advances.....	154,305,388	84,525,110	30,968,332	90,667,647
Currency received and counted...	43,273,577	40,585,320	38,410,969	37,001,390
Coin received and counted.....	1,441,123	1,173,761	1,184,616	957,282
Checks handled:				
U.S. Govt. checks.....	208,155,031	190,653,523	175,068,179	160,014,331
Postal money orders.....	4,603,938	4,640,992	4,860,925	4,626,573
All other <sup>3</sup> .....	2,791,831,294	2,350,761,951	2,043,772,112	1,893,974,522
Collection items handled:				
U.S. Govt. coupons paid.....	6,849,373	6,765,295	6,693,383	5,916,485
All other.....	19,782,240	19,865,950	15,299,519	12,624,804
Issues, redemptions, and exchanges of U.S. Govt. securities.....	1,151,614,458	1,055,426,914	820,283,379	793,261,958
Transfers of funds.....	9,800,324,538	7,727,430,321	6,565,594,328	5,555,075,862
Food stamps redeemed.....	694,394	513,618	368,569	226,508

<sup>1</sup> Revised.

<sup>2</sup> Packaged items handled as a single item are counted as one piece.

<sup>3</sup> Excludes coins handled in separating operation.

<sup>3</sup> Exclusive of checks drawn on the F.R. Banks.

10. NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF  
FEDERAL RESERVE BANKS, DECEMBER 31, 1969

Federal Reserve Bank (including branches)	President	Other officers		Employees <sup>1</sup>		Total	
	Annual salary	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
Boston.....	\$ 45,000	26	\$ 564,500	1,289	\$ 8,890,192	1,316	\$ 9,499,692
New York.....	85,000	86	2,271,200	4,333	34,844,741	4,420	37,200,941
Philadelphia.....	50,000	35	736,000	976	6,461,544	1,012	7,247,544
Cleveland.....	50,000	34	716,000	1,273	8,677,032	1,308	9,443,032
Richmond.....	45,000	47	990,500	1,640	9,908,081	1,688	10,943,581
Atlanta.....	45,000	43	815,000	1,583	9,342,263	1,627	10,202,263
Chicago.....	67,500	48	1,032,000	2,880	18,946,237	2,929	20,045,737
St. Louis.....	50,000	46	969,000	1,248	7,777,594	1,295	8,796,594
Minneapolis.....	50,000	28	601,500	722	5,012,800	751	5,664,300
Kansas City.....	50,000	42	816,750	1,289	7,902,151	1,332	8,768,901
Dallas.....	45,000	35	670,100	1,005	6,227,981	1,041	6,943,081
San Francisco.....	60,000	45	870,750	1,890	12,295,515	1,936	13,226,265
Total.....	\$642,500	515	\$11,053,300	20,128	\$136,286,131	20,655	\$147,981,931

<sup>1</sup> Includes 1,150 part-time employees.

11. FEES AND RATES UNDER REGULATION V ON LOANS  
GUARANTEED PURSUANT TO DEFENSE PRODUCTION ACT OF 1950,  
DECEMBER 31, 1969

Fees Payable to Guaranting 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 <sup>1</sup>	
Commitment rate.....	½ per cent per annum	

<sup>1</sup> Except that the agency guaranting a particular loan may from time to time prescribe a higher rate if it determines the loan to be necessary in financing an essential defense production contract.

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)

Type of deposit	Rates Nov. 1, 1933—July 19, 1966								Rates beginning July 20, 1966			
	Effective date								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		July 20, 1966	Sept. 26, 1966	Apr. 19, 1968
Savings deposits:									Savings deposits.....	4	4	4
12 months or more.....	} 3	2½	2½	3	{ 4 3½	4	3½	} 4	4	} 4	4	4
Less than 12 months.....												
Postal savings deposits: <sup>1</sup>									Other time deposits: <sup>2</sup>			
12 months or more.....	} 3	2½	2½	3	{ 4 3½	4	3½	} 4	4	} 4	4	4
Less than 12 months.....												
Other time deposits: <sup>2</sup>									Multiple maturity: <sup>3</sup>			
12 months or more.....	} 3	2½	2½	3	{ 4 3½	4	3½	} 4	4½	} 5½	5½	5
6 months to 12 months.....												
90 days to 6 months.....	3	2½	2	2½	2½	} 1	4	} 5½	5½	5½	5½	{ 5½ 5¼
Less than 90 days..... (30-89 days)	3	2½	1	1	1							
									Single maturity:			
									Less than \$100,000....	5½	5	5
									\$100,000 or more:			
									30-59 days.....	} 5½	5½	{ 5½ 6 6¼
									60-89 days.....			
									90-179 days.....			
									180 days and over...			

<sup>1</sup> Closing date for the Postal Savings System was Mar. 28, 1966.<sup>2</sup> For exceptions with respect to foreign time deposits, see ANNUAL REPORTS for 1962, p. 129; 1965, p. 233; and 1968, p. 69.<sup>3</sup> 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, maximum 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
<b>Regulation T:</b>				
For extension of credit by brokers and dealers on listed securities . . . . .	40	50	75	100
For short sales . . . . .	50	50	75	100
<b>Regulation U:</b>				
For loans by banks on stocks . . .	40	50	75	100
	Feb. 1, 1947– Mar. 29, 1949	Mar. 30, 1949– Jan. 16, 1951	Jan. 17, 1951– Feb. 19, 1953	Feb. 20, 1953– Jan. 3, 1955
<b>Regulation T:</b>				
For extension of credit by brokers and dealers on listed securities . . . . .	75	50	75	50
For short sales . . . . .	75	50	75	50
<b>Regulation U:</b>				
For loans by banks on stocks . . .	75	50	75	50
	Jan. 4, 1955– Apr. 22, 1955	Apr. 23, 1955– Jan. 15, 1958	Jan. 16, 1958– Aug. 4, 1958	Aug. 5, 1958– Oct. 15, 1958
<b>Regulation T:</b>				
For extension of credit by brokers and dealers on listed securities . . . . .	60	70	50	70
For short sales . . . . .	60	70	50	70
<b>Regulation U:</b>				
For loans by banks on stocks . . .	60	70	50	70
	Oct. 16, 1958– July 27, 1960	July 28, 1960– July 9, 1962	July 10, 1962– Nov. 5, 1963	Nov. 6, 1963– Mar. 10, 1968
<b>Regulation T:</b>				
For extension of credit by brokers and dealers on listed securities . . . . .	90	70	50	70
For short sales . . . . .	90	70	50	70
<b>Regulation U:</b>				
For loans by banks on stocks . . .	90	70	50	70
			Mar. 11, 1968– June 7, 1968	Effective June 8, 1968
<b>Regulation T:</b>				
For credit extended by brokers and dealers on—				
Margin stocks . . . . .			70	80
Registered bonds convertible into margin stocks . . . . .			50	60
For short sales . . . . .			70	80
<b>Regulation U:</b>				
For credit extended by banks on—				
Margin stocks . . . . .			70	80
Bonds convertible into margin stocks . . . . .			50	60
<b>Regulation G:</b>				
For credit extended by others than brokers and dealers and banks on—				
Margin stocks . . . . .			70	80
Bonds convertible into margin stocks . . . . .			50	60

NOTE.—Regulations G, T, and U, prescribed in accordance with the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry margin stocks 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. The term margin stocks is defined in the corresponding regulation.

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 <sup>1</sup>	Net demand deposits <sup>2</sup>			Time deposits (all classes of banks)
	Central reserve city banks <sup>3</sup>	Reserve city banks	Country banks	
1917—June 21.....	13	10	7	3
1936—Aug. 16.....	19½	15	10½	4½
1937—Mar. 1.....	22¾	17½	12¼	5¼
May 1.....	26	20	14	6
1938—Apr. 16.....	22¾	17½	12	5
1941—Nov. 1.....	26	20	14	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
1949—May 5, 1.....	24	21	15	7
June 30, July 1.....		20	14	6
Aug. 1.....			13	
Aug. 11, 16.....	23½	19½	12	5
Aug. 18.....	23	19		
Aug. 25.....	22½	18½		
Sept. 1.....	22	18		
1951—Jan. 11, 16.....	23	19	13	6
Jan. 25, Feb. 1.....	24	20	14	
1953—July 9, 1.....	22	19	13	
1954—June 24, 16.....	21			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		12	
Nov. 24.....				
Dec. 1.....				
1962—July 28.....	16½			
Oct. 25, Nov. 1.....	(3)			4

Beginning July 14, 1966

Effective date <sup>1</sup>	Net demand deposits <sup>2, 4</sup>				Time deposits <sup>4, 5</sup> (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.....	6 16½		6 12		6 4	6 4	5
Sept. 8, 15.....							6
1967—Mar. 2.....					3½	3½	
Mar. 16.....					3	3	
1968—Jan. 11, 18.....	16½	17	12	12½			
1969—Apr. 17.....	17	17½	12½	13			
In effect Dec. 31, 1969.....	17	17½	12½	13	3	3	3
Legal requirements—Dec. 31, 1969:							
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, 1969

(Per cent per annum)

Federal Reserve Bank	Discounts for and advances to member banks		Advances to all others under last par. Sec. 13 <sup>3</sup>
	Advances and discounts under Secs. 13 and 13a <sup>1</sup>	Advances under Sec. 10(b) <sup>2</sup>	
Boston.....	6	6½	7
New York.....	6	6½	7½
Philadelphia.....	6	6½	7
Cleveland.....	6	6½	7½
Richmond.....	6	6½	7
Atlanta.....	6	6½	7
Chicago.....	6	6½	7
St. Louis.....	6	6½	7
Minneapolis.....	6	6½	7½
Kansas City.....	6	6½	7
Dallas.....	6	6½	7
San Francisco.....	6	6½	7

<sup>1</sup> 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. 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.

<sup>2</sup> Advances secured to the satisfaction of the F.R. Bank. Maximum maturity: 4 months.

<sup>3</sup> 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.

<sup>1</sup> 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.

<sup>2</sup> 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).

<sup>3</sup> Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

<sup>4</sup> Beginning Oct. 16, 1969, a member bank is required under Regulation M to maintain, against its foreign branch deposits, a reserve equal to 10 per cent of the amount by which (1) net balances due to, and certain assets purchased by, such branches from the bank's domestic offices and (2) credit extended by such branches to U.S. residents exceed certain specified base amounts. Regulation D imposes a similar 10 per cent reserve requirement on borrowings by domestic offices of a member bank from foreign banks, except that only a 3 per cent reserve is required against such borrowings that do not exceed a specified base amount. For details concerning these requirements, see amendments to Regulations D and M as described in "Record of Policy Actions of the Board of Governors" in this REPORT.

<sup>5</sup> Effective Jan. 5, 1967, time deposits such as Christmas and vacation club accounts became subject to same requirements as savings deposits.

<sup>6</sup> 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 1918-69 AND END OF MONTH 1969

(In millions of dollars)

Period	Factors supplying reserve funds								Treasury currency outstanding <sup>5</sup>
	F.R. Bank credit outstanding							Gold stock <sup>4</sup>	
	U.S. Govt. securities <sup>1</sup>			Discounts and advances	Float <sup>2</sup>	All other <sup>3</sup>	Total		
	Total	Bought outright	Repurchase agreements						
1918.....	239	239	.....	1,766	199	294	2,498	2,873	1,795
1919.....	300	300	.....	2,215	201	575	3,292	2,707	1,707
1920.....	287	287	.....	2,687	119	262	3,355	2,639	1,709
1921.....	234	234	.....	1,144	40	146	1,563	3,373	1,842
1922.....	436	436	.....	618	78	273	1,405	3,642	1,958
1923.....	134	80	54	723	27	355	1,238	3,957	2,009
1924.....	540	536	4	320	52	390	1,302	4,212	2,025
1925.....	375	367	8	643	63	378	1,459	4,112	1,977
1926.....	315	312	3	637	45	384	1,381	4,205	1,991
1927.....	617	560	57	582	63	393	1,655	4,092	2,006
1928.....	228	197	31	1,056	24	500	1,809	3,854	2,012
1929.....	511	488	23	632	34	405	1,583	3,997	2,022
1930.....	729	686	43	251	21	372	1,373	4,306	2,027
1931.....	817	775	42	638	20	378	1,853	4,173	2,035
1932.....	1,855	1,851	4	235	14	41	2,145	4,226	2,204
1933.....	2,437	2,435	2	98	15	137	2,688	4,036	2,303
1934.....	2,430	2,430	.....	7	5	21	2,463	8,238	2,511
1935.....	2,431	2,430	1	5	12	38	2,486	10,125	2,476
1936.....	2,430	2,430	.....	3	39	28	2,500	11,258	2,532
1937.....	2,564	2,564	.....	10	19	19	2,612	12,760	2,637
1938.....	2,564	2,564	.....	4	17	16	2,601	14,512	2,798
1939.....	2,484	2,484	.....	7	91	11	2,593	17,644	2,963
1940.....	2,184	2,184	.....	3	80	8	2,274	21,995	3,087
1941.....	2,254	2,254	.....	3	94	10	2,361	22,737	3,247
1942.....	6,189	6,189	.....	6	471	14	6,679	22,726	3,648
1943.....	11,543	11,543	.....	5	681	10	12,239	21,938	4,094
1944.....	18,846	18,846	.....	80	815	4	19,745	20,619	4,131
1945.....	24,262	24,262	.....	249	578	2	25,091	20,065	4,339
1946.....	23,350	23,350	.....	163	580	1	24,093	20,529	4,562
1947.....	22,559	22,559	.....	85	535	1	23,181	22,754	4,562
1948.....	23,333	23,333	.....	223	541	1	24,097	24,244	4,589
1949.....	18,885	18,885	.....	78	534	2	19,499	24,427	4,598
1950.....	20,778	20,725	53	67	1,368	3	22,216	22,706	4,636
1951.....	23,801	23,605	196	19	1,184	5	25,009	22,695	4,709
1952.....	24,697	24,034	663	156	967	4	25,825	23,187	4,812
1953.....	25,916	25,318	598	28	935	2	26,880	22,030	4,894
1954.....	24,932	24,888	44	143	808	1	25,885	21,713	4,985
1955.....	24,785	24,391	394	108	1,585	29	26,507	21,690	5,008
1956.....	24,915	24,610	305	50	1,665	7	26,699	21,949	5,066
1957.....	24,238	23,719	519	55	1,424	66	25,784	22,781	5,146
1958.....	26,347	26,252	95	64	1,296	49	27,755	20,534	5,234
1959.....	26,648	26,607	41	458	1,590	75	28,771	19,456	5,311
1960.....	27,384	26,984	400	33	1,847	74	29,338	17,767	5,398
1961.....	28,881	28,722	159	130	2,300	51	31,362	16,889	5,585
1962.....	30,820	30,478	342	38	2,903	110	33,871	15,978	5,567
1963.....	33,593	33,582	11	63	2,600	162	36,418	15,513	5,578
1964.....	37,044	36,506	538	186	2,606	94	39,930	15,388	5,405
1965.....	40,768	40,478	290	137	2,248	187	43,340	13,733	5,575
1966.....	44,316	43,655	661	173	2,495	193	47,177	13,159	6,317
1967.....	49,150	48,980	170	141	2,576	164	52,031	11,982	6,784
1968.....	52,937	52,937	.....	186	3,443	58	56,624	10,367	6,795

For notes see last two pages of table.

