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Report
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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Letter of Transmittal

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

Washington, May 21, 1971

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

This report covers operations of the Board during the calendar year 1970.

Yours respectfully,

Arthur F. Burns, *Chairman.*

Contents

Part 1—The U.S. Economy in Transition

3	INTRODUCTION
<i>I-VII</i>	<i>PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1970: DIGEST</i>
7	MONETARY POLICY AND THE ECONOMY IN 1970
7	Demands for goods and services
11	Federal budget
13	Resource utilization and prices
16	Balance of payments
17	Instruments of monetary policy
20	Monetary aggregates
24	Interest rates and credit flows
28	WAGES, PRODUCTIVITY, AND PRICES
34	CONSUMER ATTITUDES AND BEHAVIOR
38	RESPONSIVENESS OF HOUSING AND STATE AND LOCAL GOVERNMENTS
38	Housing
40	State and local governments
42	EASING IN CREDIT AVAILABILITY AT BANKS
42	Sources of funds
44	Bank credit
47	ADJUSTMENTS IN THE BUSINESS SECTOR
48	Business investment
49	Internal funds
50	External financing
52	Corporate liquidity
53	U.S. BALANCE OF PAYMENTS
53	Merchandise trade
55	Capital flows
56	Over-all balance

Part 2—Records, Operations, and Organization

- 61 RECORD OF POLICY ACTIONS—BOARD OF GOVERNORS
- 83 RECORD OF POLICY ACTIONS—FEDERAL OPEN MARKET COMMITTEE
- 178 FEDERAL RESERVE OPERATIONS IN FOREIGN CURRENCIES
- 180 FOREIGN CREDIT RESTRAINT PROGRAM
- 184 LEGISLATION ENACTED
- 184 Direct purchases by Federal Reserve Banks of Government obligations
- 184 Real estate and commercial building construction loans by national banks
- 184 Defense production
- 185 Margin requirements; credit cards
- 185 Bank Holding Company Act Amendments of 1970
- 185 “Tender offers” with respect to securities of member State banks
- 186 Securities Investor Protection Corporation
- 186 Financial Institutions Supervisory Act
- 186 Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970
- 187 LEGISLATIVE RECOMMENDATIONS
- 187 Lending authority of Federal Reserve Banks
- 187 “Par clearance”
- 188 Reserve requirements
- 188 Loans to bank examiners
- 189 Purchase of obligations of foreign governments by Federal Reserve Banks
- 189 Interlocking bank relationships
- 189 Loan guarantees to business
- 190 Federal Reserve Bank branch buildings
- 190 Bank investments for community development
- 192 LITIGATION
- 192 Bank holding companies
- 193 Margin requirements on securities credit transactions
- 193 Truth in Lending
-

195	BANK SUPERVISION AND REGULATION BY THE FEDERAL RESERVE SYSTEM
195	Examination of member banks
197	Federal Reserve membership
198	Bank mergers
199	Bank holding companies
199	Foreign branches of member banks
199	Acceptance powers of member banks
201	Foreign banking and financing corporations
201	Actions under delegation of authority
202	Bank Examination Schools
203	Truth in Lending
203	Bank Protection Act of 1968
204	FEDERAL RESERVE BANKS
204	Examination
204	Earnings and expenses
205	Holdings of loans and securities
205	Volume of operations
206	Loan guarantees for defense production
207	Foreign and international accounts
208	Bank premises
209	BOARD OF GOVERNORS
209	Building annex
209	Income and expenses
	STATISTICAL TABLES:
214	1. Detailed statement of condition of all Federal Reserve Banks combined, Dec. 31, 1970
216	2. Statement of condition of each Federal Reserve Bank, Dec. 31, 1970 and 1969
220	3. Federal Reserve Bank holdings of U.S. Government securities, Dec. 31, 1968-70
221	4. Federal Reserve Bank holdings of special short-term Treasury certificates purchased directly from the United States, 1954-70
222	5. Open market transactions of the Federal Reserve System during 1970
223	6. Bank premises of Federal Reserve Banks and branches, Dec. 31, 1970
224	7. Earnings and expenses of Federal Reserve Banks during 1970

STATISTICAL TABLES—Cont.

226	8. Earnings and expenses of Federal Reserve Banks, 1914-70
228	9. Volume of operations in principal departments of Federal Reserve Banks, 1967-70
228	10. Number and salaries of officers and employees of Federal Reserve Banks, Dec. 31, 1970
229	11. Fees and rates under Regulation V on loans guaranteed pursuant to Defense Production Act of 1950, Dec. 31, 1970
229	12. Margin requirements
230	13. Member bank reserve requirements
231	14. Federal Reserve Bank discount rates, Dec. 31, 1970
232	15. Maximum interest rates payable on time and savings deposits
233	16. Principal assets and liabilities, and number of commercial and mutual savings banks, by class of bank, Dec. 31, 1970, and Dec. 31, 1969
234	17. Member bank reserves, Federal Reserve Bank credit, and related items—end of year 1918-70 and end of month 1970
238	18. Changes in number of banking offices in the United States during 1970
240	19. Number of par and nonpar banking offices, by Federal Reserve district, Dec. 31, 1970
240	20. Number of par and nonpar banking offices, by State and other area, Dec. 31, 1970
242	21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1970.
286	MAP OF FEDERAL RESERVE SYSTEM—DISTRICTS
	FEDERAL RESERVE DIRECTORIES AND MEETINGS:
288	Board of Governors of the Federal Reserve System
290	Federal Open Market Committee
291	Federal Advisory Council
292	Federal Reserve Banks and branches
316	INDEX

Part I
The
U. S. Economy in Transition

Introduction

Economic and financial conditions in the United States during 1970 were in a difficult transitional stage. Real output was stagnant and unemployment was rising, and at the same time prices continued upward under continued cost pressures. Meanwhile, the balance of payments was affected by adverse shifts in capital flows, as a sharp drop in short-term interest rates in this country led to a reversal of the very large inflow of short-term capital that had contributed to surpluses in the U.S. official settlements balance in the previous 2 years.

Substantial progress was made during 1970, however, in re-establishing the basis for sustainable economic expansion. Although wage increases—particularly under collective bargaining agreements—continued to be large, resumption of growth in productivity after the first quarter served to moderate the rate of increase in unit labor costs. The gains in efficiency that were effected in the business sector also worked toward an improvement in the international competitive position of the United States.

The financial positions of key spending sectors also improved in 1970. The position of corporations generally was bolstered by further heavy long-term borrowing and some restructuring of balance sheets in the direction of greater liquidity. As to consumers, their savings in liquid forms were considerably enlarged, to some extent as a result of their cautious spending behavior throughout the year; and financial positions were also favorably affected later in the year as the recovery in the stock market in the second half offset a large part of the earlier price declines.

Financial markets too moved into a position more compatible with sustainable, long-term economic growth. By early 1971 conditions in these markets had eased substantially. Interest rates were considerably lower, banks and other financial institutions were more liquid, and the volume of funds available to borrowers was much improved as compared with the situation a year earlier. Part of this easing in financial conditions reflected a moderation in private borrowing needs stemming from slower growth in current-dollar gross national product and a leveling off in the capital expenditures of business, which earlier had been running far ahead of internally generated funds.

But more important was the resumption in 1970 of growth at moderately high rates in such monetary aggregates as the money stock and bank credit—an expansion that became feasible and desirable because excess demand had been eliminated. Broader measures of liquidity showed relatively more rapid growth than the narrowly defined money stock (currency plus demand deposits other than interbank and U.S. Government). With yields on market securities declining, interest rates paid on time and savings deposits became progressively more attractive, and such deposits expanded sharply at both commercial banks and at other savings institutions. For commercial banks, time deposit expansion was particularly rapid following the suspension at midyear of interest rate ceilings on large negotiable certificates of deposit (CD's) in the 30- to 89-day maturity range. In total, the greater inflow of time and savings deposits considerably increased the availability of funds seeking investment in mortgages, State and local government securities, and short-term business and consumer loans.

Federal fiscal policy also turned more stimulative in 1970: (1) The 10 per cent surcharge on income taxes was terminated in two stages; (2) the first of the reductions contained in the Tax Reform Act of 1969 became effective; and (3) a sharp increase occurred in Federal expenditures—mainly through enlargement of grants-in-aid to local governments and transfer payments to individuals. Even though Federal purchases of goods and services declined slightly in dollar terms as a result of an appreciable reduction in the defense budget, the effect of fiscal policy was to increase consumer disposable income and to buttress State and local government expenditures.

Despite these measures, aggregate economic activity lagged throughout 1970 and output fell increasingly below the Nation's expanding output potential. At the year-end the unemployment rate was up to 6.2 per cent, as against 3.5 per cent a year earlier, and manufacturing facilities generally were being operated at well under preferred rates. In terms of real GNP, the shortfall in output of goods and services below full employment levels at the year-end exceeded 5 per cent. At current prices, this represented a shortfall of more than \$50 billion at an annual rate.

In view of the gap that has developed in the economy's performance relative to potential, and of the accompanying unemployment and under-utilization of the Nation's human resources, the emphasis

in public policy continues to be on the restimulation of economic activity. At the beginning of 1971, depreciation schedules on purchases of business equipment were liberalized for tax purposes in order to enhance the prospective return on, and thereby stimulate, such investment. The Federal budget proposed for fiscal year 1972 calls for an increase in total expenditures of \$16.2 billion—about the same as is projected for the fiscal year 1971—and although balanced in terms of the revenues that would be produced at full employment, it will involve a substantial, realized deficit.

Monetary policy is also on an expansive course, as reflected not only in the substantial growth in money, bank credit, and financial flows, but also in marked declines in interest rates. In designing policies to help revitalize the economy, of course, care must be taken not only to avoid encouraging a rebound that is so swift as to regenerate inflationary pressures and expectations, jeopardizing the hard-won progress that has been achieved in this area, but also to avoid weakening further the U.S. competitiveness in world markets.

It seems likely that an increasing number of sectors in our economy will contribute to economic expansion over the months ahead. Residential construction has already achieved near-record levels, reflecting both large pent-up demands for housing and the marked improvement during 1970 in the availability of funds for mortgage lending. And a large and increasing volume of bond financing by State and local governments points to a growing trend of expenditures for public facilities.

The outlook for spending by businesses in the coming year is still somewhat uncertain. Capital outlays are being adjusted downward in many industries, following a long period of very heavy investment spending. However, investment programs in some other industries—notably the utilities—continue to indicate sharp growth in capital outlays. Hence, the total dollar volume of capital spending, even though it has leveled off, may well remain close to the peak rates reached in 1970. Many businesses also worked during 1970 to trim and balance their inventory positions. But the degree of inventory adjustment was quite small by the standards of many other periods of sluggish economic activity.