Factors absorbing reserve funds									
Cur- rency in circu- lation	Treas- ury cash hold- ings <sup>6</sup>	Deposits, other than member bank reserves, with F.R. Banks			Other F.R. ac- counts <sup>7</sup>	Member bank reserves			
		Treas- ury	For- eign	Oth- er <sup>2</sup>		With F.R. Banks	Cur- rency and coin <sup>8</sup>	Re- quired <sup>9</sup>	Ex- cess <sup>9</sup>
4,951	288	51	96	25	118	1,636	.....	1,585	51
5,091	385	31	73	28	208	1,890	.....	1,822	68
5,325	218	57	5	18	298	1,781	.....	.....	.....
4,403	214	96	12	15	285	1,753	.....	1,654	99
4,530	225	11	3	26	276	1,934	.....	.....	.....
4,757	213	38	4	19	275	1,898	.....	1,884	14
4,760	211	51	19	20	258	2,220	.....	2,161	59
4,817	203	16	8	21	272	2,212	.....	2,256	-44
4,808	201	17	46	19	293	2,194	.....	2,250	-56
4,716	208	18	5	21	301	2,487	.....	2,424	63
4,686	202	23	6	21	348	2,389	.....	2,430	-41
4,578	216	29	6	24	393	2,355	.....	2,428	-73
4,603	211	19	6	22	375	2,471	.....	2,375	96
5,360	222	54	79	31	354	1,961	.....	1,994	-33
5,388	272	8	19	24	355	2,509	.....	1,933	576
5,519	284	3	4	128	360	2,729	.....	1,870	859
5,536	3,029	121	20	169	241	4,096	.....	2,282	1,814
5,882	2,566	544	29	226	253	5,587	.....	2,743	2,844
6,543	2,376	244	99	160	261	6,606	.....	4,622	1,984
6,550	3,619	142	172	235	263	7,027	.....	5,815	1,212
6,856	2,706	923	199	242	260	8,724	.....	5,519	3,205
7,598	2,409	634	397	256	251	11,653	.....	6,444	5,209
8,732	2,213	368	1,133	599	284	14,026	.....	7,411	6,615
11,160	2,215	867	774	586	291	12,450	.....	9,365	3,085
15,410	2,193	799	793	485	256	13,117	.....	11,129	1,988
20,449	2,303	579	1,360	356	339	12,886	.....	11,650	1,236
25,307	2,375	440	1,204	394	402	14,373	.....	12,748	1,625
28,515	2,287	977	862	446	495	15,915	.....	14,457	1,458
28,952	2,272	393	508	314	607	16,139	.....	15,577	562
28,868	1,336	870	392	569	563	17,899	.....	16,400	1,499
28,224	1,325	1,123	642	547	590	20,479	.....	19,277	1,202
27,600	1,312	821	767	750	706	16,568	.....	15,550	1,018
27,741	1,293	668	895	565	714	17,681	.....	16,509	1,172
29,206	1,270	247	526	363	746	20,056	.....	19,667	389
30,433	1,270	389	550	455	777	19,950	.....	20,520	-570
30,781	761	346	423	493	839	20,160	.....	19,397	763
30,509	796	563	490	441	907	18,876	.....	18,618	258
31,158	767	394	402	554	925	19,005	.....	18,903	102
31,790	775	441	322	426	901	19,059	.....	19,089	-30
31,834	761	481	356	246	998	19,034	.....	19,091	-57
32,193	683	358	272	391	1,122	18,504	.....	18,574	-70
32,591	391	504	345	694	841	18,174	.....	18,619	-135
32,869	377	485	217	533	941	17,081	2,544	18,988	637
33,918	422	465	279	320	1,044	17,387	2,823	20,114	96
35,338	380	597	247	393	1,007	17,454	3,262	20,071	645
37,692	361	880	171	291	1,065	17,049	4,099	20,677	471
39,619	612	820	229	321	1,036	18,086	4,151	21,663	574
42,056	760	668	150	355	211	18,447	4,163	22,848	-238
44,663	1,176	416	174	588	-147	19,779	4,310	24,321	-232
47,226	1,344	1,123	135	653	-773	21,092	4,631	25,905	-182
50,961	695	703	216	747	-1,353	21,818	4,921	27,439	-700

For notes see following two pages.

16. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918-69 AND END OF MONTH 1969—CONTINUED

(In millions of dollars)

Month	Factors supplying reserve funds									
	F.R. Bank credit outstanding							Gold stock <sup>4</sup>	Treasury currency outstanding <sup>5</sup>	
	U.S. Govt. securities <sup>1</sup>			Discounts and advances	Float <sup>2</sup>	All other <sup>3</sup>	Other F.R. assets <sup>7</sup>			Total
	Total	Bought outright	Held under repurchase agreement							
1969—										
Jan....	52,127	52,127	.....	864	2,885	50	2,866	58,792	10,367	6,799
Feb....	52,295	52,076	219	744	2,780	91	2,640	58,550	10,367	6,719
Mar....	52,430	52,016	414	1,143	1,476	94	2,906	58,049	10,367	6,713
Apr....	53,192	52,585	607	2,531	2,276	142	2,965	61,106	10,367	6,719
May....	53,839	53,509	330	1,832	2,539	76	2,516	60,802	10,367	6,725
June....	54,095	54,095	.....	1,049	1,472	41	2,608	59,265	10,367	6,736
July....	54,138	54,138	.....	1,750	2,561	40	2,600	60,089	10,367	6,748
Aug....	54,950	54,681	269	1,514	2,096	62	2,735	61,357	10,367	6,765
Sept....	54,134	53,845	289	1,926	1,898	37	3,288	60,283	10,367	6,783
Oct....	55,532	55,286	246	1,691	2,343	41	2,927	62,534	10,367	6,802
Nov....	57,318	57,318	.....	1,531	2,705	49	1,996	63,599	10,367	6,823
Dec....	57,154	1057,154	.....	183	3,440	64	2,743	63,584	10,367	6,848

<sup>1</sup> U.S. Govt. securities include Federal agency obligations.

<sup>2</sup> Beginning with 1960 reflects a minor change in concept; see Feb. 1961 Federal Reserve Bulletin, p. 164.

<sup>3</sup> Principally acceptances and industrial loans; authority for industrial loans expired Aug. 21, 1959.

<sup>4</sup> Before Jan. 30, 1934, included gold held by F.R. Banks and in circulation.

<sup>5</sup> 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.

<sup>6</sup> 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.

## Factors absorbing reserve funds

Cur- rency in cir- cu- la- tion	Treas- ury cash hold- ings <sup>6</sup>	Deposits, other than member bank reserves, with F.R. Banks			Other F.R. ac- counts <sup>7</sup>	Other F.R. lia- bil- ities and capital <sup>7</sup>	Member bank reserves			
		Treas- ury	For- eign	Other <sup>7</sup>			With F.R. Banks	Cur- rency and coin <sup>8</sup>	Re- quired <sup>9</sup>	Ex- cess <sup>9</sup>
48,983	754	517	126	528	.....	1,895	23,158	4,821	27,204	775
48,996	725	505	121	482	.....	1,949	22,854	4,627	26,783	698
49,475	684	783	164	498	.....	1,956	21,568	4,487	26,439	-384
49,642	661	950	130	458	.....	1,970	24,377	4,619	27,584	1,412
50,399	649	562	107	438	.....	2,036	23,705	4,543	27,278	970
50,936	633	1,258	155	551	.....	2,029	20,808	4,662	27,006	-1,536
51,120	631	935	158	466	.....	2,088	21,809	4,729	26,795	-257
51,461	643	894	143	445	.....	2,117	22,787	4,655	26,549	893
51,336	640	1,003	143	515	.....	2,090	21,703	4,813	27,093	-577
51,710	649	954	131	452	.....	2,181	23,628	4,767	26,910	1,485
52,991	633	980	130	453	.....	2,218	23,385	4,835	27,535	685
53,885	657	1,312	134	807	.....	1,919	22,085	5,187	28,173	-901

<sup>7</sup> 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. Beginning Apr. 16, 1969, "Other F.R. assets," and "Other F.R. liabilities and capital" are shown separately; formerly, they were netted together and reported as "Other F.R. accounts."

<sup>8</sup> Part allowed as reserves Dec. 1, 1959–Nov. 23, 1960; all allowed thereafter. Beginning with Jan. 1963, figures are estimated. Beginning Sept. 12, 1968, amount is based on close-of-business figures for reserve period 2 weeks previous to report date.

<sup>9</sup> These figures are estimated through 1958. Before 1929 available only on call dates (in 1920 and 1922, the call dates were Dec. 29).

<sup>10</sup> Includes securities loaned—fully secured by U.S. Govt. securities pledged with F.R. Banks.

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, 1969, AND DECEMBER 31, 1968

(Asset and liability items shown 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, 1969 <sup>1</sup>											
Loans and investments, total	491,680	419,760	337,361	n.a.	n.a.	82,399	n.a.	n.a.	71,920	n.a.	n.a.
Loans	352,190	294,590	242,567	:	:	52,023	:	:	57,600	:	:
Investments	139,490	125,170	94,794	:	:	30,376	:	:	14,320	:	:
U.S. Treasury securities	57,810	54,570	40,038	:	:	14,532	:	:	3,240	:	:
Other securities	81,680	70,600	54,756	:	:	15,844	:	:	11,080	:	:
Cash assets	91,830	90,850	80,304	:	:	10,546	:	:	980	:	:
Deposits, total	502,550	435,200	351,915	:	:	83,285	:	:	67,350	:	:
Interbank	27,890	27,890	26,410	:	:	1,480	:	:	100	:	:
Other demand	213,780	213,680	174,821	:	:	38,859	:	:	67,250	:	:
Other time	260,880	193,630	150,684	:	:	42,946	:	:	5,550	n.a.	n.a.
Total capital accounts	45,400	39,850	32,110	n.a.	n.a.	7,740	n.a.	n.a.	496	330	166
Number of banks	14,155	13,659	5,869	4,668	1,201	7,790	7,595	195			
December 31, 1968											
Loans and investments, total	471,383	402,477	326,023	236,130	89,894	76,454	73,553	2,901	68,905	60,088	8,817
Loans	321,278	266,474	221,222	159,257	61,965	45,253	43,378	1,875	54,803	48,286	6,518
Investments	150,105	136,003	104,801	76,872	27,929	31,202	30,175	1,026	14,102	11,803	2,299
U.S. Treasury securities	68,285	64,466	47,881	35,300	12,581	16,585	16,155	429	3,819	2,855	964
Other securities	81,820	71,537	56,920	41,572	15,348	14,617	14,020	597	10,283	8,948	1,335
Cash assets	84,748	83,752	73,756	50,953	22,803	9,997	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	24,697	24,694	23,540	15,303	8,237	1,154	960	194	2	2	
Other demand	206,502	205,991	169,124	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	64,408	56,367	8,041
Total capital accounts	42,275	37,006	30,060	21,524	8,536	6,945	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

n.a. Not available.

<sup>1</sup> Estimated.

NOTE.—All banks in the United States.



18. CHANGES IN NUMBER OF BANKING OFFICES IN THE UNITED STATES DURING 1969<sup>1</sup>

Type of office and change	All banks	Commercial banks (incl. stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember		In-sured	Non-in-sured
			Total	Na-tional <sup>1</sup>	State <sup>2</sup>	In-sured	Non-in-sured <sup>2</sup>		
<b>Number of banks, Dec. 31, 1968</b> .....	<b>14,179</b>	<b>13,679</b>	<b>5,978</b>	<b>4,716</b>	<b>1,262</b>	<b>7,504</b>	<b>197</b>	<b>333</b>	<b>167</b>
Changes during 1969									
New banks <sup>3</sup> .....	136	134	23	16	7	92	19	2	
Suspensions.....	-4	-4	-3	-2	-1	-1			
Consolidations and absorptions:									
Banks converted into branches.....	-132	-128	-59	-42	-17	-68	-1	-3	-1
Other.....	-20	-18	-10	-5	-5	-6	-2	-2	
Voluntary liquidations <sup>4</sup>	-1	-1					-1		
Interclass changes:									
Nonmember to—									
National.....			9	9		-9			
State member.....			3		3	-1	-2		
State member to—									
National.....				8	-8				
Nonmember.....			-42		-42	41	1		
National to—									
State member.....				-3	3				
Nonmember.....			-28	-28		28			
Noninsured to insured.....						15	-15		
Net change.....	-21	-17	-107	-47	-60	91	-1	-3	-1
<b>Number of banks Dec. 31, 1969</b> .....	<b>14,158</b>	<b>13,662</b>	<b>5,871</b>	<b>4,669</b>	<b>1,202</b>	<b>7,595</b>	<b>196</b>	<b>330</b>	<b>166</b>
<b>Number of branches and additional offices, Dec. 31, 1968</b> <sup>5</sup> .....	<b>19,675</b>	<b>18,777</b>	<b>14,352</b>	<b>10,797</b>	<b>3,555</b>	<b>4,379</b>	<b>46</b>	<b>729</b>	<b>169</b>
Changes during 1969									
De novo.....	1,244	1,156	753	579	174	402	1	79	9
Banks converted.....	132	128	81	69	12	47		4	
Discontinued <sup>5</sup> .....	-91	-90	-73	-46	-27	-17		-1	
Interclass changes:									
Nonmember to—									
National.....			31	31		-31			
State member.....			8		8	-8			
State member to—									
National.....				200	-200				
Nonmember.....			-60		-60	60			
National to—									
State member.....				-3	3				
Nonmember.....			-88	-88		88			
Mutual savings to nonmember.....		1				1		-1	
Facilities reclassified as branches.....	13	13	11	11		2			
Net change.....	1,298	1,208	663	753	-90	544	1	81	9
<b>Number of branches and additional offices, Dec. 31, 1969</b> <sup>5</sup> .....	<b>20,973</b>	<b>19,985</b>	<b>15,015</b>	<b>11,550</b>	<b>3,465</b>	<b>4,923</b>	<b>47</b>	<b>810</b>	<b>178</b>

For notes see end of table.

Type of office and change	All banks	Commercial banks (incl. stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember		In-sured	Non-in-sured
			Total	National <sup>1</sup>	State <sup>2</sup>	In-sured	Non-in-sured <sup>2</sup>		
Number of banking facilities, Dec. 31, 1968 <sup>6</sup>	236	236	201	188	13	35	.....	.....	.....
Changes during 1969									
Established.....	4	4	3	3	.....	1	.....	.....	.....
Discontinued.....	-4	-4	-2	-2	.....	-2	.....	.....	.....
Interclass changes:									
State member to national.....				1	-1	.....	.....	.....	.....
National to non-member.....			-2	-2	.....	2	.....	.....	.....
Facilities reclassified as branches.....	-13	-13	-11	-11	.....	-2	.....	.....	.....
Net change.....	-13	-13	-12	-11	-1	-1	.....	.....	.....
Number of banking facilities, Dec. 31, 1969	223	223	189	177	12	34	.....	.....	.....

<sup>1</sup> Includes a national bank (7 branches) in the Virgin Islands; other banks or branches located in the possessions are excluded.

<sup>2</sup> State member bank figures include, while noninsured bank figures exclude, a noninsured trust company without deposits.

<sup>3</sup> Exclusive of new banks organized to succeed operating banks.

<sup>4</sup> Exclusive of liquidations incident to succession, conversion, and absorption of banks.

<sup>5</sup> Excludes banking facilities.

<sup>6</sup> Provided at military and other Government establishments through arrangements made by the Treasury.

19. NUMBER OF PAR AND NONPAR BANKING OFFICES,  
BY FEDERAL RESERVE DISTRICT, DECEMBER 31, 1969

F.R. district	Total		Par						Nonpar (nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
<b>DISTRICT</b>										
Boston.....	379	1,502	379	1,502	236	1,118	143	384	.....	.....
New York.....	488	3,253	488	3,253	364	2,865	124	388	.....	.....
Philadelphia..	483	1,416	483	1,416	345	1,017	138	399	.....	.....
Cleveland....	806	1,853	806	1,853	475	1,536	331	317	.....	.....
Richmond.....	749	2,754	699	2,729	366	1,697	333	1,032	50	25
Atlanta.....	1,612	1,301	1,278	1,180	538	863	740	317	334	121
Chicago.....	2,547	2,198	2,547	2,198	952	1,448	1,595	750	.....	.....
St. Louis.....	1,506	809	1,354	757	465	442	889	315	152	52
Minneapolis..	1,358	263	1,179	209	490	121	689	88	179	54
Kansas City...	1,941	262	1,941	262	829	166	1,112	96	.....	.....
Dallas.....	1,306	235	1,229	222	640	122	589	100	77	13
San Francisco.	403	4,550	403	4,550	170	3,845	233	705	.....	.....
<b>Total....</b>	<b>13,578</b>	<b>20,396</b>	<b>12,786</b>	<b>20,131</b>	<b>5,870</b>	<b>15,240</b>	<b>6,916</b>	<b>4,891</b>	<b>792</b>	<b>265</b>

20. NUMBER OF PAR AND NONPAR BANKING OFFICES,  
BY STATE AND OTHER AREA, DECEMBER 31, 1969

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
<b>STATE</b>										
Alabama.....	268	247	206	232	109	190	97	42	62	15
Alaska.....	10	58	10	58	5	52	5	6	.....	.....
Arizona.....	12	300	12	300	5	221	7	79	.....	.....
Arkansas.....	248	155	176	144	80	99	96	45	72	11
California....	149	2,898	149	2,898	77	2,599	72	299	.....	.....
Colorado.....	223	12	223	12	137	8	86	4	.....	.....
Connecticut..	59	405	59	405	31	314	28	91	.....	.....
Delaware.....	19	79	19	79	7	37	12	42	.....	.....
District of Columbia...	14	100	14	100	12	93	2	7	.....	.....
Florida.....	471	29	471	29	218	13	253	16	.....	.....
Georgia.....	432	268	260	256	72	199	188	57	172	12
Hawaii.....	7	130	7	130	1	7	6	123	.....	.....
Idaho.....	26	149	26	149	15	133	11	16	.....	.....
Illinois.....	1,086	74	1,086	74	501	56	585	18	.....	.....
Indiana.....	409	602	409	602	191	384	218	218	.....	.....
Iowa.....	668	301	668	301	154	75	514	226	.....	.....
Kansas.....	603	61	603	61	209	36	394	25	.....	.....
Kentucky.....	345	306	345	306	94	183	251	123	.....	.....
Louisiana....	231	360	133	295	59	205	74	90	98	65
Maine.....	41	206	41	206	27	152	14	54	.....	.....

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
<b>STATE— Cont.</b>										
Maryland . . . . .	122	491	122	491	54	304	68	187		
Massachusetts . . . . .	160	711	160	711	102	565	58	146		
Michigan . . . . .	331	1,157	331	1,157	203	952	128	205		
Minnesota . . . . .	723	10	723	10	223	6	500	4		
Mississippi . . . . .	181	323	89	251	44	143	45	108	92	72
Missouri . . . . .	665	85	665	85	170	38	495	47		
Montana . . . . .	135	5	135	5	89	4	46	1		
Nebraska . . . . .	437	39	437	39	138	23	299	16		
Nevada . . . . .	8	81	8	81	5	71	3	10		
New Hamp- shire . . . . .	75	52	75	52	51	47	24	5		
New Jersey . . . . .	226	890	226	890	173	767	53	123		
New Mexico . . . . .	64	120	64	120	39	72	25	48		
New York . . . . .	313	2,298	313	2,298	253	2,175	60	1123		
North Carolina . . . . .	106	1,015	77	993	25	499	52	494	29	22
North Dakota . . . . .	168	68	77	36	46	13	31	23	91	32
Ohio . . . . .	521	1,216	521	1,216	339	1,024	182	192		
Oklahoma . . . . .	425	58	425	58	240	47	185	11		
Oregon . . . . .	51	318	51	318	11	240	40	78		
Pennsylvania . . . . .	491	1,616	491	1,616	342	1,216	149	400		
Rhode Island . . . . .	13	161	13	161	5	89	8	72		
South Carolina . . . . .	105	378	84	375	26	229	58	146	21	3
South Dakota . . . . .	163	94	75	72	58	59	17	13	88	22
Tennessee . . . . .	304	451	257	440	88	296	169	144	47	11
Texas . . . . .	1,165	66	1,145	66	585	27	560	39	20	
Utah . . . . .	51	127	51	127	17	93	34	34		
Vermont . . . . .	43	78	43	78	26	45	17	33		
Virginia . . . . .	233	766	233	766	145	570	88	196		
Washington . . . . .	92	521	92	521	35	453	57	68		
West Virginia . . . . .	195	5	195	5	115	2	80	3		
Wisconsin . . . . .	601	252	601	252	165	77	436	175		
Wyoming . . . . .	70	2	70	2	53	1	17	1		
<b>OTHER AREA</b>										
Puerto Rico <sup>2</sup> . . . . .	13	182	13	182		17	13	165		
Virgin Islands <sup>2</sup> . . . . .	7	20	7	20	1	20	6			

<sup>1</sup> Includes 9 New York City branches of 3 insured nonmember Puerto Rican banks.

<sup>2</sup> Puerto Rico and the Virgin Islands assigned to the New York District for check clearing and collection purposes. All member branches in Puerto Rico and all except 7 in the Virgin Islands are branches of New York City banks. Certain branches of Canadian banks (2 in Puerto Rico and 1 in the 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 223 banking facilities. Number of banks and branches differs from that in Table 18 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 1969

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21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—*CONTINUED*

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 1—The Sedan State Bank, Sedan, Kans., <i>to merge with</i> The Peru State Bank, Peru, Kans.	5.2	1	} 1
	.6	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-26-68)

Both banks are situated in Chautauqua County (population 5,956), which has experienced a population decline of 50 per cent in the past 50 years. During this period of population decline, substantially all businesses except farming and cattle raising have moved from the county.

As of June 30, 1966, 4 banks operated in Chautauqua County: the 2 merging banks, The First National Bank of Sedan (total deposits \$4.5 million) and The Cedar Vale National Bank, located about 15 miles west of Sedan. The 2 merging banks are located about 7 miles apart; and, if the proposed merger is approved, Sedan Bank plans to discontinue the office of Peru Bank. Since the entire area served by Peru Bank is also served by Sedan Bank, this merger will eliminate some existing competition. It will also eliminate one of the 4 banking alternatives in Chautauqua County.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-9-69)

Sedan Bank operates its sole office in Sedan, which has a population of about 1,700. Peru Bank's sole office is situated approximately 7 miles south-east of Sedan. The population of Peru has declined from about 500 in 1940 to about 340 at the present time. The resulting bank plans to close the banking office in Peru.

Consummation of the merger would eliminate Peru's only banking office, causing some inconvenience to its residents and resulting in slightly less banking competition. However, the future prospects of Peru Bank are not favorable. Its limited resources and location in a small community with a declining population have thwarted the bank's diligent efforts to recruit or retain management.

For notes see p. 381.

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 2—American Bank and Trust Company, Lansing, Mich., <i>to consolidate with</i> Woodruff State Bank, DeWitt, Mich.	144.5	9	} 10
	3.1	1	

## SUMMARY REPORT BY THE ATTORNEY GENERAL (11-27-68)

American Bank and Trust Company, the second largest bank in Lansing, operates all of its offices in Lansing, Ingham County. DeWitt, Clinton County, is located about 5 miles north of Lansing, Ingham County, in central Michigan.

Woodruff Bank primarily serves an area within a 4–6-mile radius around DeWitt. The main offices of the merging banks—their closest offices—are 7.5 miles apart, with 1 bank (total deposits \$29 million) in the intervening area.

Although American Bank has no branches in Clinton County, and, under Michigan law cannot establish *de novo* branches there, American Bank appears to constitute a banking alternative for residents of DeWitt who work in Lansing. According to the application, American Bank derives about \$1.5 million in demand deposits and \$1.7 million in time deposits from the DeWitt area. It also derives about \$190,000 in commercial and industrial loans, \$840,000 in instalment loans, and \$3.5 million in mortgage loans from this area. Thus, there appears to be some direct competition between the banks which would be eliminated by the merger.

## BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-29-69)

American Bank operates its main office and 7 branches in the city of Lansing, which has a population of about 132,000, and 1 branch in Holt, which is 4 miles south of Lansing. Woodruff Bank is located in DeWitt, 8 miles north of the center of Lansing, and operates no branch offices.

Although the main offices of American Bank and Woodruff Bank are only 8 miles apart, 3 other banks each operate at least 1 office in the intervening area. Woodruff Bank originates only a negligible amount of its loans and deposits in Lansing, while American Bank originates a small proportion of its deposits in the DeWitt area. However, American Bank does obtain a sizable volume of instalment and real estate loans in DeWitt. The volume of real estate loans arises primarily from Lansing building contractors who de-

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (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.

velop real estate in the DeWitt area, and many of the instalment loans are from merchants who sell their conditional sales contracts to American Bank.

The possibility of more effective competition developing in the future is not significant. Under Michigan law, neither American Bank nor Woodruff Bank may establish *de novo* offices in the community served by the other bank.

There are 10 banks operating offices in the Lansing area. The largest bank in the area is Michigan National Bank, which operates offices of substantial size in other cities of Michigan and has total deposits approaching \$1 billion. American Bank ranks second in size in the area, with about 23 per cent of area deposits. The third largest bank, which holds about 18 per cent of area deposits, is part of a chain of banks having considerable resources. Consummation of the consolidation would increase American Bank's share of area deposits by about 0.6 per cent.

Woodruff Bank's closest competitor is the Clinton National Bank and Trust Company, St. Johns (deposits \$29 million), which operates 3 offices within a 6-mile radius of DeWitt. The proposed consolidation should not adversely affect that institution.

The net effect of the proposal on competition would be slightly adverse. Some existing competition between the 2 banks would be eliminated, and there would be a slight increase in the concentration of banking resources in the Lansing area.

While the over-all effect of the proposed consolidation on competition would be slightly adverse, the conversion of the sole office of Woodruff Bank into a branch of American Bank would tend to serve better the convenience and needs of the DeWitt area in a time of impending population growth and economic development.

No. 3—Summit and Elizabeth Trust Company, Summit, N.J., to merge with	135.0	6	} 8
Clark State Bank and Trust Company, Clark, N.J.	18.6	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-16-69)

Clark State Bank and Trust Company (hereinafter Clark Bank) operates its 2 offices in Clark, a rapidly growing community in Union County,

For notes see p. 381.



Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

## SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

located about 12 miles west of New York City and 6 miles southwest of Elizabeth. Summit and Elizabeth Trust Company (hereinafter Summit Bank) has 3 offices in Elizabeth and 2 offices in the Summit area. The closest offices of the merging banks are 5.9 miles apart, and all offices are within a distance of about 8 miles. A few banks, including 2 with total deposits of over \$175 million, operate numerous banking offices in the intervening area. However, because of the proximity of the merging banks and the residential character of Clark, there is probably at least some direct competition which would be eliminated by this merger.

On June 30, 1966, 16 banks operated 66 offices in Union County. As of that date, Summit Bank, the third largest bank in the county, held 14 per cent of county commercial bank deposits and Clark Bank held 2 per cent of such deposits; the 4 largest banks in the county held 65 per cent of such deposits. Thus, this merger would appear to increase concentration only slightly. However, because deposits in Clark Bank have increased 49 per cent in the last 5 years, compared to an 18 per cent increase for deposits in the Summit Bank, the above market shares would appear to understate the potential increase in concentration resulting from the merger.

## BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (2-6-69)

Summit Bank operates its main office and 2 branch offices in the Summit-New Providence area, located in the northwestern corner of Union County (1960 population 504,000). The Bank also operates 3 offices in the Elizabeth area, which adjoins the city of Newark. Elizabeth is located about 10 miles east of Summit in the northeastern portion of Union County.

Clark Bank operates its main office and 1 branch office in Clark Township (population about 18,000) in the south-central section of Union County. The main offices of Summit Bank and Clark Bank are approximately 7 miles apart, and the nearest branches of the 2 banks are about 6 miles apart.

In the area separating Summit, Elizabeth, and Clark Township, there are a number of other banking offices. Only nominal amounts of deposits and loans are derived by each of the 2 banks from the areas served by the other.

Recently, the Governor of New Jersey signed into law a revision of the State's banking laws concerning branch banking and bank mergers. The new law, like the old, does not permit a bank to establish a branch office in any community wherein the home office of another bank is located. Consequently, the potential for increased competition between Summit Bank and Clark Bank is limited. However, the new law does, for the first time, permit a bank to establish a branch office in communities with populations of 7,500 or more in which are located only branch offices of other banks. Since Clark Township has a population in excess of 7,500, consummation of the merger,

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (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.

by eliminating the only home office located there, would open the township to the establishment of branches by other banks in the second of New Jersey's 3 banking districts. In this respect, the consummation of the proposal should eventually result in an increase in banking competition in the Clark Township area.

Although an important competitive effect of the proposal would be in the area served by Clark Bank, it should be noted that Summit Bank and Clark Bank both operate in the greater Newark market. The resulting bank, however, would control only a small share of the market area deposits. Summit Bank ranks 7th of the 34 banks in the market, but holds only 3.8 per cent of the area deposits, while Clark Bank ranks 24th, with 0.5 per cent of the deposits. The resulting bank would hold only 4.4 per cent.

In the judgment of the Board, the effect of the merger on competition would be slightly favorable. The resulting bank would be in a better position to serve the convenience and needs of the Clark Township area.

No. 4—The Oregon Bank, Portland, Oreg., to merge with Citizens Bank of Oregon, Lake Oswego, Oreg.	73.1	13	} 17
	76.4	4	

SUMMARY REPORT BY THE ATTORNEY GENERAL (12-17-68)

The northwest corner of Clackamas County, where all of Citizens Bank's offices are located, is a suburban area lying immediately south of the city of Portland. Most residents commute to downtown Portland, 7 miles away.

The closest office of Oregon Bank is in Portland, about 7 miles from any office of Citizens Bank, and there are intervening bank offices between the 2. It would appear that Citizens Bank competes to some extent with Portland banks, including Oregon Bank. This competition between the merging banks would be eliminated by the proposed merger.

Commercial banking in Portland—and in Oregon as a whole—is dominated by 2 statewide banks, the First National Bank of Oregon and the United States National Bank of Oregon, which together hold over 85 per cent of IPC<sup>3</sup> deposits in the 3 Oregon counties in the Portland Standard Metropolitan Statistical Area (SMSA). Oregon Bank and Citizens have, respectively, about 2.6 per cent and 1.0 per cent of the total deposits in these counties. Under these circumstances it does not appear that this merger will have a significantly adverse effect on competition.

For notes see p. 381.

Name of bank, and type of transaction <sup>2</sup> (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 (2-6-69)

Oregon Bank's main office and 5 of its branches are in the Portland Metropolitan Area. Citizens Bank's main office and 1 branch are in Lake Oswego (estimated population 13,200), a residential community about 7 miles south of downtown Portland, and the bank's other 2 offices are in communities to the southeast and southwest of Lake Oswego and are 13 and 16 miles from Oregon Bank's nearest office. Oregon Bank derives less than 3 per cent of its deposits and about 7 per cent of its loans from the area served by Citizens Bank. It is believed Citizens Bank derives even smaller percentages of its deposits and loans from the area served by Oregon Bank. Existing competition between proponents appears to be minimal.

Citizens Bank enjoys "home-office protection" under State statutes. Due to the size of the other communities where Citizens Bank operates offices and because of the number of offices already in such communities, it seems unlikely Oregon Bank would establish *de novo* branches therein. Oregon statutes preclude Citizens Bank from establishing a branch in Portland until the bank increases its capital stock. The conversion of Citizens Bank's offices into branches of Oregon Bank would provide residents of Lake Oswego and Wilsonville with more convenient access to broader credit accommodations and to a generally wider range of banking services.

No. 5—Island State Bank, Patchogue, N.Y., to merge with First National Bank of Bay Shore, Bay Shore, N.Y.	31.4	4	} 11
	48.9	7	

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-7-69)

Suffolk County, one of the 10 counties constituting the New York Standard Metropolitan Statistical Area, is the easternmost county on Long Island. It is a fast growing county, with forecasts for increased population and business activity. The areas served by the merging banks are located in the western part of the county.

It would appear that direct competition between the merging banks would be eliminated by the merger. The closest offices of the merging banks are 3 miles apart in Islip, with some banking alternatives in the intervening areas. Island State Bank (hereinafter ISB) derives over \$1 million in deposits and \$3

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—*CONTINUED*

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

million in loans from the immediate areas in which First National Bank (hereinafter FNB) is located, while FNB derives over \$14 million in deposits and \$12 million in loans from the immediate areas in which ISB is located.