The key to the speed and extent of economic recovery in 1971 may well prove to be in the hand of the consumer. Total income available for spending rose strongly during 1970—reflecting tax cuts,

higher social security and other Federal transfer payments, and further growth in aggregate wages and salaries. But spending was sluggish. It rose less in current dollars than in other recent years—and little at all after adjustment for higher prices. Consumers were in a cautious mood—responding to rising prices, increasing unemployment, extended strikes, reduced overtime pay, an uncertain and at times sharply lower stock market, political and military tensions abroad, and social disorders at home. As a result, they restrained their buying and instead strengthened their financial positions through accumulation of liquid financial assets and repayment of debt.

An improvement in consumer sentiment now would serve to spur consumer spending, just as the deterioration in confidence earlier tended to restrict it. And stronger consumer markets would communicate strength to the business sector, would generate jobs and additional income, and would enlarge the tax revenues of governmental units hard pressed by sharp increases in operating costs.

On balance, prospects seem good for a resumption of growth in aggregate economic activity in 1971. Indeed, the recovery could prove to be relatively vigorous if consumers become more confident of future prospects and increase their propensity to spend accordingly. The prospects for sustaining economic expansion should be enhanced to the extent that such expansion is accompanied by increased efficiency in our economic processes through tighter management. Continued moderation in inflation is also an important pre-condition to lasting prosperity, and its achievement will require a gradual subsidence in the cost pressures that lead to higher prices of products and services.

The next section of this report describes monetary policy during 1970 in relation to broad financial and nonfinancial developments in the economy. In order to help evaluate the positions of key areas in early 1971, ensuing sections discuss recent trends in particular sectors or markets in terms of the types of adjustments made during the year to, among other things, the abatement of aggregate demands and the easing of monetary policy. A digest of the principal Federal Reserve policy actions in 1970 appears on pages I-VII, following page 8. □

1 *Principal Federal Reserve Policy Actions, 1970: Digest*

Principal Federal Reserve Policy Actions, 1970: Digest

*Period, or
announcement date*

Action

Purpose

January

Directed that System open market operations be conducted with a view to maintaining firm conditions in the money market, while taking account of the desire of the Federal Open Market Committee to see a modest growth in money and bank credit, with a provision for modification of operations depending on the course of money and bank credit developments.

To foster financial conditions conducive to the orderly reduction of inflationary pressures, with a view to encouraging sustainable economic growth and attaining reasonable equilibrium in the country's balance of payments.

January 20

Increased maximum interest rates payable by member banks on time and savings deposits, effective January 21. This action, in combination with a minor further amendment on February 26 (retroactive to January 21) bringing rates on multiple-maturity deposits in line with those on single maturities, set the following maximum rates:

- (1) Passbook savings, raised from 4 to 4.5 per cent.
- (2) Other types of consumer-type deposits—those of less than \$100,000—raised as follows:

To readjust the structure of maximum interest rates payable by member banks for deposits to bring it somewhat more in line with going yields on market securities and to set the stage for renewed expansion of bank credit; to bring about greater equity in the rates payable on smaller savings balances, and to encourage longer-term savings within the framework of continued over-all credit restraint.

Maturity	Rate (%)	
	New	Previous
Multiple-maturity:		
30-89 days	4.50	4.00
90 days to 1 year	5.00	5.00
Single-maturity:		
30 days-1 year	5.00	5.00
Single- and multiple-maturity:		
1 to 2 years	5.50	5.00
2 years or more	5.75	5.00

(3) Time deposits of \$100,000 or more, raised as follows:

Maturity	Rate (%)	
	New	Previous
30-59 days	6.25	5.50
60-89 days	6.50	5.75
90-179 days	6.75	6.00
180 days to 1 year	7.00	6.25
1 year or more	7.50	6.25

February

Directed that System open market operations be conducted with a view to moving gradually toward somewhat less firm conditions in the money market, taking account of the Committee's desire to see moderate growth in money and bank credit over the months ahead, with a provision for modification of operations depending on the course of money and bank credit developments.

To foster financial conditions conducive to the orderly reduction of inflationary pressures, with a view to encouraging sustainable economic growth and attaining reasonable equilibrium in the country's balance of payments.

Principal Federal Reserve Policy Actions, 1970: Digest—Continued

<i>Period, or announcement date</i>	<i>Action</i>	<i>Purpose</i>
March through late May	Directed that System open market operations be conducted with a view to maintaining money market conditions consistent with the objective of moderate growth in money and bank credit over the months ahead, with a provision in effect during much of May for modification of operations as needed to moderate excessive pressures on financial markets, should they develop.	To foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.
May 6	<p>Reduced the margin requirements on loans by banks, brokers and dealers, and other lenders for the purpose of purchasing or carrying registered equity securities from 80 to 65 per cent.</p> <p>Reduced the margin requirements on such loans by these lenders against securities convertible into registered equity securities from 60 to 50 per cent.</p>	To be less restrictive in view of the sharp reduction in the use of credit for stock purchases.
Late May through late July	Directed that System open market operations be conducted with a view to moderating pressures on financial markets while, to the extent compatible therewith, maintaining bank reserves and money market conditions consistent with the longer-run ob-	To foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of

jective of moderate growth in money and bank credit, with allowance after late June for a possible shift of credit flows from market to banking channels.

June 24

Suspended limitations on the maximum rate of interest member banks may pay on single-maturity deposits of \$100,000 or more that mature 30 days or more but less than 90 days after date of deposit.

Late July through
mid-August

Directed that System open market operations be conducted with a view to maintaining bank reserves and money market conditions consistent with the objective of moderate growth in money and bank credit over the months ahead, allowing for a possible continued shift of credit flows from market to banking channels, with a provision for modification of operations as needed to counter excessive pressures on financial markets, should they develop.

August 17

Reduced reserve requirements against time deposits in excess of \$5 million at each member bank from 6 to 5 per cent and applied a 5 per cent reserve requirement on funds obtained by member banks through the issuance of commercial paper by their affiliates, both actions to become effective in the reserve computation period beginning October 1 and be applicable to such deposits and commercial paper outstanding in the week beginning September 17.

reasonable equilibrium in the country's balance of payments.

To facilitate meeting any unusual demands upon commercial banks for short-term credit accommodation that might occur as a consequence of serious current uncertainties in financial markets.

To foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To maintain the effectiveness of the reserve requirements of Regulation D by applying those requirements to funds received by a member bank as the result of issuance of obligations (commonly described as commercial paper) by an affiliate, and to provide a net release of reserves to the banking system.

Principal Federal Reserve Policy Actions, 1970: Digest—Continued

<i>Period, or announcement date</i>	<i>Action</i>	<i>Purpose</i>
Mid-August through mid-September	Directed that System open market operations be conducted with a view to maintaining bank reserves and money market conditions consistent with the objectives of some easing of conditions in credit markets and of somewhat greater growth in money over the months ahead than had occurred in the second quarter, taking account of possible liquidity problems and allowing bank credit growth to reflect any continued shift of credit flows from market to banking channels.	To foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.
Mid-September through mid-December	Directed that System open market operations be conducted with a view to maintaining bank reserves and money market conditions consistent with the objectives of some easing of conditions in credit markets and of moderate growth in money and attendant bank credit expansion over the months ahead, with allowance in the latter part of the period for temporary shifts in money and credit demands related to the auto strike.	To foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.
November 10	Reduced discount rates from 6 to 5¾ per cent at 6 Reserve Banks, effective November 11. (By No-	To bring the discount rate into better alignment with short-term in-

November 30

ember 16, the $5\frac{3}{4}$ per cent rate was in effect at all Reserve Banks).

Amended rules governing member bank reserves (Regulation D) and foreign branches of member banks (Regulation M), effective January 7, 1971, to (1) raise from 10 to 20 per cent the reserve ratio applicable to a member bank's Euro-dollar borrowings to the extent that they exceed a specified reserve-free base and (2) apply an automatic downward adjustment feature to the minimum reserve-free bases applicable to Euro-dollar borrowings.

Reduced discount rates from $5\frac{3}{4}$ to $5\frac{1}{2}$ per cent at 5 Reserve Banks, effective December 1. (By December 11, the $5\frac{1}{2}$ per cent rate was in effect at all Reserve Banks.)

Mid-December
through year-end

Directed that System open market operations be conducted with a view to maintaining the money market conditions recently attained, provided that the expected rates of growth in money and bank credit were at least being achieved.

terest rates, in which reductions had recently taken place.

To give banks an added inducement to retain Euro-dollar borrowings in order to preserve reserve-free bases.

To re-establish better alignment between the discount rate and short-term interest rates, in recognition of further downward movements that had recently taken place in the latter.

To foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

Monetary Policy and the Economy in 1970

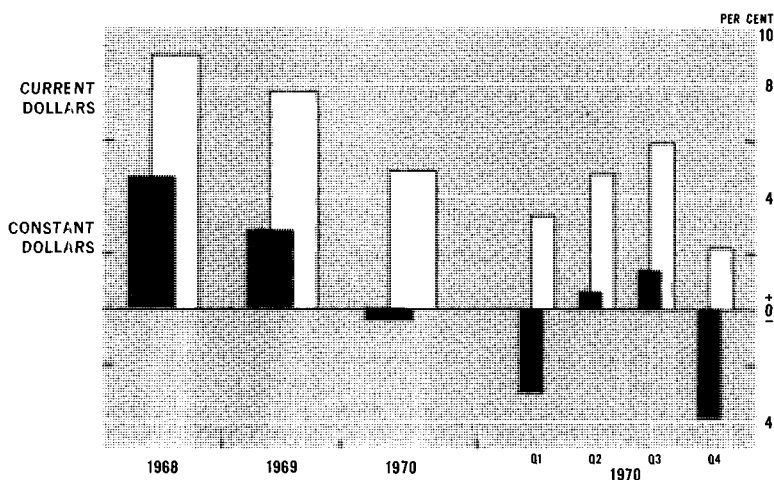
To help stimulate economic activity while at the same time guarding against fueling inflation, monetary policy during 1970 shifted from the posture of restraint that had prevailed during much of 1969 to a posture designed to assure adequate expansion in monetary and credit aggregates and an easing in over-all credit conditions. From December 1969 to December 1970, the money stock grew at an annual rate of 5.4 per cent and bank credit (adjusted for loan sales to affiliates) at a rate of 7.4 per cent, up 2.3 and 3.4 percentage points, respectively, from the year before. Except for a brief period in the second quarter, short-term interest rates declined sharply during 1970. On the other hand, long-term interest rates did not show significant net declines until the latter part of the year, because credit demands in bond markets remained strong and it took time for the inflationary expectations of investors and borrowers to begin abating. Once the decline in long-term rates got under way, however, it proceeded with a speed unprecedented in recent financial history.

DEMANDS FOR GOODS AND SERVICES

The weakening of demands in 1970 was reflected in production cut-backs in many industries. Output of goods and services (GNP) rose about 5 per cent from 1969 to 1970 in terms of current dollars. But all of the increase reflected a rise in the average level of prices, and in constant dollars GNP declined slightly. In goods-producing sectors, output dropped by 3 per cent from 1969 to 1970. The declines in industrial production were concentrated in defense products, off 19 per cent; in consumer durable goods, down 7 per cent; and in business equipment, off 4 per cent.