ISB holds about 7.2 per cent of deposits in the area served by the 2 banks, and FNB holds about 10.5 per cent of these deposits. If this merger were consummated, the resulting bank would hold 17.7 per cent of deposits in that area. Therefore, we conclude that the effect of this merger on competition would be significantly adverse.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (2-20-69)

Patchogue (population 9,900) is on Long Island's south shore about 60 miles east of New York City and 15 miles west of Bay Shore (population 10,700). Proponents' nearest offices are 3 miles apart, with offices of other banks in the intervening area. The proposed merger would eliminate some existing competition between proponents and potential for increased competition between them. However, these slightly adverse competitive effects of the proposal are outweighed by the relevant market area's highly competitive nature (which would not be significantly altered by the proposed merger), by the fact that the resulting bank (a medium-size one) would be able to offer more effective competition to the larger banks that presently operate in the area, and by the likelihood of entry by new banks or branches. In addition, the resulting bank would offer expanded services, especially in the trust field, and would be of sufficient size to make efficient use of electronic data processing equipment.

No. 6—The Fidelity Bank, Philadelphia, Pa., to merge with Trefoil Bank, Philadelphia, Pa.	1,321.9	58	58
	.4	(Newly organized bank; not in operation.)	

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-12-69)

The merger is merely part of a corporate reorganization which will make Fidelity Bank a wholly owned subsidiary of a one-bank holding company and as such will have no effect on competition.

For notes see p. 381.

Name of bank, and type of transaction <sup>2</sup> (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 (3-12-69)

The proposed merger is one step in a plan of corporate reorganization whereby Fidelity Corporation of Pennsylvania, a newly organized Pennsylvania corporation, would become a one-bank holding company. Fidelity Corporation of Pennsylvania presently owns all of the stock of Trefoil; upon the merger of applicant bank with Trefoil, stock of Fidelity Corporation of Pennsylvania will be exchanged for stock of applicant bank.

The proposed merger of applicant bank and Trefoil—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 Trefoil Bank.

No. 7—Union Bank, Los Angeles, Calif., <i>to merge with</i> Oakland Bank of Commerce, Oakland, Calif.	1,444.2	16	} 17
	132.6	1	

## SUMMARY REPORT BY THE ATTORNEY GENERAL (2-11-69)

Oakland Bank is a unit bank operating in Oakland (approximate population 386,000), the largest city in Alameda County (approximate population 1,065,500), and the industrial center for the entire county. Oakland is part of the San Francisco–Oakland Standard Metropolitan Statistical Area (SMSA).

Since the nearest offices of Union Bank and Oakland Bank are about 380 miles apart, it does not appear that any significant direct competition would be eliminated by the proposed merger.

Eleven banks now operate in Oakland. As of June 30, 1966, 3 banks held about 73 per cent of IPC<sup>3</sup> deposits in Oakland Bank and 4 banks held about 82 per cent of such deposits. Oakland Bank, with 9 per cent of IPC<sup>3</sup> deposits in this market, held the fourth largest share.

California State law permits statewide *de novo* branch banking. Although Union Bank has not exhibited a tendency to expand by *de novo* branching, its financial resources and desire to serve customers in the northern part of the State would indicate it to be a likely potential entrant by *de novo* branching into the San Francisco–Oakland SMSA, and perhaps into Oak-

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

land itself. The proposed merger would foreclose the possibility of such entry by Union Bank, and eliminate Oakland Bank as an independent competitor in an area that is already concentrated and dominated by the largest California banks.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-17-69)

Union Bank, with 16 offices in Los Angeles, Orange, and San Diego Counties, is California's seventh largest bank, holding about 3 per cent of total commercial bank deposits.

Oakland Bank, with only 1 office in Alameda County, ranks 20th in size in California, with 0.3 per cent of total deposits. The resulting bank would operate the eighth statewide banking system, holding about 3.2 per cent of total commercial bank deposits and operating 17 of the State's approximately 2,900 banking offices.

While there is a heavy concentration of banking resources in the State, the fifth largest bank is more than double the size of the sixth or seventh ranked banks, and the resulting bank would remain the seventh largest bank in California.

Neither bank is dominant in its service area. Oakland Bank ranks fourth among the 16 banks that operate 102 offices with an estimated \$2 billion of deposits. Union Bank holds a relatively minor share of deposits in the markets in which it presently operates.

Approximately 380 miles separate the nearest offices of the 2 banks, and the amount of loan and deposit business that each bank derives from the area or areas served by the other is minute. Although either bank could enter the service area of the other by either merger or through *de novo* branching, it is unlikely that Oakland Bank would become a competitor in southern California; the record indicates that it is also unlikely that Union Bank would enter Oakland by means of *de novo* branches.

The very slight adverse effect on competition that would result from entry of Union Bank into the Oakland area, as proposed, would be offset by the availability to the Oakland area of the services of the resulting bank.

For notes see p. 381.

21.—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 8— <b>Girard Trust Bank,</b> Philadelphia, Pa., <i>to merge with</i> <b>South Penn Square Bank,</b> Philadelphia, Pa.	1,720.9  .3	62	62

(Newly organized bank;  
not in operation.)

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-10-69)

This merger is merely part of a corporate reorganization which will make Girard Trust Bank a wholly owned subsidiary of a one-bank holding company and as such will have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (5-5-69)

The proposed merger is one step in a plan of corporate reorganization whereby The Girard Company, a newly organized Pennsylvania corporation, would become a one-bank holding company. The Girard Company presently owns all the stock of South Penn Bank; upon the merger of applicant bank with South Penn Bank, stock of The Girard Company will be exchanged for stock of the resulting bank.

The proposed merger of applicant bank and South Penn—the latter being a bank with no operating history, formed solely to facilitate the corporate reorganization plan described above—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 South Penn Bank.

No. 9— <b>Bank of Las Vegas,</b> Las Vegas, Nev., <i>to merge with</i> <b>Valley Bank of Nevada,</b> Reno, Nev.	150.0	11	} 15
	23.8	4	

SUMMARY REPORT BY THE ATTORNEY GENERAL (4-14-69)

Both the Reno and Las Vegas markets are concentrated, with the 2 largest of the 5 banks which operate in each market, as of June 30, 1966,

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

holding about 78 per cent and 67 per cent, respectively, of each market's commercial bank deposits. Valley Bank, Reno's fourth largest bank, accounted for 6 per cent of the Reno area deposits, while Vegas Bank, the second largest bank in Las Vegas, accounted for 26 per cent of its deposits. Since, however, there does not appear to be any direct local banking competition between Valley Bank and Vegas Bank—their closest offices are 450 miles apart—and since neither appears to be a factor in the other's market, it would not appear that their merger would eliminate direct competition or increase concentration in either market.

Nevada law permits statewide branching. The Reno Standard Metropolitan Statistical Area (SMSA) appears, on the basis of its current economic growth, to be capable of supporting additional banking facilities. Vegas Bank has the resources to branch *de novo* and has demonstrated its willingness to do so. Of the 3 largest Nevada banks, only Vegas Bank does not presently operate offices both in the Reno SMSA and the Las Vegas SMSA. Thus, it seems that Vegas Bank would be the most likely potential entrant into the Reno area were it not for a continuous history of affiliation between the merging banks. Valley Bank was organized by the present management and substantial stockholders of Vegas Bank. The principal officers and directors of Vegas Bank beneficially own over 50 per cent of Valley Bank stock. As of December 31, 1968, stockholders common to both banks held 52 per cent of Vegas Bank and 81 per cent of Valley Bank stock. Each bank has 9 directors, 4 of whom are directors of both. So long as this relationship continues, it seems unlikely that Vegas Bank would enter the Reno area and compete with its close affiliate.

The proposed merger would not eliminate direct, existing competition between Valley Bank and Vegas Bank. Nor would it increase concentration in commercial banking in the markets primarily served by each, namely the Reno and Las Vegas SMSA's. Although Vegas Bank is the largest Nevada bank now operating in the Reno SMSA, it would seem unlikely to enter this area in competition with Valley Bank, which it helped organize and with which it has maintained a close affiliation through common stockholders and directors.

Accordingly, we conclude that the competitive effects of this proposed transaction would not be adverse.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (5-23-69)

All of Reno Bank's offices are more than 400 miles from Las Vegas Bank's offices. Since Reno Bank was organized in 1963 by the present

For notes see p. 381.



Name of bank, and type of transaction <sup>2</sup> (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.

management and substantial shareholders of Las Vegas Bank as an alternative to entering the Reno market through *de novo* branching, it seems unlikely there is potential for competition developing between them.

The principal effect of the transaction would be on the banking needs and convenience in Reno and environs. The conversion of the offices of Reno Bank into branches of Las Vegas Bank would provide for the inhabitants of the Reno area convenient access to an alternative source of a generally wider range of banking services without adversely affecting banking competition.

No. 10—First Virginia Bank of the Southwest, Christiansburg, Va., <i>to merge with</i> Bank of New River Valley, Radford, Va.	4.2	3	} 7
	8.7	4	

## SUMMARY REPORT BY THE ATTORNEY GENERAL (6-17-69)

First Virginia Bank of the Southwest and the Bank of New River Valley are both owned by First Virginia Bankshares Corporation, a registered bank holding company.

The merging banks are located about 10 miles apart, with no banks in the intervening area, and have many mutual customers for both loans and deposits. However, the proposed transaction will not eliminate competition because both banks are owned by the same bank holding company.

## BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (7-11-69)

The merger of Southwest Bank and Valley Bank—both subsidiaries of First Virginia Bankshares Corporation, Arlington, Virginia, a registered bank holding company—would have no adverse effect on banking competition. The banking needs of the communities served by the banks are being met satisfactorily and without undue inconvenience, as they would be following the conversion of the offices of Valley Bank into branches of Southwest Bank. The financial and managerial resources and prospects of each bank are satisfactory, as they would be with respect to the resulting bank.

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969 <sup>1</sup>—*CONTINUED*

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 11—Roachdale Bank and Trust Company, Roachdale, Ind., <i>to merge with</i> The State Bank of Russellville, Russellville, Ind.	7.6	2	} 3
	1.7	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (6-17-69)

The State Bank of Russellville is situated 10 miles west of Roachdale. There are no banks in the intervening area. According to the application, in Roachdale Bank's area, State Bank of Russellville has 1.6 per cent of total IPC<sup>3</sup> deposits, while in its own area, State Bank has 2.5 per cent and Roachdale Bank, 11 per cent. Thus, it would appear that there is some competition between the 2 banks which would be eliminated by the merger.

Concurrently, with its proposal to merge The State Bank of Russellville, Roachdale Bank has applied to the Federal Deposit Insurance Corporation for approval to acquire the assets and assume the liabilities of Russellville Bank (\$1.7 million total deposits), the only other bank in the town.

Approval of both applications would eliminate the independent existence of the only 2 banks in Russellville and would eliminate competition between them. It is contemplated that Russellville Bank would be closed and The State Bank of Russellville would be operated as a branch of Roachdale Bank. Acquisition of both Russellville banks is Roachdale Bank's only means of entry in Russellville since Indiana law prohibits branching in a town where another bank maintains its home office.

While Putnam County overstates the area in which this merger will have its effect, the increase in concentration in the county as a whole will be substantial. Each of the 2 acquired banks has 3 per cent of county deposits, and the combined result will be to increase Roachdale Bank's share from 14 to 20 per cent of county deposits.

Since the proposed merger of State Bank of Russellville would eliminate some direct competition between that bank and Roachdale Bank, and since it is a step in a larger program of acquisition which would increase concentration of control over deposits, this merger will have an adverse competitive effect.

For notes see p. 381.

21.—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (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 (7-11-69)

Roachdale Bank operates the only banking office in Roachdale (population 1,000). Russellville (population 400), 10 miles west of Roachdale, contains the sole offices of State Bank and Russellville Bank (deposits \$1.7 million), a private bank without deposit insurance. The merger would eliminate a small amount of competition between Roachdale Bank and State Bank. There are a number of alternative sources of banking services available to area residents. Since State statutes restrict establishment of branches, the merger of State Bank and Roachdale Bank cannot be effectuated unless Roachdale Bank obtains authority to acquire Russellville Bank. Thus, the instant proposal would have an adverse effect on competition. However, that adverse effect would be outweighed by the resolution of the financial problems of State Bank and by the benefit to the convenience and needs of the Russellville community.

No. 12—Hempstead Bank, Hempstead, N.Y., <i>to merge with</i> Matinecock Bank, Locust Valley, N.Y.	147.5	19	} 22
	23.1	3	

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-13-69)

Hempstead Bank has 3 branch offices within 9.4 miles of all Matinecock Bank's offices. Each bank would appear to derive substantial business from within the service area of the other bank. This competition will be eliminated by the proposed merger.

Hempstead Bank holds 5.3 per cent of the total deposits held by all commercial banks in Nassau County and 7.6 per cent of such IPC<sup>3</sup> demand deposits. Matinecock Bank holds 0.8 per cent of the total deposits held by all of Nassau County's commercial banks and 0.7 per cent of such IPC<sup>3</sup> demand deposits. Together, the merging banks would hold 6.1 per cent of such total deposits and 8.3 per cent of such IPC<sup>3</sup> demand deposits.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (7-24-69)

Both banks are headquartered in Nassau County, but the amount of direct competition between them is limited by the fact that most of Hempstead

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—*CONTINUED*

Name of bank, and type of transaction <sup>2</sup> (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.

Bank's offices are clustered more to the central and southern portion of the county, while Matinecock Bank serves a small area of the North Shore. The main offices are 15 miles apart; the closest 3 offices of Hempstead Bank to Matinecock Bank's service area are in Oyster Bay, East Norwich, and Syosset, which range from 3.3 miles to 7.4 miles from the nearest office of Matinecock Bank. It is concluded there is some direct competition between the subject banks. While there is potential for greater competition, this is moderated by the fact that Matinecock Bank presently enjoys home-office protection under New York statutes, so that entry by Hempstead Bank, or any other bank, in effect is precluded.

The replacement of Matinecock Bank by offices of Hempstead Bank would make a broader range of banking services more conveniently available in the communities presently served by Matinecock Bank, and while there are a number of sources of such services already available, this factor is consistent with approval. Further, the removal of home-office protection from Locust Valley so that other banks may establish *de novo* branches there should benefit the banking convenience and needs of the community in the future.

In the judgment of the Board, the benefits of the proposed merger to the banking convenience and needs of the area served by Matinecock Bank would offset the no more than slightly adverse effect on banking competition.

No. 13— <b>Main State Bank of Chicago,</b> Chicago, Ill., <i>to acquire the assets and assume the deposit liabilities of</i> <b>Main State Bank,</b> Chicago, Ill.	(Newly organized bank; not yet in operation.)	
	67.8	1                      1

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-2-69)

The proposed merger is part of a transaction which will result in Main State Bank of Chicago becoming a wholly owned subsidiary of a one-bank holding company. Thus, the merger is merely part of a corporate reorganization and as such will have no effect on competition.

For notes see p. 381.

Name of bank, and type of transaction <sup>2</sup> (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 (7-30-69)

Upon consummation of the proposal Main State Bank's sole office would become the sole office of Main State Bank of Chicago, which is a newly organized bank not yet in operation. The latter is the only subsidiary of a holding company organized to facilitate the sale of Main State to persons of demonstrated banking ability and experience familiar with the operations of Main State Bank which, following the transaction, would be dissolved.

The proposed transaction would have no adverse effect on banking competition. There are about 90 other commercial banks with offices in the area served by Main State Bank, and consummation of the proposal would not change the number of banking institutions serving the relevant area. Considerations relative to financial and managerial resources and future prospects are satisfactory. While Main State Bank of Chicago would have a lower loan limit than Main State Bank, it is not expected that this would affect the former's ability to serve adequately the needs and convenience of the relevant community.

No. 14—Trust Company of Georgia, Atlanta, Ga., <i>to merge with</i> Atlanta Bank & Trust Company, Atlanta, Ga.	565.2	11	} 14
	19.0	3	

## SUMMARY REPORT BY THE ATTORNEY GENERAL (8-8-69)

The head offices of the merging banks are located about 4 miles apart. Trust Company has 2 branch offices  $4\frac{1}{4}$  and  $3\frac{1}{4}$  miles, respectively, from Atlanta Bank's head office; 2 offices are  $7\frac{1}{2}$  and 6 miles, respectively, from Atlanta Bank's Ben Hill office; and 2 other offices are  $1\frac{1}{2}$  miles, respectively, from Atlanta Bank's new Roswell Road office. Only a few banks appear to operate in the intervening areas. It would seem, therefore, that substantial direct competition exists between the merging banks. This competition will, of course, be permanently eliminated by consummation of the proposed merger.

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (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 (9-18-69)

Trust Company of Georgia (hereinafter Trust Company), a registered bank holding company, operates its head office and 10 branches in Atlanta. Its wholly owned subsidiary, Trust Company of Georgia Associates, also a registered bank holding company, has 6 subsidiary banks (aggregate deposits of \$276 million), one of which, Trust Company of Georgia Bank of DeKalb, has offices in the Atlanta Standard Metropolitan Statistical Area (SMSA). The main office of Atlanta Bank and Trust Company (hereinafter Atlanta Bank) is about 4 miles south of the main office of Trust Company, Atlanta Bank operates a branch at Ben Hill and a branch at Roswell Road, about 7.5 miles west and 11.5 miles north, respectively, of its head office. The nearest office of Trust Company to Atlanta Bank's main office is its West End branch, 3¼ miles to the northwest. Trust Company operates an office 6 miles north of Atlanta Bank's Ben Hill branch and an office 1.5 miles south of Atlanta Bank's Roswell Road branch. The 2 offices of Trust Company's affiliate are within 4 miles of Atlanta Bank's Roswell branch. There are 27 offices of 9 banks, other than Trust Company, in the areas served by Atlanta Bank.

Trust Company, with 16 per cent of the deposits and 7 per cent of the offices, is the third largest bank in the Atlanta SMSA. Together with its affiliate, Trust Company holds about 17 per cent of area deposits and operates 8 per cent of the banking offices; following the proposed merger with Atlanta Bank, these figures would be increased to 17.2 per cent and 10 per cent, respectively. The two largest banks operating in the Atlanta SMSA together hold about 51 per cent of area deposits and operate 32 per cent of the area's banking offices. The merger of the two banks would eliminate some competition, as well as increase slightly the concentration of banking resources in the Atlanta SMSA. The effect of the merger on competition would be adverse.

Commercial banking in the city of Atlanta is highly concentrated. As of June 30, 1968, the 11 commercial banks operating in Atlanta held IPC<sup>3</sup> demand deposits of \$986.1 million and total deposits of \$2.3 billion. Three banks, including Trust Company, held 81.7 per cent of the IPC<sup>3</sup> demand deposits and 75.8 per cent of the total deposits. Four banks held 94.0 per cent of the IPC<sup>3</sup> demand deposits and 92.2 per cent of the total deposits. Trust Company holds over 21 per cent of all deposits in Atlanta and is the

For notes see p. 381.

Name of bank, and type of transaction <sup>2</sup> (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.

third largest of the 10 banks operating in the city. Atlanta Bank, the seventh largest in the city, held 0.5 per cent of the IPC<sup>3</sup> demand deposits and 0.70 per cent of the total deposits.

Furthermore, under existing Georgia law, it is impossible for banks not presently operating in Atlanta to enter that city either through branching or through the use of a holding company. Hence, the likelihood of reducing existing concentration through outside entry is nonexistent. In this context, the absorption of a small but significant competitive force in a highly concentrated banking market by one of the 3 dominant firms, produces an anti-competitive result that is more substantial than the statistical increase in concentration.

This merger will eliminate significant direct competition between the merging banks. While Atlanta Bank's share of the city banking market is small, this merger will result in increased concentration in a market already highly concentrated. Moreover, the chances for significant deconcentration do not appear favorable, particularly since Georgia law does not permit entry into the city by banks headquartered outside of it. Consequently, we think that the effect of this merger on banking competition in Atlanta will be adverse.

The banking factors as they relate to both banks are satisfactory at the present time, but Atlanta Bank has a management succession problem. The president has a health problem that limits his activities and no one else on the staff is familiar with the bank's construction lending program, which is the bank's specialty. The efforts of the bank to employ a successor have thus far proved futile. The merger would immediately and conclusively resolve this problem.

The effect of the merger on banking convenience and needs would be limited to the area served by Atlanta Bank, and its main impact would be in the Lakewood Heights section (population 57,000), the site of its main office. About 85 per cent of Atlanta Bank's deposits are in the main office and virtually none of its construction loan business, which is substantial, originates in this area. Trust Company would more adequately serve the banking needs of the community; the bank's department that makes high risk loans to businesses controlled by minority groups could be of particular benefit to the area.

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (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.

While the case is viewed as a difficult one, it is the judgment of the Board that the probable adverse effect of the merger on competition would be outweighed by the benefits for the banking convenience and needs of the Lakewood Heights community.

No. 15—Walker Bank & Trust Company, Salt Lake City, Utah, <i>to acquire the assets and assume the deposit liabilities of</i> The First National Bank of Coalville, Coalville, Utah	308.1	15	} 16
	5.6	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL

No report has been received. First National Bank has been closed for insolvency by the Comptroller of the Currency, and requests for reports on the competitive factors involved therein have been dispensed with as authorized by the Bank Merger Act, as amended, 12 U.S.C. 1828(c), to permit the Board to act immediately in order to safeguard depositors of First National Bank.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (10-13-69)

First National Bank, Coalville's only banking office, has been closed for insolvency by the Comptroller of the Currency and is under the receivership of the Federal Deposit Insurance Corporation. The application was made to remedy the attendant emergency situation found by the Board, on the basis of the information before it, including communications from the Comptroller of the Currency and the Federal Deposit Insurance Corporation, to require that the Board act immediately pursuant to the provisions of the Bank Merger Act in order to safeguard depositors of First National Bank.

Such anticompetitive effects as may be attributable to consummation of the transaction would be clearly outweighed in the public interest by the considerations supporting and requiring the aforementioned finding. From the record in the case, it is the Board's judgment that any disposition of the application other than that permitted by the Board's Order would have been inconsistent with the best interest of the depositors of First National. Accordingly, the Board concludes that the proposed transaction should be approved on a basis that would not delay consummation of the proposal.

For notes see p. 381.



Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 16—The Continental Bank and Trust Company, Salt Lake City, Utah, <i>to merge with</i> Continental Bank of Midvale, Midvale, Utah	115.5	6	} 7
	3.2	1	

## SUMMARY REPORT BY THE ATTORNEY GENERAL (9-19-69)

The applicant banks have had common ownership since 1956, when Midvale Bank was reactivated under its original charter. Management for Midvale Bank has been supplied from time to time by transferring personnel from Continental Bank.

The closest office of Continental Bank to Midvale Bank is about 4 miles east, with 1 bank in the intervening area. Considering the longstanding common ownership of the applicant banks, the proposed merger will not eliminate any significant existing competition.

## BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (10-17-69)

Salt Lake Bank operates its head office and 3 branches in Salt Lake City (population 200,000); its other 2 branches are in adjacent unincorporated areas of Salt Lake County. The sole office of Midvale Bank, which is also in Salt Lake County, is in the city of Midvale (population 6,800), 12 miles south of Salt Lake City. The nearest office of Salt Lake Bank to Midvale Bank is 4½ miles north of Midvale, and there are offices of 2 other banks in the intervening area. The largest bank in Utah operates a branch 3.6 miles south of Midvale Bank, and the second largest bank in the State operates 2 branches within 1.2 miles of Midvale Bank.

Salt Lake Bank, with 11 per cent of the deposits, is the fourth largest of the 15 banks that operate offices in Salt Lake County; Midvale Bank, with 0.3 per cent of such deposits, ranks 13th. The 3 largest banks in the county hold 72 per cent of the total deposits.

Other banks are precluded by the home-office-protection provision of Utah law from establishing *de novo* branches in that community. The proposed merger would remove home-office protection from the city of Midvale. Midvale Bank could establish *de novo* branches in Salt Lake City, and both it and Salt Lake Bank could establish such branches in unincorporated areas of Salt Lake County. The development of competition between the two banks, however, appears unlikely. They have had common ownership since 1956, when Midvale Bank, which was incorporated in 1911 and the assets of which were sold in 1934, was reactivated under its

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (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.

original charter. The managing officers of Midvale Bank and other personnel have been furnished by Salt Lake Bank since 1956.

The replacement of Midvale Bank by an office of Salt Lake Bank would provide a convenient alternative source of full-scale banking services for Midvale, as well as remove home-office protection from the community so that other banks could establish *de novo* branches there. The proposed merger would benefit the banking convenience of the area served by Midvale Bank and would not have an adverse effect on banking competition.

No. 17—The Connecticut Bank and Trust Company, Hartford, Conn., <i>to merge with</i> The Trademens National Bank of New Haven, New Haven, Conn.	965.1	47	} 51
	31.6	4	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-17-69)

The Connecticut Bank and Trust Company's (hereinafter CBT) Wallingford office is located about 9 miles northeast of Trademens Bank's Hamden office. Data provided in the application indicate that both these offices draw not insubstantial amounts of business from the areas immediately served by the other, even though it appears that several other banks operate in the intervening area. It is evident that at least some competition presently exists between the merging banks; this competition will, of course, be permanently eliminated by the proposed merger.

Connecticut law does not permit a commercial bank to establish *de novo* branch offices in a township where there is already located the home office of another bank. Under this law, both New Haven and Hamden are closed to *de novo* entry by CBT. Most of the townships surrounding New Haven and Hamden are similarly closed, but CBT could establish *de novo* branches in East and West Haven (adjoining New Haven to the south) and in Cheshire and Bethany (adjoining Hamden to the north). As Connecticut's second largest bank, CBT has the resources and capabilities for such *de novo* expansion; moreover, it has shown a disposition in the past to enlarge its operations through *de novo* branching. Since 1960 CBT has opened a total of 16 *de novo* branch offices.

The proposed merger is essentially a market extension merger through

For notes see p. 381.

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

## SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

which CBT proposes to enter the New Haven banking market, being prevented by State law from entering through *de novo* branching. In such circumstances, we consider it important, from a competitive standpoint, that entry be made through merger with one of the smaller banks in the local area. In this manner, leading local banks, most able to compete with CBT, will be preserved. Trademens Bank, while a substantial bank in its own right, is the fourth largest of 5 banks in New Haven, and is substantially smaller than the 3 leading banks in New Haven.

## BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-24-69)

Hartford Bank has its head office and 9 of its branches in Hartford; the bank operates its other 37 branches in 27 communities throughout most of the central and eastern portions of Connecticut. Trademens operates its head office and 2 branches in New Haven; it also has a branch in Hamden, which is about 5 miles north of New Haven and within the New Haven Standard Metropolitan Statistical Area.

The head offices of the 2 banks are 36 miles apart. Hartford Bank's nearest office to an office of Trademens is its branch at Wallingford, 9 miles northeast of Hamden. Hartford Bank also operates 2 branches in Meriden and 2 branches in Middletown, which are 14 miles and 17 miles, respectively, northeast of Hamden. Both Trademens and the Wallingford branch of Hartford Bank derive some business from the town of North Haven, but there is no meaningful competition between the banks.

Hartford Bank is precluded by the home-office-protection feature of State law from establishing *de novo* branches in New Haven and Hamden. Both East Haven and West Haven are open to entry by *de novo* branching, but it is questionable whether an office in either town would enable Hartford Bank to compete effectively with the New Haven banks. There are several towns that are open to entry by *de novo* branching, including Wallingford and others in which Hartford Bank already has offices, where Trademens could become a direct competitor of Hartford Bank. However, in view of the size of Trademens and its posture in the New Haven-Hamden market, it appears unlikely that it would undertake to establish such branches.

Trademens, with 5.3 per cent of the deposits, is the fourth largest of the 11 banks operating in the New Haven-Hamden area. It is substantially smaller than the three largest banks, which hold about 85 per cent of area deposits. Following the proposed merger, Hartford Bank would be the largest bank operating offices in the New Haven-Hamden area. Hartford Bank, with 18.3 per cent of the deposits, is the second largest of Connecticut's 66 banks; Trademens, with 0.6 per cent of the total deposits, ranks 22nd in the State.

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (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.

Hartford Bank, Connecticut's second largest bank, would offer a much greater variety of banking services than Trademans provides. While many of the services that Hartford Bank would provide are already available from the larger New Haven banks, the addition of a convenient alternative source of full banking services would benefit the banking convenience and needs of the residents of the New Haven-Hamden area. As already indicated, Hartford Bank is precluded by the restrictions of State law from establishing *de novo* branches in New Haven and Hamden. In the judgment of the Board, the slightly adverse effect of the merger on competition would be outweighed by the benefits for the banking convenience and needs of the New Haven and Hamden communities.

No. 18—Colonial Bank and Trust Company, Waterbury, Conn., <i>to merge with</i> The Brooks Bank and Trust Company, Torrington, Conn.	231.4	24	} 30
	32.1	6	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-25-69)

All of Brooks' offices are located in the town of Torrington. According to the application, Brooks serves a relatively limited geographic area, primarily the towns of Torrington, Goshen, and Harwinton. Brooks draws minimal deposits from Cornwall, New Hartford, Litchfield, and Winsted. Colonial has no offices in any of these towns. The closest office of Colonial is at Thomaston, 11 miles south of Brooks' main office. While there are no banks in the intervening area, it would appear that Colonial draws only a very small amount of deposit business from the area served by Brooks. Therefore the proposed merger would eliminate only a limited amount of existing competition.

Connecticut law permits commercial banks to establish *de novo* branches anywhere in the State, provided no other bank is headquartered in the town where a *de novo* branch is to be located. As long as Brooks remains independent and headquartered in Torrington, no other bank, including Colonial, may be permitted to establish branches therein. Colonial could be permitted to open new offices in all but one of the towns adjacent to Torrington.

Torrington is an attractive banking market. It is served by 2 commercial banks operating 6 offices. Torrington is one of the largest communities in

For notes see p. 381.

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

## SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

northwestern Connecticut. Some measure of its significance is afforded by the fact that as of June 30, 1968, approximately 40 per cent of the total deposits in commercial banks in Litchfield County (which encompasses most of northwestern Connecticut) were held by Torrington's 6 banking offices.

Absent Torrington's present home-office protection, Colonial would clearly be among the most likely potential *de novo* entrants into Torrington. While there are larger banks in Connecticut, Colonial maintains strong market positions in other sections of northwestern Connecticut. Its 1968 merger with the Litchfield County National Bank afforded entry into large areas of the county and resulted in its present control of over 25 per cent of the total deposits in commercial banks throughout the county. Were Brooks acquired by some other smaller or more distant bank, and Torrington thereby opened to *de novo* branching, Colonial could be expected to enter Torrington in a manner which would not unduly increase its leading position in the banking markets of northwestern Connecticut, becoming another important competitor in this important market.

Therefore, while the merger of Brooks into Colonial would open Torrington to *de novo* branching by any of Connecticut's commercial banks, we conclude that its over-all effect on potential competition would be adverse.

## BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (12-1-69)

Colonial Bank operates 24 banking offices in 13 communities in New Haven and Litchfield Counties. The 6 offices of Brooks Bank are in the city of Torrington (population 32,000), which is in Litchfield County. The head offices of the banks are 19 miles apart, and their nearest offices are about 11 miles apart. Neither bank derives a significant amount of business from the area served by the other. Connecticut law permits statewide branching, but a *de novo* branch may not be established in a community where a bank is headquartered. Brooks Bank is the only bank headquartered in Torrington, and consummation of the proposed merger would remove home-office protection from that community. The only other commercial banking office in the community is a branch of Hartford National Bank and Trust Company (total deposits \$943 million), the State's largest bank. Colonial Bank, the eighth largest commercial bank in Connecticut, holds approximately 4 per cent of the commercial banking deposits in the State. Brooks Bank, with less than 1 per cent of the State's commercial bank deposits, ranks 19th in this respect. In the judgment of the Board, the proposed merger would not have an adverse effect on competition and would benefit the banking convenience and needs of the Torrington community.

For notes see p. 381.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1969<sup>1</sup>—CONTINUED

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 19— <b>Security Bank and Trust Company</b> , Danville, Va., <i>to merge with</i> <b>The Bank of Danville</b> , Danville, Va.	22.2  .2	3  (Newly organized bank; not in operation).	3

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-21-69)

The Bank of Danville is a nonoperating institution, having been organized as the vehicle through which Virginia Commonwealth Bankshares (hereinafter VCB), a registered bank holding company, seeks to acquire Security Bank and Trust Company as a wholly owned subsidiary. The proposed merger, therefore, is essentially part of a corporate reorganization to facilitate this acquisition. As such, apart from any consideration of the subsequent acquisition of the surviving bank by VCB, the proposed merger will have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (12-1-69)

The proposed merger of Security Bank and Trust Company and Bank of Danville, 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 Virginia Commonwealth Bankshares, Inc., Richmond, Virginia, a registered bank holding company, would acquire all the shares of Security Bank and Trust Company. The merger proposal, as such, would have no effect on competition, no effect on the banking convenience and needs of the Danville community, and would not alter the financial and managerial resources and prospects of Security Bank and Trust Company.