The weakness in the economy was exacerbated by the extended strike at a major automobile manufacturer, which lasted from September 14 to November 23. This strike contributed to the greater than 3 per cent decline (annual rate) in real economic activity in the fourth quarter. Apart from the effects of this strike, real GNP would probably have shown a further small increase in the last quarter of

1. CHANGE IN GNP



Dept. of Commerce data. Quarterly totals are at seasonally adjusted annual rates.

the year. Real GNP had shown small increases in the second and third quarters, following a decline of almost 3 per cent at an annual rate in the first quarter as businesses cut back substantially on their inventory investment.

Inventory policies of business were not a significant drag on the economy after the first quarter, however. Following the first-quarter decline in the rate of such investment, and a similar drop in the fourth quarter of 1969, inventory accumulation picked up somewhat, although the rate was still lower than at any other time since 1961. Altogether, the over-all adjustment of inventories was mild.

In the first half of 1970 consumer spending was bolstered by additions to disposable income resulting from a Federal pay raise, increases in social security benefits, and the first-stage reduction in the income tax surcharge. Nevertheless, the increase in such spending did not keep pace with the rise in income—as consumers resisted high and rising prices and as uncertain economic prospects also appeared to contribute to an increase in the propensity to save. The personal saving rate rose to 7.5 per cent by spring and changed little from this advanced rate in the second half of the year.

Growth in consumption outlays slowed further in the second half of the year, reflecting a much reduced increase in disposable personal

income—despite elimination of the surtax at midyear—as employment showed only minor gains and the workweek was cut further in the third quarter. The smaller increase in spending resulted mainly from an actual drop in outlays on consumer durable goods. This drop became evident in the third quarter prior to the strike in the auto industry, and it was accentuated in the fourth quarter when expenditures for autos were cut sharply. Strike effects also contributed to a reduced rise in disposable personal income in the second half of the year, especially in the fourth quarter when such income grew at less than one-half of the third-quarter pace and at about one-fourth of the average rate for the first half.

In the business sector the principal development in 1970 was the ending of the long fixed investment boom, which had persisted with only minor interruptions since the early 1960's. Business spending on new fixed capital rose by only about 3 per cent from 1969 to 1970

TABLE 1: GROSS NATIONAL PRODUCT

Change from preceding period, in billions of dollars

Item	1968	1969	1970	1970			
				I	II	III	IV
Gross national product.....	71.1	66.4	45.1	7.8	11.6	14.4	4.4
Personal consumption expenditures.....	43.7	41.7	39.2	10.5	11.3	7.7	4.9
Durable goods.....	10.9	6.0	-.6	-1.7	2.8	-.7	-5.9
Nondurable goods.....	15.2	15.6	18.9	6.8	3.8	3.2	5.7
Services.....	17.6	20.0	21.0	5.4	4.7	5.2	5.1
<i>Addendum: Saving rate (per cent)</i>	6.8	6.0	7.3	6.7	7.5	7.6	7.4
Fixed investment.....	10.5	12.5	.9	-1.4	-.4	1.5	.8
Residential structures.....	5.2	1.7	-2.3	-1.3	-.7	.8	3.0
Nonresidential.....	5.4	10.6	3.3	.0	.2	.8	-2.3
Inventory change.....	-.6	.9	-5.0	-5.6	1.5	2.4	-1.9
Net exports of goods and services.....	-2.7	-.6	1.7	.9	.6	.1	-1.6
Exports.....	4.4	4.9	6.7	2.3	1.7	.0	-.8
Imports.....	7.1	5.5	5.0	1.4	1.1	-.1	.7
Govt. purchases of goods and services.....	20.1	12.0	8.3	3.3	-1.2	2.6	2.2
Federal.....	8.8	1.8	-1.6	.2	-2.6	-1.1	-.4
Defense.....	5.6	.8	-2.2	.5	-2.5	-1.0	-1.2
Other.....	3.1	1.1	.5	-.3	-.1	.0	.6
State and local.....	11.3	10.1	10.1	3.2	1.3	3.7	2.6

in current-dollar terms and actually declined after allowing for price increases.

The leveling off of expenditures for plant and equipment appeared to be in large part the product of developments cumulating over a long period. The sharp expansion in plant and equipment outlays in the second half of the 1960's ultimately gave rise to a drop in the rate of plant capacity utilization in manufacturing, which by the end of 1969 had declined to 83.7 per cent. In 1970, as defense production was reduced and consumer propensities to spend declined, capacity utilization rates dropped further—to 72 per cent by the end of the year. With wage costs and the costs of external funds rising sharply, business profits too came under pressure, and investment incentives were reduced. The weakening of investment incentives, however, was counterbalanced in part by the sharp drop in the cost of capital—as represented by long-term interest rates—in late 1970 and early 1971.

Other types of capital outlays were particularly responsive to emerging tightness or ease in credit markets. Residential construction expenditures, which had begun to decline in the second half of 1969, continued to drop in the first half of 1970 in lagged response to the reduced availability and higher cost of funds from private lenders. The decline from mid-1969 to mid-1970 was less sharp than that during the 1966-67 period of mortgage market tightness, however. The fact that it was smaller reflected in part the expansion of Federal support programs to provide more insulation of the housing market from the effects of monetary tightness and in part a response to non-monetary factors that sustained the demand for homes.

With the turn toward monetary ease in early 1970, availability of funds in the mortgage market began to improve. The ensuing decline in short-term market interest rates was accompanied by a sharp increase in the net inflow of funds to savings institutions as the public diverted savings from market instruments to interest-bearing deposits. Although mortgage interest rates showed little net decline until late in the year, when they began to drop significantly, the increased availability of funds led to a rise in housing starts from a seasonally adjusted annual rate of 1.25 million units in the first quarter to an average of 1.75 million units in the fourth quarter. And outlays for

residential construction turned up in the second half of the year. The dollar rise in the fourth quarter was the largest in 3 years.

Purchases of State and local governments rose by only about the same amount from 1969 to 1970 as they had the year before, despite a 20 per cent increase in Federal grants-in-aid from 1969 to 1970. Normally, increases in such purchases have tended to accelerate from year to year as the demand for public facilities and services has expanded. But spending was held back in 1970 as a result of the financing difficulties that many governments encountered in late 1969 and early 1970. Debt issues were difficult to place in view of the tight position of commercial banks, which are principal buyers of such issues; and in some cases governments were unable to issue bonds because of restrictive interest rate ceilings imposed by State regulations or public referenda. As 1970 progressed, however, the easing in the availability of funds at banks helped to facilitate marketing of a larger volume of issues. Since there is a substantial lag between financing and actual spending, State and local government capital outlays by year-end had not yet risen appreciably.

FEDERAL BUDGET

Demands by the Federal Government for goods and services moderated in 1970. In fact, the total of such purchases, as measured in the national income accounts, declined for the first time in 10 years. The \$2 billion year-over-year decline in defense spending reflected substantial reductions in real terms, including a reduction of 318,000 in the size of the Armed Forces and sizable cutbacks in orders and deliveries of defense products. The budgetary reductions in defense spending occurred despite a sizable increase in U.S. Government compensation for military and civilian employees. Increases in purchases of nondefense goods and services were minor. On the other hand, Federal expenditures other than purchases rose by about \$16.5 billion from 1969 to 1970, a record increase. In addition to the larger grants-in-aid to State and local governments already noted, social security payments rose—a 15 per cent increase in benefits was enacted in April retroactive to the first of the year—and medicare programs and unemployment compensation also entailed larger disbursements.

Total Federal receipts, as measured in the national income accounts, dropped by about \$5 billion in 1970, reflecting principally the effects of the elimination of the 10 per cent tax surcharge. In addition, however, growth in taxable income of businesses and consumers was considerably below normal.

With receipts dropping and total expenditures continuing to rise, the Federal sector of the national income accounts showed a deficit of \$11 billion in 1970, following a \$9 billion surplus in 1969. The unified budget also shifted into sizable deficit during the year, and the Federal Government once again became a large net borrower in credit markets.

The extent of the swing from budgetary surplus in 1969 to deficit in 1970 was, as noted above, strongly influenced by the sluggish pace of economic activity. To that extent it was not reflective of a more active fiscal policy. But in addition, certain discretionary changes—such as the reduction in tax rates—were undertaken that moved fiscal policy in a somewhat more expansive direction.

TABLE 2: FEDERAL GOVERNMENT RECEIPTS AND EXPENDITURES

In billions of dollars

Item	Calendar year			1970			
	1968	1969	1970	I	II	III	IV
Federal Sector NIA basis (Annual totals, or quarterly totals at seasonally adjusted annual rates)							
Receipts.....	175.4	200.6	^p 195.2	195.9	196.7	194.9	[*] 193.3
Expenditures.....	181.6	191.3	^p 206.3	197.7	210.9	206.7	^p 209.9
Purchases of goods and services	99.5	101.3	^p 99.7	102.3	99.7	98.6	^p 98.2
Other.....	82.1	90.0	^p 106.6	95.4	111.2	108.1	^p 111.7
Surplus or deficit.....	-6.2	9.3	^p -11.1	-1.7	-14.2	-11.8	^e -16.6
Unified budget (Annual totals, or quarterly totals not seasonally adjusted)							
Receipts.....	169.4	195.7	190.5	44.4	58.6	46.5	41.1
Outlays.....	185.5	190.3	201.9	47.8	49.8	54.3	49.9
Budget surplus, or deficit.....	-16.1	5.4	-11.4	-3.5	8.7	-7.8	-8.9
Net cash borrowing.....	15.3	-2.6	11.8	2.0	-6.4	7.4	8.9

^e Estimate.

^p Preliminary.

NOTE.—The Federal sector in the national income accounts measures Federal receipts and expenditures as they directly affect private incomes in the national accounts. Thus it excludes all Federal lending, which affects private debt but not incomes. Also the timing in some transactions is on an accrual basis; in others, on a delivery basis. Generally speaking, the unified budget includes lending by federally owned agencies (but not that of federally sponsored corporations), and it records Federal transactions on a cash basis.

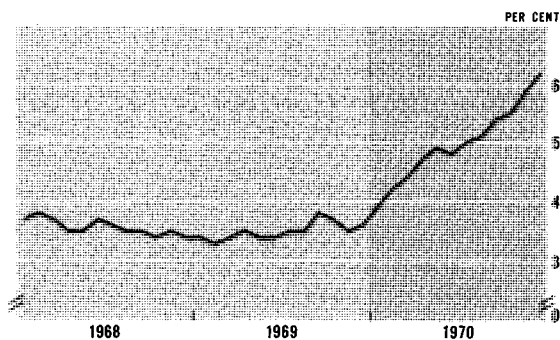
A measure of the extent of the change in fiscal policy is provided by the "full employment" budget. There are a number of different ways of measuring expenditures and receipts under the full employment concept, but all show a decline in the full employment surplus from 1969 to 1970. According to the measure calculated by the Council of Economic Advisers, the drop in the full employment surplus was about \$5 billion, but there was still a moderate surplus for the calendar year 1970.