No. 20— <b>United California Bank</b> , Los Angeles, Calif., <i>to merge with</i> <b>El Dorado State Bank</b> , Napa, Calif.	5,276.2  9.8	224  1	} 225
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SUMMARY REPORT BY THE ATTORNEY GENERAL (11-17-69)

The sole office of El Dorado Bank is located in a shopping center approximately 1½ miles to the north of the Napa central business district

For notes see opposite page.

Name of bank, and type of transaction <sup>2</sup> (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

## SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

in which its principal competitors are located. Although United California Bank (hereinafter UCB) has no offices in the city of Napa or Napa County, it does have offices in Vallejo County, 16 miles to the south, and Santa Rosa in Sonoma County, 40 miles to the northwest. These offices derive some deposit and loan business from El Dorado Bank's area; the proposed merger would accordingly eliminate some direct competition.

El Dorado Bank presently has 4.1 per cent of the total deposits in Napa County; Bank of America and Wells Fargo Bank, 2 of the largest banks in the State, have 64 per cent and 19 per cent, respectively, of total deposits in the county. Two other banks, both also headquartered outside Napa County, hold approximately the same market share as El Dorado Bank. Thus, Napa County presently has a highly concentrated banking structure, and El Dorado Bank is the only bank with its headquarters in the county.

UCB has heretofore applied for and obtained approval to open a new branch in Napa, but apparently in connection with this merger proposal surrendered that approval to the Board of Governors and the California State Banking Department. The fact that a *de novo* branch application was made, and approved by 2 banking agencies, is indicative (1) that there is an opportunity and need for additional banking facilities in Napa County, and (2) that UCB, absent the merger, would very likely be that *de novo* entrant.

## BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (12-11-69)

Napa Bank's sole office, in Napa (population 35,700), competes directly with 4 offices of California's largest, third largest, and fourth largest banks as well as a branch of Redwood Bank, San Rafael (deposits \$25 million). UCB has no office in Napa County; its closest office to Napa is at Vallejo, 16 miles to the south. UCB heretofore obtained authorization to establish a *de novo* branch in Napa, which it subsequently abandoned. Thus, there is some potential for the development of competition between proponents. Consummation of the merger would add to the concentration of banking resources in California, although by an insignificant amount. While the effect of the proposed merger on competition would be slightly adverse, the transaction would provide a ready solution for the management succession problem of Napa Bank and benefit the banking convenience and needs of the Napa community.

<sup>1</sup> During 1969 the Board disapproved 3 merger applications. 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.

<sup>2</sup> Each transaction was proposed to be effected under the charter of the first-named bank.

<sup>3</sup> The abbreviation "IPC" designates deposits of individuals, partnerships, and corporations.

# THE FEDERAL RESERVE SYSTEM



**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.



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*Federal Reserve  
Directories and Meetings*

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# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(December 31, 1969)

	<i>Term expires</i>
WM. MCC. MARTIN, JR., of New York, <i>Chairman</i> . . . . .	January 31, 1970
J. L. ROBERTSON of Nebraska, <i>Vice Chairman</i> . . . . .	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*  
J. CHARLES PARTEE, *Adviser to the Board*  
ROBERT SOLOMON, *Adviser 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*  
ROBERT F. SANDERS, *Assistant General Counsel*  
PAULINE B. HELLER, *Adviser*

## DIVISION OF RESEARCH AND STATISTICS

J. CHARLES PARTEE, *Director*  
STEPHEN H. AXILROD, *Associate Director*  
LYLE E. GRAMLEY, *Associate Director*  
STANLEY J. SIGEL, *Adviser*  
TYNAN SMITH, *Adviser*  
KENNETH B. WILLIAMS, *Adviser*  
PETER M. KEIR, *Associate Adviser*  
MURRAY S. WERNICK, *Associate Adviser*  
JAMES B. ECKERT, *Assistant Adviser*  
BERNARD SHULL, *Assistant Adviser*  
LOUIS WEINER, *Assistant Adviser*  
JOSEPH S. ZEISEL, *Assistant Adviser*

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## 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*  
ROBERT F. GEMMILL, *Associate Adviser*  
SAMUEL PIZER, *Associate 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*  
MILTON W. SCHOBBER, *Assistant Director*  
THOMAS A. SIDMAN, *Assistant Director*

## DIVISION OF PERSONNEL ADMINISTRATION

EDWIN J. JOHNSON, *Director*  
JOHN J. HART, *Assistant Director*

## DIVISION OF ADMINISTRATIVE SERVICES

JOSEPH E. KELLEHER, *Director*  
JOHN D. SMITH, *Assistant Director*

## OFFICE OF THE CONTROLLER

JOHN KAKALEC, *Controller*  
HARRY J. HALLEY, *Assistant Controller*

## OFFICE OF DEFENSE PLANNING

INNIS D. HARRIS, *Coordinator*

## DIVISION OF DATA PROCESSING

JEROLD E. SLOCUM, *Director*  
JOHN P. SINGLETON, *Associate Director*  
GLENN L. CUMMINS, *Assistant Director*  
RICHARD S. WATT, *Assistant Director*

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\* On leave of absence.

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# FEDERAL OPEN MARKET COMMITTEE

(December 31, 1969)

## MEMBERS

WM. MCC. MARTIN, JR., *Chairman* (Board of Governors)  
ALFRED HAYES, *Vice Chairman* (Elected by Federal Reserve Bank of New York)  
KARL R. BOPP (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)  
ANDREW F. BRIMMER (Board of Governors)  
GEORGE H. CLAY (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)  
PHILIP E. COLDWELL (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)  
J. DEWEY DAANE (Board of Governors)  
SHERMAN J. MAISEL (Board of Governors)  
GEORGE W. MITCHELL (Board of Governors)  
J. L. ROBERTSON (Board of Governors)  
CHARLES J. SCANLON (Elected by Federal Reserve Banks of Cleveland and Chicago)  
WILLIAM W. SHERRILL (Board of Governors)

## OFFICERS

ROBERT C. HOLLAND, *Secretary*

ARTHUR L. BROIDA, <i>Deputy Secretary</i>	DAVID P. EASTBURN, <i>Associate Economist</i>
KENNETH A. KENYON, <i>Assistant Secretary</i>	LYLE E. GRAMLEY, <i>Associate Economist</i>
CHARLES MOLONY, <i>Assistant Secretary</i>	RALPH T. GREEN, <i>Associate Economist</i>
HOWARD H. HACKLEY, <i>General Counsel</i>	A. B. HERSEY, <i>Associate Economist</i>
DAVID B. HEXTER, <i>Assistant General Counsel</i>	ROBERT G. LINK, <i>Associate Economist</i>
J. CHARLES PARTEE, <i>Economist</i>	JOHN E. REYNOLDS, <i>Associate Economist</i>
STEPHEN H. AXILROD, <i>Associate Economist</i>	ROBERT SOLOMON, <i>Associate Economist</i>
ERNEST T. BAUGHMAN, <i>Associate Economist</i>	CLARENCE W. TOW, <i>Associate Economist</i>

ALAN R. HOLMES, *Manager, System Open Market Account*

CHARLES A. COOMBS, *Special Manager, System Open Market Account*

During 1969 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. 95-207 of this Report).

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# FEDERAL ADVISORY COUNCIL

(December 31, 1969)

## MEMBERS

- District No. 1—Mark C. Wheeler, President, New England Merchants National Bank of Boston, Boston, Mass.
- District No. 2—George S. Moore, Chairman of the Board, First National City Bank, New York, N.Y.
- District No. 3—George H. Brown, Jr., Chairman of the Board, Girard Trust Bank, 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 of the Board, Trust Company of Georgia, Atlanta, Ga.
- District No. 7—Donald M. Graham, Chairman of the Board, Continental Illinois National Bank and Trust Company, 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—John E. Gray, President, First Security National Bank of Beaumont, Beaumont, Tex.
- District No. 12—Frederick G. Larkin, Jr., Chairman 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 COMMITTEE

JOHN A. MAYER, *ex officio*

J. HARVIE WILKINSON, JR., *ex officio*

GEORGE S. MOORE

PHILIP H. NASON

FREDERICK G. LARKIN, JR.

Meetings of the Federal Advisory Council were held on February 17–18, May 19–20, September 15–16, and November 17–18, 1969. The Board of Governors met with the Council on February 18, May 20, September 16, and November 18. The Council is required by law to meet in Washington at least four times each year and is authorized by the Federal Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

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# FEDERAL RESERVE BANKS and BRANCHES

(December 31, 1969)

## CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

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Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston.....	Howard W. Johnson.....	John M. Fox
New York.....	Albert L. Nickerson.....	James M. Hester
Philadelphia.....	Willis J. Winn.....	Bayard L. England
Cleveland.....	Albert G. Clay.....	J. Ward Keener
Richmond.....	Wilson H. Elkins.....	Robert W. Lawson, Jr.
Atlanta.....	Edwin I. Hatch.....	John C. Wilson
Chicago.....	Franklin J. Lunding.....	Emerson G. Higdon
St. Louis.....	Frederic M. Peirce.....	Smith D. Broadbent, Jr.
Minneapolis.....	Robert F. Leach.....	David M. Lilly
Kansas City.....	Dolph Simons.....	Willard D. Hosford, Jr.
Dallas.....	Carl J. Thomsen.....	Max Levine
San Francisco.....	O. Meredith Wilson.....	S. Alfred Halgren

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### 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 4-5, 1969.

Mr. Peirce, Chairman of the Federal Reserve Bank of St. Louis, who was elected Chairman of the Conference and of its Executive Committee in December 1968, served in that capacity until the close of the 1969 meeting. Mr. Winn, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Clay, Chairman of the Federal Reserve Bank of Cleveland, served with Mr. Peirce as members of the Executive Committee; Mr. Winn also served as Vice Chairman of the Conference.

On December 5, 1969, Mr. Winn was elected Chairman of the Conference and of its Executive Committee to serve for the succeeding year; Mr. Clay was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. Nickerson, Chairman of the Federal Reserve Bank of New York, was elected as the other member of the Executive Committee.

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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 duties 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	<i>Term expires Dec. 31</i>
<i>Class A:</i>		
Charles A. Beaujon, Jr. . . . .	President, The Canaan National Bank, Canaan, Conn. . . . .	1969
William R. Kennedy . . . . .	President, Merrimack Valley National Bank, Haverhill, Mass. . . . .	1970
John Simmen . . . . .	Chairman of the Board, Industrial National Bank of Rhode Island, Providence, R.I. . . . .	1971
<i>Class B:</i>		
F. Ray Keyser, Jr. . . . .	Vice President and General Counsel, Vermont Marble Company, Proctor, Vt. . . . .	1969
James R. Carter . . . . .	Chairman of the Board, Nashua Corporation, Nashua, N.H. . . . .	1970
W. Gordon Robertson . . . . .	Co-chairman of the Board and Chairman of the Executive Committee, Bangor Punta Corporation, Bangor, Maine. . . . .	1971
<i>Class C:</i>		
Howard W. Johnson . . . . .	President, Massachusetts Institute of Technology, Cambridge, Mass. . . . .	1969
John M. Fox . . . . .	President, Chairman of the Board, and Chief Executive Officer, United Fruit Company, Boston, Mass. . . . .	1970
James S. Duesenberry . . . . .	Professor of Economics, Harvard University, Cambridge, Mass. . . . .	1971

F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont.	District 2—NEW YORK	<i>Term expires Dec. 31</i>
<i>Class A:</i>		
Eugene H. Morrison . . . . .	President, Orange County Trust Company, Middletown, N.Y. . . . .	1969
R. E. McNeill, Jr. . . . .	Chairman of the Board, Manufacturers Han- over Trust Company, New York, N.Y. . . . .	1970
C. E. Treman, Jr. . . . .	President, Tompkins County Trust Company, Ithaca, N.Y. . . . .	1971
<i>Class B:</i>		
Maurice R. Forman . . . . .	President, B. Forman Co., Inc., Rochester, N.Y. . . . .	1969
Arthur K. Watson . . . . .	Chairman of the Board, IBM World Trade Corporation, Armonk, N.Y. . . . .	1970
Milton C. Mumford . . . . .	Chairman of the Board, Lever Brothers Com- pany, New York, N.Y. . . . .	1971
<i>Class C:</i>		
Albert L. Nickerson . . . . .	Former Chairman of the Board, Mobil Oil Corporation, New York, N.Y. . . . .	1969
James M. Hester . . . . .	President, New York University, New York, N.Y. . . . .	1970
Roswell L. Gilpatric . . . . .	Partner, Cravath, Swaine & Moore, New York, N.Y. . . . .	1971

BUFFALO BRANCH

*Appointed by Federal Reserve Bank:*

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 Chairman of the Executive Committee, Lincoln Rochester Trust Company, Rochester, N.Y. . . . .	1970
Charles L. Hughes . . . . .	President, The Silver Creek National Bank, Silver Creek, N.Y. . . . .	1970
James I. Wyckoff . . . . .	President, The National Bank of Geneva, N.Y.	1971

*Appointed by Board of Governors:*

Gerald F. Britt . . . . .	President, L-Brooke Farms, Inc., Byron, N.Y.	1969
Robert S. Bennett . . . . .	General Manager, Lackawanna Plant, Beth- lehem Steel Corporation, Buffalo, N.Y. . . . .	1970
Norman F. Beach . . . . .	Vice President, Eastman Kodak Company, Rochester, N.Y. . . . .	1971



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F.R. BANKS and BRANCHES—Cont.

	<i>Term expires Dec. 31</i>
<b>DIRECTORS—Cont.      District 3—PHILADELPHIA</b>	
<i>Class A:</i>	
(Vacancy).....	1969
H. Lyle Duffey.....Executive Vice President, The First National Bank, McConnellsburg, Pa.....	1970
Harold F. Still, Jr.....President, Central-Penn National Bank of Philadelphia, Pa.....	1971
<i>Class B:</i>	
Edward J. Dwyer.....President, ESB Incorporated, Philadelphia, Pa.	1969
Philip H. Glatfelter, III.....President, P. H. Glatfelter Co., Spring Grove, Pa.....	1970
Henry A. Thouron.....President, Hercules Incorporated, Wilmington, Del.....	1971
<i>Class C:</i>	
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
D. Robert Yarnall, Jr....President, Yarway Corporation, Blue Bell, Pa.	1971

**District 4—CLEVELAND**

<i>Class A:</i>	
Richard R. Hollington.....President, The Ohio Bank and Savings Company, Findlay, Ohio.....	1969
Seward D. Schooler....President, Coshocton National Bank, Coshocton, Ohio.....	1970
George F. Karch.....Chairman of the Board and Chief Executive Officer, The Cleveland Trust Company, Cleveland, Ohio.....	1971
<i>Class B:</i>	
R. Stanley Laing.....President, The National Cash Register Company, Dayton, Ohio.....	1969
John L. Gushman.....President and Chief Executive Officer, Anchor Hocking Corporation, Lancaster, Ohio.....	1970
J. William Henderson, Jr. President, Buckeye International, Inc., Columbus, Ohio.....	1971

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F.R. BANKS and BRANCHES—Cont.

	<i>Term expires Dec. 31</i>
DIRECTORS—Cont. District 4—CLEVELAND—Cont.	
<i>Class C:</i>	
Albert G. Clay.....President, Clay Tobacco Company, Mt. Sterling, Ky.....	1969
J. Ward Keener.....Chairman of the Board, The B. F. Goodrich Company, Akron, Ohio.....	1970
Horace A. Shepard.....Chairman of the Board and Chief Executive Officer, TRW Inc., Cleveland, Ohio.....	1971

CINCINNATI BRANCH

*Appointed by Federal Reserve Bank:*

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.....Chairman of the Board and Chief Executive Officer, The Central Trust Company, Cincinnati, Ohio.....	1970
Robert B. Johnson.....President, Pikeville National Bank & Trust Company, Pikeville, Ky.....	1971

*Appointed by Board of Governors:*

Phillip R. Shriver.....President, Miami University, Oxford, Ohio...	1969
Orin E. Atkins.....President, Ashland Oil & Refining Company, Ashland, Ky.....	1970
Graham E. Marx.....President and General Manager, The G. A. Gray Company, Cincinnati, Ohio.....	1971

PITTSBURGH BRANCH

*Appointed by Federal Reserve Bank:*

Charles M. Beeghly....Chairman of the Executive Committee, 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
Charles H. Bracken....President, Marine National Bank, Erie, Pa....	1971

F.R. BANKS and BRANCHES—Cont.