RESOURCE UTILIZATION AND PRICES

The weakening of aggregate demands for goods and services in 1970 was reflected, in turn, in reduced demands for labor. While reflecting in part the effects of the auto strike, total civilian employment showed practically no net change from the fourth quarter of 1969 to the fourth quarter of 1970. Although growth was considerably less than in 1969, the total labor force continued to expand substantially. Growth in the civilian labor force was further raised by the reduction in the size of the Armed Forces. The rate of unemployment rose from an average of 3.6 per cent in the fourth quarter of 1969 to 5.9 per cent in the last quarter of 1970. For the year as a whole, it averaged 4.9 per cent.

In manufacturing industries, employment by the end of 1970 was down sharply—by about 1.3 million workers—from a year earlier. During the year employment demands diminished over a broad spectrum of manufacturing, including both defense activities and civilian industries. Layoffs affected production workers for the most part.

2. UNEMPLOYMENT RATE



Bureau of Labor Statistics data.

However, in view of the pressures on profit margins, businesses were very sensitive to the need for reducing costs, and as a result employment of nonproduction workers too was cut substantially, especially in the defense-products industry.

TABLE 3: LABOR MARKET INDICATORS

Item	Change (in thousands of persons) during year ending Q4:		
	1968	1969	1970
Total labor force.....	1,031	2,339	1,331
Armed Forces.....	73	-53	-444
Civilian labor force.....	958	2,392	1,774
Employed.....	1,312	2,167	-1
Unemployed.....	-353	224	1,775
Nonfarm employment (based on payroll data):			
Manufacturing.....	439	184	-1,455
Production workers.....	315	55	-1,265
Other.....	124	129	-190
Private nonmanufacturing....	1,440	1,502	364
Government.....	425	341	453
Federal.....	-23	5	-66
State and local.....	448	336	518

Despite a weakening in demand for labor, upward wage pressures continued strong, reflecting both the large number of union wage contracts that came up for renewal and the attempts of both union and nonunion workers to make up for previous—or to anticipate future—cost-of-living increases. Compensation per manhour in the private nonfarm sector of the economy increased by about 7 per cent on the average in 1970, very little different from the increase in 1969, even though there was a reduction in overtime work.

In spite of the sizable further rise in compensation in 1970, unit labor costs in the private nonfarm economy rose less than in 1969. Output per manhour, after failing to show any improvement since the first quarter of 1969, began to rise in the second quarter of 1970; the rise appears to have been interrupted in the fourth quarter, but this was apparently the result of a sharp drop in production related to the auto strike. The moderate rebound in productivity and the slowing of growth in unit labor costs tended to ease, to some degree, the pressures on profits resulting from the slackness in demands

for industrial output and for services; still, the general pressures on profit margins caused businesses to raise prices further.

Progress toward containing the rate of inflation was slow. The rate of increase in wholesale prices of industrial commodities diminished somewhat, from an average annual rate of 3.8 per cent in the first half of the year to 3.4 per cent in the second half. However, prices of finished goods rose sharply in the fourth quarter in reflection of upward adjustments in passenger car prices. But nonfood crude materials, excluding fuels, declined in price during the last three quarters of the year. The consumer price index rose somewhat more moderately in the second half of the year than it had in the first half, largely as a result of an increase in food supplies, mainly meat.

Although the increase in average consumer prices moderated somewhat, there were a number of areas—such as construction costs—in which price increases, reflecting the upward momentum gathered over the past several years, continued to be very strong. Nevertheless, as measured by the private GNP implicit deflator, the rate of price increase over-all seems to have leveled off during the year, if rough allowance is made for the technical effects of the auto strike on the composition of fourth-quarter output and hence on the computation of the deflator.

TABLE 4: PRICE CHANGES

In per cent

Category	Year				1970 annual rate ¹			
	1967	1968	1969	1970	Dec.-Mar.	Mar.-June	June-Sept.	Sept.-Dec.
Wholesale prices, total.....	.9	2.8	4.7	2.3	4.0	1.1	3.9	.4
Industrial commodities.....	1.9	2.6	3.9	3.6	3.1	4.5	2.9	3.8
Crude materials ²	1.0	-1.3	7.3	-1.2	9.5	-2.6	-7.3	-3.8
Finished goods.....	2.4	2.4	3.4	4.3	2.8	2.8	2.8	8.8
Farm products, processed foods, and feeds.....	-1.8	3.5	7.3	-1.2	6.8	-9.9	8.9	-9.2
Consumer prices, total.....	3.0	4.7	6.1	5.5	6.3	5.8	4.2	5.7
Food.....	1.2	4.3	7.2	2.2	5.4	1.3	1.4	.9
Other commodities (less food).....	3.2	3.7	4.4	4.8	2.9	6.4	3.7	6.4
Services.....	3.9	6.1	7.4	8.2	11.2	7.3	7.2	7.0
GNP, private implicit deflator..	3.0	3.8	4.7	5.0	5.3	4.1	4.7	5.8

¹ Compounded.

² Excludes foods, feeds, and fuels.

NOTE.—All data are seasonally adjusted except for crude materials and finished goods in wholesale prices and services in consumer prices. Annual changes calculated December to December, except for deflator for which quarterly data are used throughout.

BALANCE OF PAYMENTS

There were divergent trends in the current and capital accounts of the U.S. balance of payments during 1970. In the first half of the year the trade balance strengthened considerably, under the influence of lessened demand pressures here and a high level of activity in most industrial countries. However, the trade surplus declined after midyear as imports rose further despite the growing slack in the U.S. economy, while exports fell off somewhat in response to an easing of the rate of expansion abroad. On the other hand, net outflows of long-term capital were very large in the first half, as U.S. direct investors placed large amounts abroad while foreign investors were net sellers of U.S. corporate stocks. Foreign purchases of equity securities were resumed on a substantial scale in June, and the outflow of funds from U.S. corporations for direct investment abroad appeared to be much less in the second half of the year.

In total, the liquidity measure of the U.S. balance of payments showed a small improvement in 1970—registering a deficit of about \$5 billion, or \$1 billion less than in 1969 (balances adjusted to exclude special transactions and, in 1970, the allocation of SDR's). Gains in the liquidity balance reflected primarily an improvement in

TABLE 5: U.S. INTERNATIONAL TRANSACTIONS

In billions of dollars, seasonally adjusted

Item	1969	1970 ^e	1970			
			I	II	III	IV ^e
Goods and services, net.....	1.9	3.6	.8	1.1	1.0	.7
Exports.....	36.5	42.0	10.2	10.7	10.7	10.4
Imports.....	-35.8	-39.8	-9.7	-9.9	-10.0	-10.3
Trade balance.....	.6	2.2	.5	.8	.7	.1
Services, net.....	1.3	1.4	.3	.3	.3	.5
All other transactions corresponding to liquidity basis ¹	-7.9	-8.5	-2.1	-3.2	-1.7	-1.5
Liquidity balance adjusted ^{1,2}	-6.0	-4.9	-1.3	-2.1	-.7	-.8
Liquid liabilities to:						
Foreign commercial banks.....	9.2	-6.5	-1.9	-.1	-1.4	-3.1
Other private foreigners ³	-.5	.3	.....	.1	-.1	.3
Official settlements balance adjusted ^{1,2} ...	2.8	-11.0	-3.2	-2.1	-2.1	-3.6

^e Estimated.

¹ Excludes special transactions.

² Excludes SDR allocation.

³ Includes international organizations.

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

SOURCE.—Survey of Current Business and Federal Reserve estimates.

the trade balance from a slim \$0.6 billion surplus in 1969 to a surplus of about \$2.2 billion in 1970, plus somewhat larger net receipts of investment income.

A major feature of the U.S. accounts in 1970 was a net reduction of more than \$6 billion in liabilities of U.S. banks to foreign commercial banks through their branches. These borrowings had been built up mainly in 1969 when monetary restraint and the low level of Regulation Q ceiling rates relative to domestic market rates had limited the growth of bank liabilities to domestic holders. As funds borrowed from abroad were returned to the Euro-dollar market, the dollar holdings of foreign monetary authorities grew rapidly. Consequently, the balance on the official reserve transactions basis (excluding special transactions and the allocation of SDR's) registered a deficit of \$11 billion, reversing the \$2.8 billion surplus of 1969.

INSTRUMENTS OF MONETARY POLICY

During 1970, as usual, the Federal Reserve relied mainly on open market operations in encouraging growth in the monetary aggregates and easier credit market conditions. But it also used other monetary policy instruments as the stance of policy was adapted during the year to emerging sectoral, liquidity, and balance of payments problems.

Early in the year the Board of Governors announced an across-the-board increase in the maximum interest rates payable by member banks on time and savings deposits. The realignment was part of a coordinated move on the part of the Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board that involved general increases in ceiling rates on deposits at both banks and nonbank thrift institutions. In addition to an upward scaling of ceilings by maturity on both large time CD's and—for the first time—consumer-type time certificates, maximum rates payable on savings deposits at commercial banks were raised for the first time in several years. This latter change reflected efforts to introduce greater equity into rates payable for smaller savings balances.

More broadly, these actions were designed to bring rates payable by banks and other savings institutions for deposits more into line with rates prevailing at the time on competing market securities. It was expected that the realignment of deposit rates with market rates

would help to generate the deposit funds needed to finance a moderate pick-up in the growth of credit flows through financial institutions.

In May and June, Federal Reserve authorities took several actions to assure that the System would fulfill effectively the oldest and most traditional central banking function—that of serving as lender of last resort and of alleviating liquidity squeezes. In that period U.S. money and capital markets were experiencing unusual strains. Among the causes of these tensions were heavy corporate demands for long-term credit, expectations of a large volume of borrowing by the U.S. Treasury in the latter half of the year, concern that some prominent firms were financially over-extended and might not be able to refinance their short-term obligations, a sharp drop in stock market prices, and unsettlement arising from the unexpected U.S. involvement in Cambodia. While anxieties in financial circles that a general liquidity squeeze was emerging proved to be clearly exaggerated, it is true nonetheless that their net effect was to cause a sharp increase in over-all demand for liquidity. In view of these market uncertainties and liquidity strains, open market policy gave first priority in this period to moderating pressures on financial markets. And in May the Board of Governors reduced margin requirements on equities from 80 to 65 per cent, and on convertible bonds from 60 to 50 per cent.

In recognition that pressures might pyramid in the commercial paper market after a major railroad filed for reorganization in mid-June, the authorities supplemented their efforts to ameliorate market strains through open market policy with other policy measures. It was made clear that the Federal Reserve discount window would be available to assist banks in meeting the needs of businesses unable to roll over their maturing commercial paper. Also the Board of Governors moved promptly to suspend maximum rate ceilings on large-denomination CD's with maturities of 30 to 89 days.