*Term  
expires  
Dec. 31*

DIRECTORS—Cont. District 4—CLEVELAND—Cont.

PITTSBURGH BRANCH—Cont.

*Appointed by Board of Governors:*

Lawrence E. Walkley . . . . .	President and Chief Executive Officer, Westinghouse Air Brake Company, Pittsburgh, Pa.	1969
B. R. Dorsey . . . . .	President, Gulf Oil Corporation, Pittsburgh, Pa.	1970
Richard M. Cyert . . . . .	Dean, Graduate School of Industrial Administration, Carnegie-Mellon University, Pittsburgh, Pa.	1971

District 5—RICHMOND

*Class A:*

Robert C. Baker . . . . .	Chairman of the Board and President, American Security and Trust Company, Washington, D.C.	1969
Giles H. Miller, Jr. . . . .	President, The Culpeper National Bank, Culpeper, Va.	1970
Douglas D. Monroe, Jr. . . . .	President, Chesapeake National Bank, Kilmarnock, Va.	1971

*Class B:*

Thaddeus Street . . . . .	President, Carolina Shipping Company, Charleston, S.C.	1969
H. Dail Holderness . . . . .	President, Carolina Telephone and Telegraph Company, Tarboro, N.C.	1970
Charles D. Lyon . . . . .	Former President, The Potomac Edison Company, Hagerstown, Md.	1971

*Class C:*

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
Wilson H. Elkins . . . . .	President, University of Maryland, College Park, Md.	1971

BALTIMORE BRANCH

*Appointed by Federal Reserve Bank:*

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, Bank of Ripley, W. Va.	1970
Tilton H. Dobbin . . . . .	President and Chairman of the Executive Committee, Maryland National Bank, Baltimore, Md.	1971

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F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont. District 5—RICHMOND—Cont.

*Term  
expires  
Dec. 31*

BALTIMORE BRANCH—Cont.

*Appointed by Board of Governors:*

Arnold J. Kleff, Jr. . . . .	Manager, Baltimore Refinery, American Smelting and Refining Company, Baltimore, Md..	1969
John H. Fetting, Jr. . . . .	President, A. H. Fetting Company, Baltimore, Md. . . . .	1970
James M. Jarvis. . . . .	Chairman of the Board, Jarvis, Downing & Emch, Inc., Clarksburg, W. Va. . . . .	1971

CHARLOTTE BRANCH

*Appointed by Federal Reserve Bank:*

J. Willis Cantey. . . . .	President, The Citizens and Southern National Bank, Columbia, S.C. . . . .	1969
C. C. Cameron . . . . .	Chairman of the Board and President, First Union National Bank, Charlotte, N.C. . . . .	1970
H. Phelps Brooks, Jr. . . . .	President, The Peoples National Bank, Chester, S.C. . . . .	1970
L. D. Coltrane, III. . . . .	President, The Concord National Bank, Concord, N.C. . . . .	1971

*Appointed by Board of Governors:*

James A. Morris. . . . .	Commissioner, South Carolina Commission on Higher Education, Columbia, S.C. . . . .	1969
William B. McGuire. . . . .	President, Duke Power Company, Charlotte, N.C. . . . .	1970
John L. Fraley. . . . .	Executive Vice President, Carolina Freight Carriers Corporation, Cherryville, N.C. . . . .	1971

District 6—ATLANTA

*Class A:*

William B. Mills. . . . .	President, The Florida National Bank, Jacksonville, Fla. . . . .	1969
A. L. Ellis. . . . .	Chairman of the Board, First National Bank, Tarpon Springs, Fla. . . . .	1970
John W. Gay. . . . .	President, The First National Bank, Scottsboro, Ala. . . . .	1971

**F.R. BANKS and BRANCHES—Cont.**

DIRECTORS—Cont.      District 6—ATLANTA—Cont. *Term expires Dec. 31*

*Class B:*

Philip J. Lee.....	Vice President, Tropicana Products, Inc., Tampa, Fla.....	1969
Hoskins A. Shadow....	President, Tennessee Valley Nursery, Inc., Win- chester, Tenn.....	1970
(Vacancy).....		1971

*Class C:*

John A. Hunter.....	President, Louisiana State University, Baton Rouge, La.....	1969
John C. Wilson.....	President, Horne-Wilson, Inc., Atlanta, Ga....	1970
Edwin I. Hatch.....	President, Georgia Power Company, Atlanta, Ga.....	1971

**BIRMINGHAM BRANCH**

*Appointed by Federal Reserve Bank:*

Will T. Cothran.....	Chairman of the Board, Birmingham Trust National Bank, Birmingham, Ala.....	1969
Arthur L. Johnson....	President, Camden National Bank, Camden, Ala.....	1970
George A. LeMaistre...	President, City National Bank, Tuscaloosa, Ala.	1970
K. M. Varner, Jr.....	President, The First National Bank, Auburn, Ala.....	1971

*Appointed by Board of Governors:*

Mays E. Montgomery..	General Manager, Dixie Home Feeds Com- pany, Athens, Ala.....	1969
C. Caldwell Marks....	Chairman of the Board, Owen-Richards Com- pany, Inc., Birmingham, Ala.....	1970
W. Cecil Bauer.....	President, South Central Bell Telephone Com- pany, Birmingham, Ala.....	1971

**JACKSONVILLE BRANCH**

*Appointed by Federal Reserve Bank:*

L. V. Chappell.....	President, First National Bank, Clearwater, Fla.	1969
Harry Hood Bassett....	Chairman of the Board, The First National Bank, Miami, Fla.....	1970
John Y. Humphress...	Executive Vice President, Capital City First National Bank, Tallahassee, Fla.....	1970
Edward W. Lane, Jr....	President, The Atlantic National Bank, Jack- sonville, Fla.....	1971

*Term  
expires  
Dec. 31*

DIRECTORS—Cont.      **District 6—ATLANTA—Cont.**

**JACKSONVILLE BRANCH—Cont.**

*Appointed by Board of Governors:*

Henry K. Stanford . . . . .	President, University of Miami, Coral Gables, Fla. . . . .	1969
Henry Cragg . . . . .	Vice President, Coca-Cola Company Foods Division, Orlando, Fla. . . . .	1970
Castle W. Jordan . . . . .	President, AO Industries, Inc., Coral Gables, Fla. . . . .	1971

**NASHVILLE BRANCH**

*Appointed by Federal Reserve Bank:*

Andrew Benedict . . . . .	Chairman of the Board, 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
Hugh M. Willson . . . . .	President, Citizens National Bank, Athens, Tenn. . . . .	1971

*Appointed by Board of Governors:*

James E. Ward . . . . .	Chairman of the Board, Baird-Ward Printing Company, Nashville, Tenn. . . . .	1969
Robert M. Williams . . . . .	President, ARO, Inc., Tullahoma, Tenn. . . . .	1970
Edward J. Boling . . . . .	Vice President, Development and Administration, The University of Tennessee, Knoxville, Tenn. . . . .	1971

**NEW ORLEANS BRANCH**

*Appointed by Federal Reserve Bank:*

A. L. Gottsche . . . . .	Executive Vice President, First Mississippi National Bank, Biloxi, Miss. . . . .	1969
Lucien J. Hebert, Jr. . . . .	Executive Vice President, Lafourche National Bank, Thibodaux, La. . . . .	1970
Morgan Whitney . . . . .	Senior Vice President, Whitney National Bank, New Orleans, La. . . . .	1970
E. W. Haining . . . . .	President, The First National Bank of Vicksburg, Miss. . . . .	1971

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F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont.      District 6—ATLANTA—Cont.      *Term expires Dec. 31*

NEW ORLEANS BRANCH—Cont.

*Appointed by Board of Governors:*

George B. Blair . . . . .	General Manager, American Rice Growers Co-operative Association, Lake Charles, La. . . . .	1969
Robert H. Radcliff, Jr. . . . .	President, Southern Industries Corporation, Mobile, Ala. . . . .	1970
Frank G. Smith . . . . .	Vice President, Mississippi Power & Light Company, Jackson, Miss. . . . .	1971

District 7—CHICAGO

*Class A:*

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
Floyd F. Whitmore . . . . .	President, The Okey-Vernon National Bank, Corning, Iowa . . . . .	1971

*Class B:*

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
Joseph O. Waymire . . . . .	Former Vice President for Finance and Treasurer, Eli Lilly and Company, Indianapolis, Ind. . . . .	1971

*Class C:*

Emerson G. Higdon . . . . .	President, The Maytag Company, Newton, Iowa . . . . .	1969
Franklin J. Lunding . . . . .	Chairman of the Finance Committee, Jewel Companies, Inc., Melrose Park, Ill. . . . .	1970
William H. Franklin . . . . .	President, Caterpillar Tractor Co., Peoria, Ill. . . . .	1971

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F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont.      District 7—CHICAGO—Cont.      *Term expires Dec. 31*

DETROIT BRANCH

*Appointed by Federal Reserve Bank:*

John H. French, Jr. . . . . President, City National Bank, Detroit, Mich.. 1969  
George L. Whyel. . . . . President, Genesee Merchants Bank & Trust  
Company, Flint, Mich. . . . . 1969  
Raymond T. Perring. . . . . Chairman of the Board, The Detroit Bank and  
Trust Company, Detroit, Mich. . . . . 1970  
B. P. Sherwood, Jr. . . . . President, Security First Bank & Trust Com-  
pany, Grand Haven, Mich. . . . . 1971

*Appointed by Board of Governors:*

Max P. Heavenrich, Jr. . . . . President, Heavenrich's, Saginaw, Mich. . . . . 1969  
L. Wm. Seidman. . . . . Resident Partner, Seidman & Seidman, Grand  
Rapids, Mich. . . . . 1970  
Peter B. Clark. . . . . Chairman of the Board and President, The  
Detroit News, Detroit, Mich. . . . . 1971

District 8—ST. LOUIS

*Class A:*

Cecil W. Cupp, Jr. . . . . President, Arkansas Bank & Trust Company,  
Hot Springs, Ark. . . . . 1969  
Bradford Brett. . . . . President, First National Bank, Mexico, Mo.. 1970  
James P. Hickok. . . . . Chairman of the Board, First National Bank in  
St. Louis, Mo. . . . . 1971

*Class B:*

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  
Sherwood J. Smith. . . . . Vice President, D/P Computer Services, Inc.,  
Evansville, Ind. . . . . 1971

*Class C:*

Sam Cooper. . . . . President, HumKo Products, Division of Kraft-  
co Corporation, Memphis, Tenn. . . . . 1969  
Smith D. Broadbent, Jr. . . . . Broadbent Hybrid Seed Co., Cadiz, Ky. . . . . 1970  
Frederic M. Peirce. . . . . Chairman of the Board and Chief Executive  
Officer, General American Life Insurance  
Company, St. Louis, Mo. . . . . 1971



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F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont.      District 8—ST. LOUIS—Cont.      *Term expires Dec. 31*

LITTLE ROCK BRANCH

*Appointed by Federal Reserve Bank:*

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 and Chief Executive Officer, Worthen Bank & Trust Company, Little Rock, Ark. . . . . 1970  
Louis E. Hurley . . . . . Chairman of the Board, The Exchange Bank & Trust Company, El Dorado, Ark. . . . . 1971

*Appointed by Board of Governors:*

Jake Hartz, Jr. . . . . President, Jacob Hartz Seed Co. Inc., Stuttgart, Ark. . . . . 1969  
Fred I. Brown, Jr. . . . . President, Arkansas Foundry Company, Little Rock, Ark. . . . . 1970  
Al Pollard . . . . . President, Brooks-Pollard Company, Little Rock, Ark. . . . . 1971

LOUISVILLE BRANCH

*Appointed by Federal Reserve Bank:*

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  
Hugh M. Shwab . . . . . Vice Chairman of the Board, First National Bank of Louisville, Ky. . . . . 1971

*Appointed by Board of Governors:*

John G. Beam . . . . . President, Thomas Industries Inc., Louisville, Ky. . . . . 1969  
Harry M. Young, Jr. . . . . Farmer, Herndon, Ky. . . . . 1970  
Ronald E. Reitmeier . . . . . President, Catalysts and Chemicals Inc., Louisville, Ky. . . . . 1971

*Term  
expires  
Dec. 31*

DIRECTORS—Cont.      District 8—ST. LOUIS—Cont.

MEMPHIS BRANCH

*Appointed by Federal Reserve Bank:*

Allen Morgan . . . . .	Chairman of the Board, 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
Wade W. Hollowell . . . . .	President, The First National Bank of Greenville, Miss. . . . .	1971

*Appointed by Board of Governors:*

William L. Giles . . . . .	President, Mississippi State University, State College, Miss. . . . .	1969
Alvin Huffman, Jr. . . . .	President, Huffman Brothers Inc., Blytheville, Ark. . . . .	1970
C. Whitney Brown . . . . .	President, S. C. Toof & Company, Memphis, Tenn. . . . .	1971

District 9—MINNEAPOLIS

*Class A:*

John Bosshard . . . . .	Executive Vice President, The First National Bank, Bangor, Wis. . . . .	1969
Warren F. Vaughan . . . . .	President, Security Trust & Savings Bank, Billings, Mont. . . . .	1970
G. A. Dahlen . . . . .	President, First National Bank, Ironwood, Mich. . . . .	1971

*Class B:*

Leo C. Studness . . . . .	Manager, Studness Company, Devils Lake, N. Dak. . . . .	1969
Dale V. Andersen . . . . .	President, Mitchell Packing Company, Inc., Mitchell, S. Dak. . . . .	1970
John H. Bailey . . . . .	President, The Cretex Companies, Inc., Elk River, Minn. . . . .	1971

*Class C:*

David M. Lilly . . . . .	Chairman of the Board, Toro Manufacturing Corporation, Minneapolis, Minn. . . . .	1969
Byron W. Reeve . . . . .	President, Lake Shore, Inc., Iron Mountain, Mich. . . . .	1970
Robert F. Leach . . . . .	Attorney, Oppenheimer, Hodgson, Brown, Wolf and Leach, St. Paul, Minn. . . . .	1971

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F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont.      District 9—MINNEAPOLIS—Cont.      *Term expires Dec. 31*

HELENA BRANCH

*Appointed by Federal Reserve Bank:*

B. Meyer Harris . . . . . President, The Yellowstone Bank, Laurel, Mont. . . . . 1969  
Charles H. Brocksmith . . . . . President, First Security Bank of Glasgow N. A., Glasgow, Mont. . . . . 1970  
Glenn H. Larson . . . . . President, First State Bank, Thompson Falls, Mont. . . . . 1970

*Appointed by Board of Governors:*

Edwin G. Koch . . . . . President, Montana College of Mineral Science and Technology, Butte, Mont. . . . . 1969  
Warren B. Jones . . . . . Secretary-Treasurer, Two Dot Land & Livestock Co., Harlowton, Mont. . . . . 1970

District 10—KANSAS CITY

*Class A:*

Eugene H. Adams . . . . . President, The First National Bank, Denver, Colo. . . . . 1969  
C. M. Miller . . . . . President, The Farmers & Merchants State Bank, Colby, Kans. . . . . 1970  
John A. O'Leary . . . . . Chairman of the Board, The Peoples State Bank, Luray, Kans. . . . . 1971

*Class B:*

Cecil O. Emrich . . . . . Manager, Norfolk Livestock Market, Inc., Norfolk, Nebr. . . . . 1969  
Alfred E. Jordan . . . . . Vice President, Trans World Airlines, Inc., Kansas City, Mo. . . . . 1970  
Stanley Learned . . . . . Member of Finance Committee, Phillips Petroleum Company, Bartlesville, Okla. . . . . 1971

*Class C:*

Willard D. Hosford, Jr. . . . . Vice President and General Manager, John Deere Company, Omaha, Nebr. . . . . 1969  
Dolph Simons . . . . . Editor, Journal-World, Lawrence, Kans. . . . . 1970  
Robert W. Wagstaff . . . . . President, Kansas City Coca-Cola Bottling Company, Kansas City, Mo. . . . . 1971

DIRECTORS—Cont. District 10—KANSAS CITY—Cont.