This action enabled banks to obtain funds that investors had become reluctant to place in other markets and to rechannel these funds to borrowers previously dependent on the issuance of commercial paper. Aided by these Board actions, banks responded effectively to the midyear shifts in demands for funds, and the widespread concern that a lessening of investor participation in the commercial paper market might trigger a series of business bankruptcies subsided.

In mid-August, after conditions in the commercial paper market had calmed, the Board announced the application of a 5 per cent reserve requirement against funds obtained by member banks through the issuance of commercial paper by their affiliates. This action was designed to put bank-related commercial paper, which is typically issued in denominations of \$100,000 or more, on a substantially equal footing—in terms of reserve requirements—with large negotiable time CD's. A somewhat similar proposal, with a higher reserve requirement, had been published for comment in January, but given the interim course of economic and financial developments, circumstances were not appropriate for its adoption.

The extension of reserve requirements to bank-related commercial paper was accompanied by a reduction from 6 to 5 per cent in the reserves that member banks must hold against time deposits in excess of \$5 million. These two actions, in combination, resulted in a net reduction in required reserves of about \$400 million for the banking system as a whole. Most of the reduction in reserves affected banks that might be expected to be relatively active lenders in markets for mortgages and State and local government securities.

An additional reserve requirement action, announced at the end of November, was designed to have an effect on the balance of payments. In the closing months of the year further declines in U.S. short-term interest rates were sharply increasing the relative costs for major U.S. banks of borrowing Euro-dollars in lieu of domestic short-term funds. This widening of rate spreads threatened to cause large U.S. bank repayments of Euro-dollar borrowings, and a consequent deepening of the very large official settlements deficit in the U.S. balance of payments.

Therefore, to temper Euro-dollar reflows, the Board of Governors amended Regulations D and M to increase—from 10 to 20 per cent—the reserve ratio required on Euro-dollar borrowings exceeding the average level that is reserve-free. This reserve-free base declines as the average level of Euro-dollar borrowings is reduced below a line established for the individual bank. The doubling of the reserve ratio was expected to moderate further outflows of bank-held Euro-dollars by enhancing the prospective value of existing reserve-free bases.

After April 1969 market interest rates had moved well above the discount rate, but by October 1970 declines in such rates had again

brought the discount rate about in line with the market. When short-term market rates then dropped below the discount rate during November, the Federal Reserve lowered the discount rate to bring it into closer alignment with market rates. Effective November 11 and December 1, the rate was reduced from 6 to 5½ per cent. These were the first changes in the discount rate since April 1969, and the first cuts since a ¼ percentage point reduction in mid-August 1968, and before that a ½ percentage point reduction in early April 1967. Two further reductions of ¼ percentage point in the discount rate were made in early 1971, as short-term market rates dropped further, and at the end of January 1971 the discount rate was 5 per cent.

MONETARY AGGREGATES

In the latter half of 1969 growth of the narrowly defined money stock had slowed to a virtual halt, and bank credit—as measured by the adjusted bank credit proxy—had contracted slightly. In moving from a restrictive to a more expansionary monetary policy in early 1970, the Federal Open Market Committee sought to achieve moderate growth in money and bank credit. To implement its policy of encouraging more rapid growth in such aggregates, the Committee placed somewhat greater emphasis on the monetary aggregates in the operating instructions given to the System Account Manager for guidance in the day-to-day conduct of open market operations. The Committee did not decide to pursue fixed target rates of growth of the monetary aggregates in any exclusive sense, however, and it continued to adjust its stance as required to meet other policy objectives—for example, the need already noted to cope temporarily with liquidity strains and undue pressures in security markets.

Reflecting the diversity of operating targets, the large variations often found in month-to-month deposit data, and what seemed to be temporary but sharp shifts in the public's willingness to hold cash, the growth rate of the narrowly defined money stock in 1970 sometimes fluctuated fairly widely. Over the year as a whole, however, the money stock expanded by 5.4 per cent. During each of the first three quarters of the year the annual rate of growth averaged close to 6 per cent. Although the growth rate then dropped to about 2 per cent on the average in October and November, when demands for money

TABLE 6: CHANGES IN SELECTED MONETARY AGGREGATES

Item	1968	1969	1970	1969		1970	
				1st H	2nd H	1st H	2nd H
In per cent; quarterly figures, at seasonally adjusted annual rates							
Total reserves.....	7.8	-1.6	6.4	.7	-3.9	-.2	13.0
Concepts of money:							
M ₁ (Currency plus demand deposits ¹).....	7.8	3.1	5.4	5.1	1.2	5.9	4.8
M ₂ (M ₁ plus time deposits at commercial banks other than large time CD's).....	9.4	2.4	8.2	5.1	-.4	5.9	10.2
M ₃ (M ₂ plus deposits at non-bank thrift institutions).....	8.4	2.8	7.9	5.1	.4	5.3	10.2
Bank credit:							
Bank credit proxy adjusted ² ..	9.8	.2	8.3	1.6	-1.2	3.5	12.9
Loans and investments of commercial banks ³	11.0	4.0	7.4	5.1	2.9	4.5	10.1
In billions of dollars							
Memo items on short-term market paper:							
Large time CD's at banks....	2.9	-12.8	14.8	-8.2	-4.6	2.0	12.8
Euro-dollar borrowings.....	2.6	6.8	-6.0	4.8	2.0	-1.9	-4.1
Bank-related commercial paper and other nondeposit sources.....		5.9	-2.4	2.8	3.1	2.6	-5.0

* Estimated.

¹ Currency held outside the Treasury, F. R. Banks, and the vaults of all commercial banks, plus demand deposits other than interbank and U.S. Government.

² Total member bank deposits subject to reserve requirements, plus Euro-dollar borrowings, bank-related commercial paper, and certain other nondeposit items. This series for deposits is referred to as "the adjusted bank credit proxy."

³ Based on month-end figures. Includes loans sold outright to affiliates and branches.

were temporarily affected by the dampening effect of the auto strike on economic activity, in December it again moved up to 6.2 per cent.

Broader measures of the money stock—which encompass various types of time and savings deposits as well as private demand deposits and currency, such as the M₂ and M₃ concepts listed in the accompanying table—showed substantially more rapid growth in 1970 than M₁ (narrowly defined money stock). Moreover, the growth in these aggregates accelerated in the second half of 1970. As already noted, the stage had been set for expansion in these other measures when ceiling rates of interest were increased in January for time and savings deposits at all types of thrift institutions.

As market interest rates moved down toward, and below, these

higher ceilings, savings inflows accelerated at both bank and non-bank thrift institutions. Although this pick-up began as early as February, the inflow gained momentum during the second quarter and was most pronounced after midyear. The late June suspension of ceiling rates on large short-maturity bank CD's triggered an abrupt increase in such instruments during the third quarter. And for the year as a whole the total growth in CD's more than offset the sharp contraction that had occurred in 1969.

The expansion was not limited to CD's, however. Consumer-type time and savings accounts at banks grew nearly as much as CD's in the third quarter, and for the year as a whole their expansion was substantially larger than that of CD's. A somewhat similar growth pattern was evident at savings and loan associations and, with some lag, at savings banks as well. Apparently consumers were encouraged to add to liquidity in these forms by several factors: the dramatic improvement of yields on such accounts relative to market rates; a desire to maintain their financial asset holdings in risk-free form; and a more conservative attitude on their part toward spending, as overtime hours of work dropped and unemployment widened.

To a considerable extent the rapid growth of large CD's indicated that banks were using this less costly and more convenient means of obtaining funds instead of borrowing through the Euro-dollar market or issuing bank-related commercial paper. After the Board announced the extension of reserve requirements to bank-related commercial paper, the volume of such paper outstanding declined by \$5.2 billion through December. And over the full year, as domestic markets for short-term funds became relatively more attractive, major banks reduced their Euro-dollar borrowing by more than \$6 billion. Nevertheless, when bank funds from these sources are added to deposits, as in the adjusted bank credit proxy, the growth in this comprehensive measure was still sizable—more than 8 per cent for the year, as compared with less than one-half of 1 per cent for 1969. Moreover, growth in bank credit—like that in the broader measures of money and liquidity—accelerated in the second half of 1970.

The total reserves that support aggregate member bank deposits grew by 6.4 per cent in 1970; expansion was especially rapid in the second half of the year. Nonborrowed reserves provided to banks through open market operations rose more rapidly than the total, as member banks reduced their borrowings at Federal Reserve Bank

discount windows from around \$1 billion early in 1970 to a range of \$200 million to \$300 million at the year-end. Over the same period net borrowed reserves (excess reserves less borrowings) dropped from around \$800 million to virtually zero, with excess reserves rising modestly over the year as short-term interest rates—representing the cost of holding excess reserves—declined sharply.

Part of the rapid expansion in bank credit in 1970 represented a channeling of funds through the banking system, whereas in 1969 funds had been going directly into market securities. Perhaps the most dramatic illustration of this rechanneling process occurred during the squeeze on the commercial paper market in late June and July when outstanding nonbank commercial paper declined by more than \$2 billion in the course of a few weeks, while bank CD's and loans to businesses and to finance companies showed a marked expansion.

Although movement of funds back into banks and into nonbank savings institutions was an important aspect of credit flows in 1970, there was also an increase in the over-all availability of credit and in the actual amount of funds raised, as both institutions and direct market participants became more willing lenders. Total funds raised by nonfinancial sectors rose by about \$14 billion (annual rate)—or 16 per cent—from the second half of 1969 to the second half of 1970,

TABLE 7: FUNDS RAISED BY NONFINANCIAL SECTORS

In billions of dollars; half-year figures, at seasonally adjusted annual rates

Sector	1968	1969	1970	1969		1970	
				1st H	2nd H	1st H	2nd H
Total.....	97.4	88.2	96.1	88.8	87.8	89.1	101.5
U.S. Government.....	13.4	-3.6	11.9	-9.3	2.0	8.7	13.6
Total, other nonfinan. sectors ¹ ..	84.1	91.9	84.2	98.1	85.8	80.4	87.9
State and local govt. issues.....	10.2	8.9	12.6	10.0	6.9	10.1	15.1
Nonfinancial corporate business:							
Bonds and stocks.....	12.1	16.4	27.9	14.8	17.9	24.6	31.2
Mortgages.....	5.8	4.3	5.0	4.6	4.0	4.5	5.5
Commercial paper.....	1.6	2.7	2.8	3.8	1.5	3.1	2.4
Bank loans.....	9.6	10.9	.....	13.4	8.3	3.9	-3.9
Consumers:							
Consumer instalment debt....	9.0	8.3	3.0	8.9	7.9	4.3	1.7
Mortgages.....	16.0	17.4	13.0	18.0	16.7	13.5	14.6

¹ Includes borrowing other than the types shown below.
NOTE.—Flow of funds data.

over a period when interest rates were showing substantial declines. The increase in funds raised reflected larger borrowings by the U.S. Government, while funds raised by other sectors were little changed between the two periods.

INTEREST RATES AND CREDIT FLOWS

Declines in U.S. short-term market rates of interest in 1970 were the most dramatic in absolute terms for any year in the postwar period. The reductions ranged from about 3 to 4 percentage points, or from about one-third to nearly one-half of their levels prevailing in December 1969. Declines in long-term market rates, while also large, ranged only from about one-tenth to nearly one-fourth of their December 1969 levels, although this amounted to 1 to 1½ percentage points in yield. As a result of their much wider swing, short-term rates generally moved from a position of historically wide spreads above, to one of wide spreads below, long-term rates.

TABLE 8: CHANGES IN SELECTED INTEREST RATES, 1970

In basis points

Series	Total, Dec.'69 to Dec.'70	Dec.'69 to Mar.'70	Mar.'70 to spring high	Oct.'70 to Dec.'70
Short-term:				
Federal funds	-407	-121	+34	-130
Treasury bills	-295	-119	+20	-104
Commercial paper	-311	¹ -78	¹ +23	-112
Euro-dollars	-384	-221	+51	-69
Long-term:				
Corporate Aaa	-95	-15	+51	-83
U.S. Govt.	-126	-58	+84	-94
State and local govt.	-136	-79	+97	-93

¹ Periods used are December to April and April to the spring high, since changes in this series lagged behind the changes in other short-term rates.

NOTE.—Changes are calculated from monthly averages. Treasury bills, 3-month market yield; commercial paper, 4-6 months; Euro-dollars, 3-month; corporate Aaa, new issues, FRB series; U.S. Govt., 10-year constant maturity; State and local govt., from the Bond Buyer.

The pattern of change within the year was also somewhat different for short- as compared with long-term rates, although rate declines in both maturity sectors during the first quarter were generally typical of what might be expected at a cyclical downturn in rates. In the

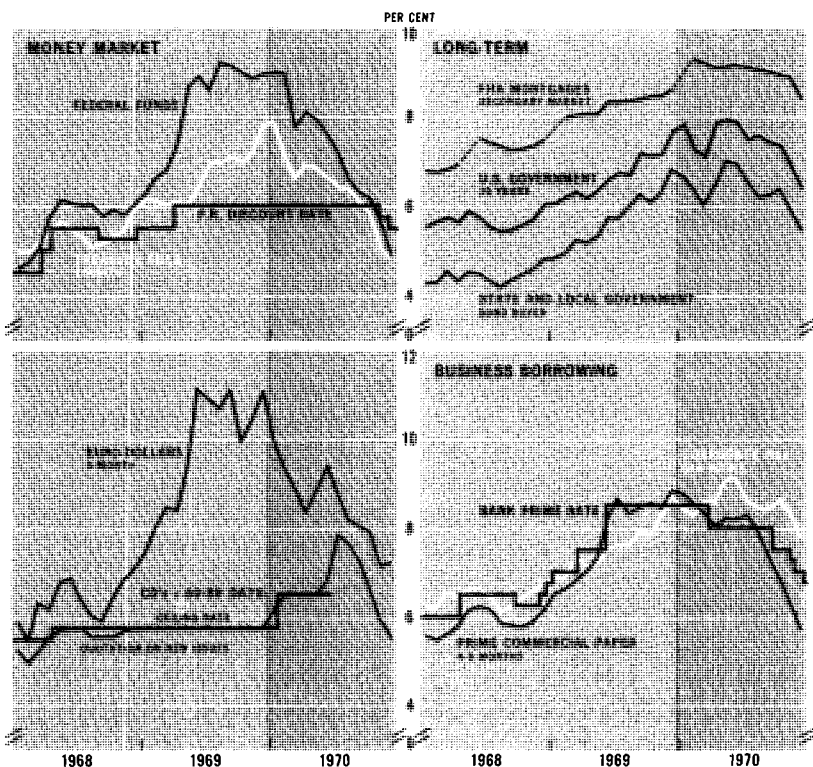
second quarter, even though interest rates rose in both short- and long-term markets, the size of the increase was much larger in long-term markets, where yields rose to new highs. By midsummer short-term rates had generally dropped through the lows reached in the first quarter, while long-term rates had declined considerably less. Indeed, most of the total decline in long-term market rates in 1970 occurred during the last 2 months of the year. In early 1971 both short- and long-term rates declined considerably further.

This varied pattern of interest rate behavior in 1970 reflected the interaction of shifting market expectations and actual credit flows. During the first quarter, for example, as it became evident that real GNP was declining and the Federal Reserve was promoting some easing in credit market conditions, financial market sentiment strengthened dramatically, particularly after banks lowered their prime rate by $\frac{1}{2}$ percentage point. But as often happens in financial markets, evidence that emerged in the second quarter did not seem to support the expectations that had helped to bring about the first-quarter rate declines. News concerning the economy seemed to indicate that the downturn in real GNP was about over. With progress in controlling inflation also disappointing and the Cambodian incursion creating general unsettlement, question was raised whether further easing of monetary policy could be expected.

As short-term market rates rose, banks' access to funds through CD's was again curtailed. In these circumstances the heavy forward calendar of corporate and municipal borrowing, the large prospective volume of U.S. deficit financing in the second half of the year, and the growing concern that some major firms were financially overextended, all contributed to an abrupt weakening of market psychology. In the face of this sharply changed outlook, borrowers actually coming to market had to pay substantially higher rates.

Accompanying the strains in security markets in the second quarter, depositary institutions generally experienced a noticeable improvement of deposit flows as consumers placed a greater premium on risk-free financial assets. These flows permitted the commercial banking system to add significantly to liquid asset positions. After midyear, with the suspension of rate ceilings on short-maturity time CD's and the relaxation of tensions in the commercial paper market,

3. SHORT - AND LONG-TERM INTEREST RATES



market interest rates turned down again, and deposit flows to banks became much larger, as noted earlier. In addition to financing the large volume of business and finance company borrowing transferred from the commercial paper market to the banks, these enlarged deposit flows permitted a substantial further expansion in bank holdings of U.S. Government and of State and local government securities. In this way the heavy increases in borrowing by these two levels of government during the second half of 1970 were financed at generally declining rates.

During the summer months—perhaps because of the large amount of refinancing by borrowers who were transferring out of the commercial paper market—banks generally presumed that underlying de-

mands for business loans were still strong. Hence, there was no significant relaxation of loan terms, even though bank liquidity increased greatly. But by mid-September, when corporate tax payments became due, it became apparent that business borrowing at banks had dropped off sharply, and shortly after that, banks cut the prime rate by another $\frac{1}{2}$ percentage point to $7\frac{1}{2}$ per cent. Nevertheless, there was still considerable uncertainty about the underlying strength of business loan demand, for the trend in such lending was being obscured by the effects of the auto strike and also by the large repayments of loans arising from the heavy volume of corporate financing then under way in capital markets. In the expectation that these two temporary drags on loan growth would soon end, bankers tended to hold off on further reductions in the prime rate.

In November and December, however, with no sign of any significant pick-up in demand for loans and with plenty of liquidity, banks reduced the prime rate further, in a series of $\frac{1}{4}$ percentage point changes, from $7\frac{1}{2}$ to $6\frac{3}{4}$ per cent by the year-end. The Federal Reserve discount rate was also reduced in this period. And there were further general declines in both short- and long-term market rates, even though the volume of new corporate and municipal bond offerings remained very large. Moreover, earlier accumulations of savings flows, liquidity, and commitments at nonbank thrift institutions were finally reflected in widespread reductions in interest rates on mortgages—including a cut, from $8\frac{1}{2}$ per cent to 8 per cent, in the ceiling rate on federally underwritten mortgages.

These declines continued into 1971. The bank prime rate was cut successively from $6\frac{3}{4}$ to 6 per cent; the Federal Reserve discount rate was reduced further in two steps from $5\frac{1}{2}$ to 5 per cent; and the FHA-VA mortgage rate ceiling was reduced in mid-January from 8 to $7\frac{1}{2}$ per cent. □

Wages, Productivity, and Prices

In view of the sluggishness of the economy, the main thrust of monetary policy during 1970 was directed toward achieving financial conditions that would stimulate demands for goods and services. At the same time, however, persisting inflationary pressures, generated mainly from the cost side, remained a very serious problem for the economy and a threat to the efficiency of its future performance. Thus, the interrelationships among wages, productivity, and prices that appear to be developing are critical factors in appraising the progress being made toward setting the stage for sustainable, non-inflationary economic growth.

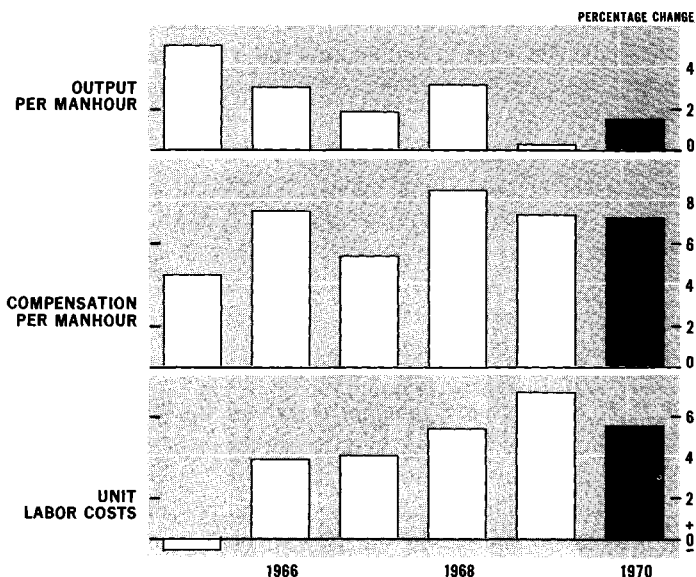
In the latter half of the 1960's, excess demand persisted for an exceptionally long period, with the unemployment rate dropping and remaining below 4 per cent. Strong demands for goods and services exerted upward pressures on prices, and the associated competition for labor resulted in sizable wage increases, which on the average exceeded gains in productivity. Price and wage increases became mutually reinforcing in an upward spiral.

During the latter half of 1969 and early 1970, the demand-pull component of the inflationary spiral was broken. Total real output of goods and services rose only moderately in 1969, and indeed had declined in the fourth quarter. In 1970 demands for goods and services continued weak while productive capacity continued to expand; there was a marked further reduction in the rate of capacity use in manufacturing and a considerable easing in labor markets. Under these circumstances, the persistent increase in 1970 in the principal indexes of prices resulted, for the most part, from continued pressures associated with costs. The dominating role of costs in the further price increase is indicated by the sharp decline in the ratio of prices to unit labor costs in manufacturing. This ratio, which had reached a high of 105 (with 1957-59 as 100) in the strong demand-pull inflation of 1965-66, had dropped to 97 by the end of 1969, and then declined further to 95 by the end of 1970. Concurrently with the decline in this ratio, after-tax profits per dollar of sales in

manufacturing declined in 1970 to levels near the lows reached in the recessions of 1957-58 and 1960-61.