*Term  
expires  
Dec. 31*

DENVER BRANCH

*Appointed by Federal Reserve Bank:*

Armin B. Barney.....	Chairman of the Board, The Colorado Springs National Bank, Colorado Springs, Colo....	1969
Theodore D. Brown....	President, The Security State Bank, Sterling, Colo.....	1970
Robert L. Tripp.....	President, Albuquerque National Bank, Albuquerque, N. Mex.....	1970

*Appointed by Board of Governors:*

Cris Dobbins.....	Chairman of the Board and President, Ideal Basic Industries, Inc., Denver, Colo.....	1969
David R. C. Brown....	President, The Aspen Skiing Corporation, Aspen, Colo.....	1970

OKLAHOMA CITY BRANCH

*Appointed by Federal Reserve Bank:*

Howard J. Bozarth....	Vice Chairman of the Board, The Fidelity National Bank and Trust Company, Oklahoma City, Okla.....	1969
Charley M. Crawford...	President, First National Bank, Frederick, Okla.	1970
Marvin Millard.....	Chairman of the Board, National Bank of Tulsa, Okla.....	1970

*Appointed by Board of Governors:*

C. W. Flint, Jr.....	Chairman of the Board, Flint Steel Corporation, Tulsa, Okla.....	1969
F. W. Zaloudek.....	Manager, J. I. Case Implements, Kremlin, Okla.	1970

OMAHA BRANCH

*Appointed by Federal Reserve Bank:*

John W. Hay, Jr.....	President, Rock Springs National Bank, Rock Springs, Wyo.....	1969
S. N. Wolbach.....	President, First National Bank, Grand Island, Nebr.....	1969
Edward W. Lyman....	President, The United States National Bank, Omaha, Nebr.....	1970

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F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont.

District 10—KANSAS CITY—Cont.

*Term  
expires  
Dec. 31*

OMAHA BRANCH—Cont.

*Appointed by Board of Governors:*

A. James Ebel.....	Vice President and General Manager, Cornhusker Television Corporation, Lincoln, Nebr.....	1969
Henry Y. Kleinkauf . . .	President, Natkin & Company, Omaha, Nebr..	1970

District 11—DALLAS

*Class A:*

Murray Kyger.....	Chairman of the Board, The First National Bank, Fort Worth, Tex.....	1969
J. V. Kelly.....	President, The Peoples National Bank of Belton, Tex.....	1970
A. W. Riter, Jr.....	President, The Peoples National Bank, Tyler, Tex.....	1971

*Class B:*

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
Hugh F. Steen.....	President, El Paso Natural Gas Company, El Paso, Tex.....	1971

*Class C:*

Max Levine.....	Retired Chairman of the Board, Foley's, Houston, Tex.....	1969
Carl J. Thomsen.....	Senior Vice President, Texas Instruments Incorporated, Dallas, Tex.....	1970
Chas. F. Jones.....	President, Humble Oil & Refining Company, Houston, Tex.....	1971

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F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont.

District 11—DALLAS—Cont.

*Term  
expires  
Dec. 31*

EL PASO BRANCH

*Appointed by Federal Reserve Bank:*

Robert W. Heyer.....	Consultant, Southern Arizona Bank & Trust Company, Tucson, Ariz.....	1969
Archie B. Scott.....	President, The Security State Bank of Pecos, Tex.....	1969
C. J. Kelly.....	President, The First National Bank of Midland, Tex.....	1970
Joe B. Sisler.....	President, The Clovis National Bank, Clovis, N. Mex.....	1971

*Appointed by Board of Governors:*

C. Robert McNally, Jr.....	Rancher, Roswell, N. Mex.....	1969
Gordon W. Foster.....	Vice President, Farah Manufacturing Company, Inc., El Paso, Tex.....	1970
Joseph M. Ray.....	Benedict Professor of Political Science, The University of Texas at El Paso, Tex.....	1971

HOUSTON BRANCH

*Appointed by Federal Reserve Bank:*

W. G. Thornell.....	President, The First National Bank of Port Arthur, Tex.....	1969
John E. Whitmore.....	Chairman of the Board, Texas National Bank of Commerce, Houston, Tex.....	1969
A. G. McNeese, Jr.....	Chairman of the Board, Bank of the Southwest National Association, Houston, Tex.....	1970
Henry B. Clay.....	President, First Bank & Trust, Bryan, Tex....	1971

*Appointed by Board of Governors:*

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
R. M. Buckley.....	President, Eastex Incorporated, Silsbee, Tex....	1971

F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont. *Term expires Dec. 31*  
**District 11—DALLAS—Cont.**

SAN ANTONIO BRANCH

*Appointed by Federal Reserve Bank:*

J. R. Thornton.....	Chairman of the Board and President, State Bank and Trust Company, San Marcos, Tex.	1969
T. C. Frost, Jr.....	President, The Frost National Bank, San Antonio, Tex.....	1969
Ray M. Keck, Jr.....	President, Union National Bank of Laredo, Tex.....	1970
James T. Denton, Jr....	President, Corpus Christi Bank and Trust, Corpus Christi, Tex.....	1971

*Appointed by Board of Governors:*

W. A. Belcher.....	Veterinarian and Rancher, Brackettville, Tex..	1969
Lloyd M. Knowlton....	General Manager and Partner, Knowlton's Creamery, San Antonio, Tex.....	1970
Francis B. May.....	Professor of Business Statistics, The University of Texas, Austin, Tex.....	1971

**District 12—SAN FRANCISCO**

*Class A:*

Carroll F. Byrd.....	President, The First National Bank, Willows, Calif.....	1969
Charles F. Frankland...	Chairman of the Board, The Pacific National Bank, Seattle, Wash.....	1970
Ralph V. Arnold.....	Chairman of the Board and Chief Executive Officer, First National Bank and Trust Company, Ontario, Calif.....	1971

*Class B:*

Joseph Rosenblatt.....	Honorary Chairman of the Board, The Eimco Corporation, Salt Lake City, Utah.....	1969
Marron Kendrick.....	President, Schlage Lock Company, San Francisco, Calif.....	1970
Herbert D. Armstrong..	Treasurer, Standard Oil Company of California, San Francisco, Calif.....	1971

*Class C:*

S. Alfred Halgren.....	Senior Vice President, Carnation Company, Los Angeles, Calif.....	1969
O. Meredith Wilson...	President and Director, Center for Advanced Study in the Behavioral Sciences, Stanford, Calif.....	1970
Bernard T. Rocca, Jr....	Chairman of the Board, Pacific Vegetable Oil Corporation, San Francisco, Calif.....	1971

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F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont. District 12—SAN FRANCISCO—Cont. *Term  
expires  
Dec. 31*

LOS ANGELES BRANCH

*Appointed by Federal Reserve Bank:*

Sherman Hazeltine . . . . .	Chairman of the Board, First National Bank of Arizona, Phoenix, Ariz. . . . .	1969
T. H. Shearin . . . . .	President, Community National Bank, Bakersfield, Calif. . . . .	1970
Carl E. Schroeder . . . . .	President, The First National Bank of Orange County, Orange, Calif. . . . .	1970
Harry J. Volk . . . . .	Chairman of the Board and Chief Executive Officer, Union Bank, Los Angeles, Calif. . . . .	1970

*Appointed by Board of Governors:*

Leland D. Pratt . . . . .	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
J. Leland Atwood . . . . .	President and Chief Executive Officer, North American Rockwell Corporation, El Segundo, Calif. . . . .	1971

PORTLAND BRANCH

*Appointed by Federal Reserve Bank:*

Ralph J. Voss . . . . .	President, First National Bank of Oregon, Portland, Ore. . . . .	1969
James H. Stanard . . . . .	Vice President, First National Bank, McMinnville, Ore. . . . .	1970
E. W. Firstenburg . . . . .	Chairman of the Board and President, First Independent Bank, Vancouver, Wash. . . . .	1970

*Appointed by Board of Governors:*

Frank Anderson . . . . .	Farmer, Heppner, Ore. . . . .	1969
Robert F. Dwyer . . . . .	Dwyer Forest Products Company, Portland, Ore. . . . .	1970

SALT LAKE CITY BRANCH

*Appointed by Federal Reserve Bank:*

William E. Irvin . . . . .	President, The Idaho First National Bank, Boise, Idaho . . . . .	1969
Newell B. Dayton . . . . .	Chairman of the Board, Tracy-Collins Bank and Trust Company, Salt Lake City, Utah. . . . .	1970
Roderick H. Browning . . . . .	President, Bank of Utah, Ogden, Utah . . . . .	1970



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F.R. BANKS and BRANCHES—Cont.

DIRECTORS—Cont. District 12—SAN FRANCISCO—Cont.

*Term  
expires  
Dec. 31*

SALT LAKE CITY BRANCH—Cont.

*Appointed by Board of Governors:*

Royden G. Derrick.....	President and General Manager, Western Steel Company, Salt Lake City, Utah.....	1969
Peter E. Marble.....	Rancher, Deeth, Nev.....	1970

SEATTLE BRANCH

*Appointed by Federal Reserve Bank:*

Maxwell Carlson.....	President, The National Bank of Commerce of Seattle, Wash.....	1969
A. E. Saunders.....	President, Puget Sound National Bank, Tacoma, Wash.....	1970
Philip H. Stanton.....	President, Washington Trust Bank, Spokane, Wash.....	1970

*Appointed by Board of Governors:*

William McGregor.....	Vice President, McGregor Land & Livestock Company, Hooper, Wash.....	1969
C. Henry Bacon, Jr.....	President, Simpson Timber Company, Seattle, Wash.....	1970

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 Lee J. Aubrey R. W. Eisenmenger Harry R. Mitiguy J. M. Thayer, Jr. Parker B. Willis	Daniel Aquilino Ansgar R. Berge Luther M. Hoyle, Jr. Laurence H. Stone G. Gordon Watts
New York . . .	Alfred Hayes William F. Treiber	W. H. Braun, Jr. Charles A. Coombs Peter Fousek Marcus A. Harris Robert G. Link Peter D. Sternlight Thomas O. Waage	John J. Clarke Richard A. Debs Edward G. Guy Alan R. Holmes 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 William A. James G. William Metz	Hugh Barrie Norman G. Dash Ralph E. Haas David C. Melnicoff James V. Vergari
Cleveland . . .	W. Braddock Hickman Walter H. MacDonald	George E. Booth, Jr. Roger R. Clouse William H. Hendricks John J. Hoy Frederick S. Kelly	Paul Breidenbach Elmer F. Fricke William J. Hocter Harry W. Huning Clifford G. Miller
Cincinnati Pittsburgh		Fred O. Kiel Clyde E. Harrell	
Richmond . . .	Aubrey N. Heflin Robert P. Black	J. G. Dickerson, Jr. William C. Glover J. R. Monhollon John L. Nosker R. E. Sanders, Jr. William F. Upshaw	W. S. Farmer Upton S. Martin Arthur V. Myers, Jr. James Parthemos Aubrey N. Snellings Joseph F. Viverette
Baltimore		D. F. Hagner H. Lee Boatwright, III A. A. Stewart, Jr.	
Charlotte		E. F. MacDonald Stuart P. Fishburne	

PRESIDENTS and VICE PRESIDENTS—Cont.

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Atlanta . . . .  Birmingham Jacksonville Nashville New Orleans	Monroe Kimbrel Kyle K. Fossum	Harry Brandt Billy H. Hargett J. E. McCorvey Richard A. Sanders Charles T. Taylor	W. M. Davis R. E. Moody, Jr. Brown R. Rawlings R. M. Stephenson  Dan L. Hendley  Edward C. Rainey Jeffrey J. Wells  Arthur H. Kantner
Chicago . . . .  Detroit	Charles J. Scanlon Hugh J. Helmer	Ernest T. Baughman George W. Cloos Elbert O. Fults Edward A. Heath Ward J. Larson James R. Morrison Harry S. Schultz Joseph Srp, Jr. Jack P. Thompson	Carl E. Bierbauer LeRoy A. Davis A. M. Gustavson Laurence H. Jones Richard A. Moffatt Karl A. Scheld Bruce L. Smyth Lynn A. Stiles  Daniel M. Doyle G. W. Lamphere
St. Louis . . . .  Little Rock Louisville Memphis	Darryl R. Francis Dale M. Lewis	Leonall C. Andersen Gerald T. Dunne Wilbur H. Isbell Jerry L. Jordan John W. Menges Howard H. Weigel	Marvin L. Bennett W. W. Gilmore Homer Jones Stephen Koptis F. G. Russell, Jr. Joseph C. Wotawa  John F. Breen Donald L. Henry Eugene A. Leonard
Minneapolis.  Helena	Hugh D. Galusha, Jr. M. H. Strothman, Jr.	F. J. Cramer L. W. Fernelius C. W. Groth John A. MacDonald J. P. Olin Robert W. Worcester	Ralph J. Dreitzler L. G. Gable Douglas R. Hellweg Clarence W. Nelson Clement A. Van Nice  Howard L. Knous

F.R. BANKS and BRANCHES—Cont.

PRESIDENTS and VICE PRESIDENTS—Cont.

Federal Reserve Bank or branch	President First Vice President	Vice Presidents
<p><b>Kansas City..</b></p> <p>Denver Oklahoma City Omaha</p>	<p>George H. Clay John T. Boysen</p>	<p>Wilbur T. Billington D. R. Cawthorne Raymond J. Doll J. R. Euans C. F. Griswold, Jr. M. L. Mothersead Maurice J. Swords Robert E. Thomas Clarence W. Tow John W. Snider</p> <p>Howard W. Pritz George C. Rankin</p>
<p><b>Dallas . . . . .</b></p> <p>El Paso Houston San Antonio</p>	<p>Philip E. Coldwell T. W. Plant</p>	<p>R. E. Bohne Robert H. Boykin James L. Cauthen Leon W. Cowan Ralph T. Green James A. Parker W. M. Pritchett Tony J. Salvaggio Thomas R. Sullivan E. W. Vorlop, Jr. Fredric W. Reed J. Lee Cook</p> <p>Carl H. Moore</p>
<p><b>San Francisco..</b></p> <p>Los Angeles</p> <p>Portland Salt Lake City Seattle</p>	<p>Eliot J. Swan A. B. Merritt</p>	<p>J. Howard Craven D. M. Davenport Irwin L. Jennings Gerald R. Kelly E. J. Martens R. Maurer, Jr. J. B. Williams</p> <p>P. W. Cavan W. G. DeVries William M. Brown</p> <p>Arthur L. Price W. R. Sandstrom</p>

## 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. Scanlon, President of the Federal Reserve Bank of Chicago, and Mr. Hickman, President of the Federal Reserve Bank of Cleveland, were elected Chairman of the Conference and Vice Chairman, respectively, in March 1969, and served in these capacities during the remainder of 1969.

Mr. Wm. J. Hocter then of the Federal Reserve Bank of Chicago and Mr. Lester M. Selby of the Federal Reserve Bank of Cleveland were appointed Secretary of the Conference and Assistant Secretary, respectively, in March 1969. Mr. Selby served for the remainder of the year. Mr. Arthur G. Stone of the Federal Reserve Bank of Chicago was appointed Secretary at the June 23, 1969, meeting and served for the remainder of the year.

## CONFERENCE OF FIRST VICE PRESIDENTS

In 1969 a Conference of First Vice Presidents was organized to meet from time to time, primarily for the consideration of operational matters. Mr. Helmer, First Vice President of the Federal Reserve Bank of Chicago, and Mr. MacDonald, First Vice President of the Federal Reserve Bank of Cleveland, were selected as Chairman of the Conference and Vice Chairman, respectively.

In May 1969 Mr. Arthur G. Stone and Mr. Lester M. Selby were appointed Secretary of the Conference and Assistant Secretary, respectively.

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