Nevertheless, some progress was made in 1970 toward moderating cost pressures. For the private economy as a whole, the rise in overall unit labor costs was smaller from the third quarter of 1969 to the third quarter of 1970 than over the preceding year—5.5 per cent as compared with 7 per cent. To avoid the distorting influence of the strike in the auto industry, Chart 4 shows changes between the third quarters of 1969 and 1970, rather than between fourth quarters as in preceding years. In the manufacturing sector, however, unit labor costs apparently increased more in 1970 than in 1969.

4. OUTPUT PER MANHOUR AND RELATED DATA



Bureau of Labor Statistics data for the total private economy. Changes are from fourth quarter to fourth quarter—except for 1970, which is from third to third.

The deceleration of the rise in unit labor costs in the private economy as a whole in 1970 was attributable to a resumption of productivity gains. After having shown little net change over 1969, output per manhour—accompanying gains in real output—rose appreciably in the second and third quarters of 1970; the annual rate of gain in

these two periods averaged about 4 per cent. Productivity in manufacturing also improved in that period, although the gain in output per manhour was a little less for that sector of the economy. It is difficult to evaluate the extent to which progress may have continued in the fourth quarter because sharp cutbacks in output resulting from the auto strike distorted the aggregate productivity figures at that time.

The increase in productivity during the middle quarters of 1970 is somewhat atypical since the largest gains in output per manhour are usually achieved during periods of rapid growth in output. However, the increase in real GNP was quite small in the second and third quarters, and manufacturing output was declining. Nevertheless, productivity gains were achieved as the sluggishness of demands, coupled with continued advances in costs, induced management to adopt unusually stringent economy measures. These measures included a careful scrutiny of overhead costs and a paring of conventional management perquisites, in addition to an intensive review of labor force needs.

There was, as part of such a review, a sizable reduction in the number of salaried (nonproduction) workers in manufacturing—especially in defense-related industries—as well as a cyclical decline in demands for production workers. In trade, finance, and services a similar review seems to have been going on, since the increase in employment in these industries in 1970 was substantially smaller than in prior years. The efforts to keep costs under control seem likely to persist; in any event, productivity typically increases faster in periods of cyclical upswing than during periods of recession or of sluggish aggregate demands.

While productivity has shown indications of a faster rate of gain, strong cost pressures are still persisting as hourly labor compensation (which includes wages, salaries, and fringe benefits) has continued to increase rapidly for the private economy as a whole. But while the increase in hourly compensation from the third quarter of 1969 to the third quarter of 1970 was not much different from that over the preceding year, it was smaller than during 1968. In the manufacturing sector, however, the aggregate increase in hourly compensation during 1970 was larger than over the preceding year, even though the rise was held down by reduced overtime pay resulting from a

shorter workweek and also by a shift away from the relatively high-pay durable goods industries.

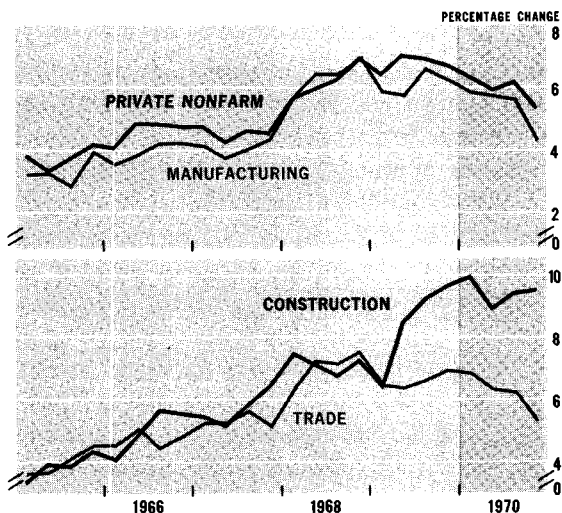
Large and widely distributed increases in wage rates in 1970 in the face of declining employment and sharply rising unemployment reflect in part a lagged response to past increases in consumer prices and in part expectations of substantial future price increases—expectations that have become well entrenched after the experience of the past several years. In recent years average advances in compensation per manhour in the private economy—and in the manufacturing sector—have been only a little in excess of increases in consumer prices.

Despite the behavior of the averages cited above, wages in some sectors have shown some response to slack demands and soft labor markets. Thus, it appears that the average wage gain of nonunion workers slowed in 1970. For such employees, wage adjustments are commonly made each year rather than in the multiyear negotiations that are typical of contracts involving unionized workers. In part because of this, wages in the nonunion sector appear to respond more quickly to cyclical changes in the demand for labor.

Nonunion workers are heavily concentrated in retail trade, finance, and other services. There was a marked slowing in 1970 in the advance of average hourly earnings in trade. On the other hand, the rise in average hourly earnings of construction workers remained exceptionally large—with year-over-year increases averaging 9 per cent in both 1969 and 1970. The substantial increase in earnings of this group reflects mainly the extraordinarily large increases for union workers. In manufacturing too, union workers received larger increases on the average in 1970 than did nonunion workers; furthermore, relatively more union than nonunion workers received wage increases—two-thirds as compared with only about one-third.

There has been a substantial escalation since 1968 in the size of wage increases negotiated in collective bargaining settlements—not only for first-year wage increases but also for the life of the contract. The increases provided in 1970 to cover the second and third contract years were well above the long-term trend of growth in productivity. Moreover, there has been some shift—after a lapse of many years—toward the incorporation in long-term contracts of escalator provisions based on the consumer price index and an insistence, as in

5. AVERAGE HOURLY EARNINGS



Change from corresponding quarter a year earlier, calculated from Bureau of Labor Statistics data, without seasonal adjustment.

recent contracts in the automobile industry, on an unlimited escalator. Since the amounts involved in such increases are, of course, unknown, they are not reflected in the data on the size of settlements negotiated. Relatively few workers are covered by escalator clauses; at the beginning of 1971 only about 3 million workers were covered by cost-of-living clauses providing for adjustments in wage rates tied to increases in the consumer price index.

In 1971 new wage agreements will be negotiated for nearly 5 million workers under major contracts in private nonfarm industries; this will make 1971 the second successive year of heavy collective bargaining activity. In the 1960's the largest number of workers covered by major contract settlements had been 4.6 million—in 1968. Moreover, in 1971 another 5.3 million workers already covered by multiyear contracts will receive deferred wage increases averaging 7.8 per cent—exclusive of cost-of-living increases—compared with an average deferred wage increase of 5.6 per cent in 1970.

The persistence of strong upward wage pressures raises questions concerning the extent to which market forces will moderate cost in-

TABLE 9: WAGE RATE ADJUSTMENTS IN MAJOR COLLECTIVE BARGAINING SETTLEMENTS

Mean percentage increases

Item	1968	1969	1970
All private nonfarm industries:			
Over life of contract.....	5.9	7.6	8.9
First year.....	7.4	9.2	11.9
2nd and 3rd year average...	5.2	6.8	7.4
Manufacturing:			
Over life of contract.....	5.2	6.0	6.0
First year.....	7.0	7.9	8.1
2nd and 3rd year average...	4.3	5.1	5.0
Construction:			
Over life of contract.....	8.6	13.1	14.7
First year.....	8.7	13.1	18.3
2nd and 3rd year average...	8.5	13.1	12.9

NOTE.—BLS data. Major settlements are those affecting 1,000 workers or more.

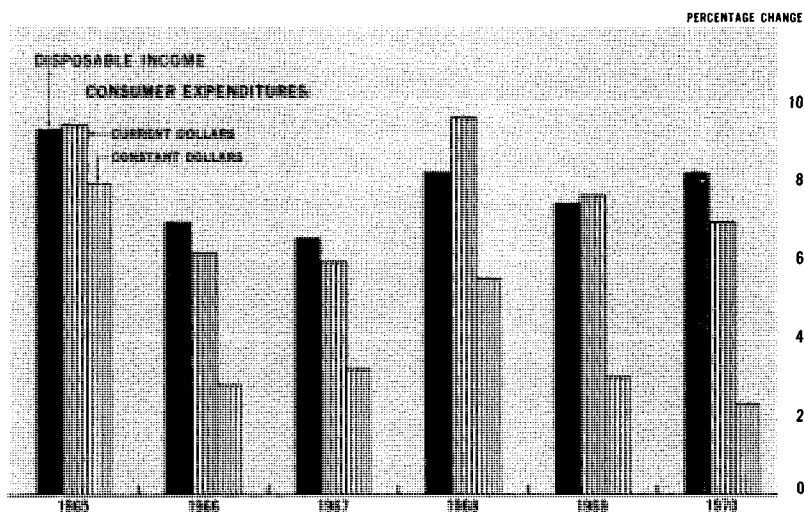
creases as economic recovery proceeds in 1971. It seems likely that some cost abatement will develop, in part as a result of the business economies already undertaken and in part because the widely anticipated upturn in aggregate output may be associated with gains in productivity that are more rapid than those in recent years. But the underlying strength of wage demands, if they persist well in excess of likely gains in productivity, would pose a major threat to the containment of price inflation, not only for 1971 but also over the longer run. □

Consumer Attitudes and Behavior

Consumers in 1970 slowed their rate of spending relative to income and shifted their savings toward more liquid forms, particularly deposits with banks and nonbank savings institutions. While declining yields on market securities were a major factor in the shift in the form of consumer financial saving, the emphasis on liquidity and risk-free assets was probably also an aspect of the development of more cautious attitudes on the part of consumers over the course of the year.

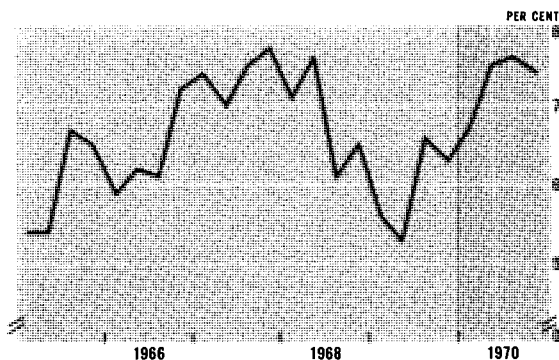
The bearishness of consumer sentiment in 1970 was indicated both by actual behavior and by various attitudinal surveys taken during the year. Two factors in particular—high and rising prices and job uncertainties—led to conservative spending behavior. In consequence, consumer spending increased less rapidly in 1970 than in the previous year, even though gains in disposable personal income had been relatively larger until the fourth quarter, when strike effects

6. CONSUMER INCOME AND EXPENDITURES



Change from fourth quarter to fourth quarter—except for 1970, which is from third to third—based on Dept. of Commerce data.

7. SAVING RATE



Dept. of Commerce data.

held down the income flow. In Chart 6, which shows changes in disposable income and consumer outlays, the changes for 1970 are measured from the third quarter of 1969 to the third quarter of 1970 in order to avoid the effects of the auto strike.

In current-dollar terms the percentage increase was less for consumer outlays than for income in 1970—in contrast to the previous 2 years. The slowed pace of consumer spending was even more marked in constant-dollar terms, as prices continued to rise rapidly.

As the advance in spending was curtailed, the rate of personal saving rose. For the year 1970 as a whole, the saving rate averaged 7.3 per cent, as compared with 6 per cent in 1969. The rate for 1970 was high in terms of experience in most years since World War II. In the past decade, that rate had been exceeded in only one calendar year—1967.

A number of influences contributed to the sharp increase in the saving rate in 1970. The sharpest jump occurred in the second quarter when the rise in disposable income was exceptionally large because of retroactive social security benefits and a retroactive Federal pay increase. A lag in adjusting spending to such a large and concentrated rise is to be expected, but other developments probably also contributed to the rise. Prices of common stocks broke sharply further in the early months of 1970, with the low reached in May. Both market participants who had suffered substantial losses and others who were concerned about what the break might mean for the economy probably curtailed their spending on this account.

Adding to these uncertainties in the spring were the widely publicized difficulties of some well-known corporations. Social tensions and crises abroad also were prevalent in the spring. Then as the year progressed, there were growing uncertainties associated with weakness in the labor market—an increasing number of layoffs, shorter workweeks, and a rise in unemployment. These, together with the anxieties that they generated in many who were not directly affected, may have served to keep the saving rate close to its spring peak. Finally, in the fourth quarter, shortages of new cars resulting from the auto strike may have kept the over-all saving rate up despite slower growth in disposable income.

A counterpart in 1970 of the high personal saving rate and the large dollar volume of personal saving was a very sharp increase in net financial investment by the consumer sector, as may be seen in the table. A similar spurt had occurred in 1967, when the saving rate also was relatively high.

The sharp increase in net financial investment in 1970—about double the 1969 pace—took the form partly of a larger flow of funds into financial assets, particularly interest-bearing deposit accounts. Much of the higher saving was also reflected in a lower rate of borrowing, the lowest in the past 5 years. Thus, the increase in outstanding consumer instalment credit was the smallest since 1961, and home mortgage debt, constrained by the high cost and earlier restricted availability of such funds, increased at a somewhat slower rate than in 1969.

TABLE 10: CONSUMER FINANCIAL INVESTMENT

In billions of dollars

Type	1966	1967	1968	1969	1970 ¹
Net financial investment.....	25.6	37.0	24.2	20.3	44.4
Net acquisition of financial assets.....	49.3	60.7	58.9	50.3	66.7
Demand deposits and currency.....	3.1	11.4	6.9	3.4	4.7
Time deposits.....	19.1	32.5	27.7	11.3	31.4
Market instruments.....	11.9	-1.3	5.4	18.8	12.2
Net increase in liabilities.....	23.6	23.7	34.6	30.0	20.0
Consumer instalment credit.....	6.2	3.4	9.0	8.3	3.0
Mortgage debt.....	13.6	11.7	16.0	17.4	13.0
Other.....	3.8	8.6	9.6	4.3	4.0

¹ Preliminary.

NOTE.—Flow of funds data for households, personal trusts, and nonprofit organizations.

The extent to which consumer spending will rebound in 1971 is a critical question in appraising the likely speed of economic recovery. This will depend not only on the extent of future increases in personal disposable income, but also on the confidence with which consumers view the future. Certainly the improvement in financial positions, taking into account the sharp recovery in stock prices over recent months, should tend to make consumers more willing to increase spending and to reduce their rate of saving. Really vigorous support for the economy from consumption, however, probably must await progress in dampening fears that family budgets will continue to be pressed by rapidly rising prices for the goods and services that people must buy.

Responsiveness of Housing and State and Local Governments

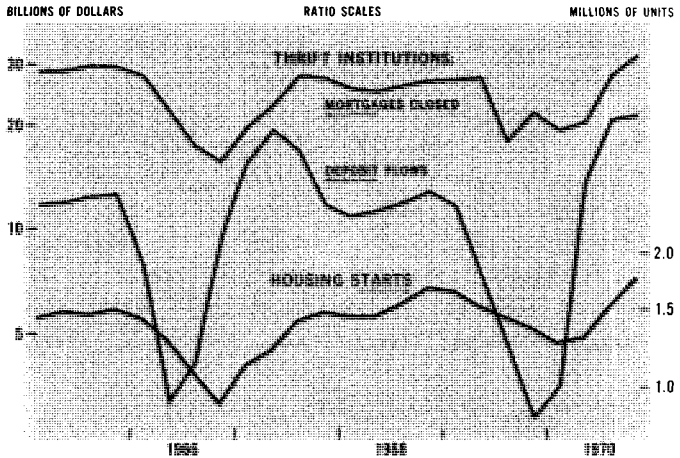
The more expansive monetary policy followed during 1970 led to a significant increase in flows of credit into markets for mortgages and for State and local government securities. Outlays for residential construction began to expand after midyear, and by the final quarter private housing starts had risen to the highest annual rate in 20 years. In contrast, construction expenditures by State and local government units had not increased appreciably by the close of 1970. Easier credit conditions, however, have led to heavy volumes of financing by such units. Under these circumstances construction contracts and actual outlays in this area are likely to increase in the months to come.

HOUSING

As noted earlier, deposit inflows to savings and loan associations and mutual savings banks increased sharply in 1970. By the fourth quarter these inflows had reached the highest rate since 1967 and were permitting the thrift institutions to rebuild their depleted liquidity positions and to increase their lending on both new and existing residential properties.

At the year-end the thrift institutions had accumulated a substantial backlog of mortgage commitments. Such a backlog pointed toward a continued, if not enlarged, flow of credit to the housing market. Other lenders—including commercial banks—also appeared to be showing more interest in residential mortgages, as yields on such loans were declining less sharply than returns on other types of capital market instruments, and hence were becoming relatively more attractive. In addition, weaknesses in business loan demands made more funds available to commercial banks for investment in mortgages.

8. THRIFT-INSTITUTION ACTIVITY; HOUSING STARTS



Quarterly averages of monthly data at seasonally adjusted annual rates. Thrift institutions include savings and loan associations and mutual savings banks (New York State banks only for mortgages closed).

Sources: S&Ls, Federal Home Loan Bank Board; savings banks, National Association of Mutual Savings Banks and Savings Banks Association of the State of New York; private farm and nonfarm housing starts, Bureau of the Census.

As the availability of private credit expanded, market support from the Federal National Mortgage Association and the Federal home loan banks slackened in the latter months of 1970. Support provided by these institutions had been an important factor limiting the decline in housing starts in 1969 relative to 1966, even though deposit growth at the thrift institutions—the dominant group that lends on residential mortgages—dropped sharply in each of these years. To finance this support, the two housing-related agencies together had borrowed a net of more than \$7 billion in 1969. In 1970 they borrowed a similar amount. During 1971, however, these institutions are more likely to be net repayers of debt, in view of the expectation of some net repayment to the home loan banks of outstanding advances made to member savings and loan associations and of a reduced volume of FNMA purchases in the secondary market.

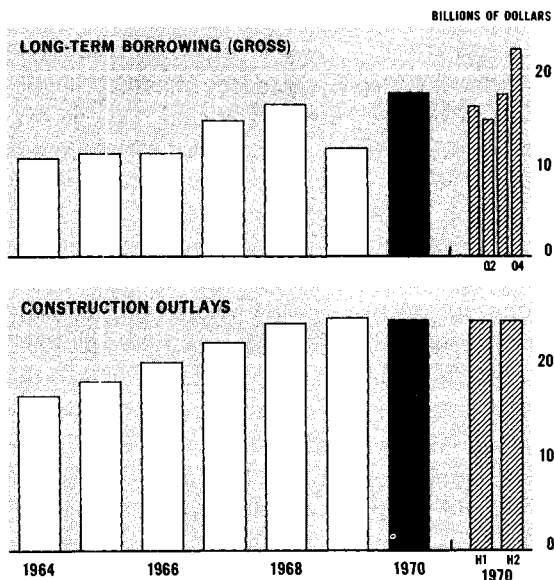
In early 1971 the low rate of housing vacancies, the accelerated pace of inflows of funds to thrift institutions, the high level of out-

standing mortgage commitments, and the increased momentum in builder planning and activity all suggested that the pace of housing starts would continue at advanced levels. The demand for housing in 1971, however, will be tested critically by consumer concern about unemployment and by record levels of housing costs, prices, and rents. Mortgage interest rates, though somewhat reduced, also continue at levels that are high by historical comparison. During 1970, new home buyers were already tending to focus on smaller units that carry lower average prices, and it also became more difficult for owners of new apartments in the highest rent brackets to lease such units. A sharply increased portion of the market for lower-priced or lower-rent dwellings was aided in 1970 by Federal subsidies—a type of support that appears likely to expand further in 1971.

STATE AND LOCAL GOVERNMENTS

By the final months of 1970, gross long-term borrowing by State and local governments had risen to new highs. The increased volume of

9. STATE AND LOCAL GOVERNMENTS



All figures for 1970 are preliminary. Borrowings: from Investment Bankers Association; quarterly data, at annual rates not seasonally adjusted. Construction outlays: Bureau of the Census estimates; semiannual data, at annual rates seasonally adjusted.

such borrowing and the strong pace expected in 1971 reflect several factors.

In 1970 many State and local governments took advantage of declining interest rates—and record purchases of tax-exempt bonds by commercial banks—to market issues that had been postponed the previous year. In 1969, according to Federal Reserve surveys, the rapid increase of market interest rates had contributed directly and indirectly to the first year-to-year declines in gross long-term borrowing by State and local governments since 1960. In addition, many units had resorted to short-term financing to cover their most urgent needs in 1969 and early 1970 and were under pressure to issue long-term bonds as market interest rates declined in the second half of 1970. Moreover, the ability of State and local units to borrow had been improved since the fall of 1969, as the ceiling rates that many units could pay on their securities had been increased or temporarily suspended. Thus, by the end of 1970 many States and their subdivisions had a greater amount of flexibility to market new long-term bond issues, particularly in view of the fact that interest rates on such issues had declined substantially below their earlier peaks.

Construction outlays by State and local governments, which are financed in large part by borrowing, had increased at an average annual rate of more than 9 per cent from 1962 to 1968. The shortfall in their borrowing in 1969 restrained such expenditures, however, and these outlays rose little further even in current dollars. Despite the increased pace of borrowing in 1970, total outlays showed no significant change—and actually declined in real terms—because of the long lags between fund availability and expenditures. In view of the increased borrowing undertaken since mid-1970, however, it appears likely that construction outlays in 1971 will move back toward their earlier pattern of growth. Indeed, a period of unusual expansion in such outlays could well develop as shortfalls from previous capital budget plans are made up. □

Easing in Credit Availability at Banks

Deposit inflows to, and the availability of credit from, commercial banks improved progressively during 1970 as a result of the cumulative effects of the general easing in monetary policy, of bank regulatory changes, and of the broad decline in market rates of interest. Because inflows of deposit funds were strong and loan demands were relatively weak, banks reduced sharply their reliance on nondeposit sources of funds after midyear and restored severely depleted liquidity positions. In light of these developments, banks by the end of 1970 were in a considerably better position to meet the credit needs of an expanding economy.

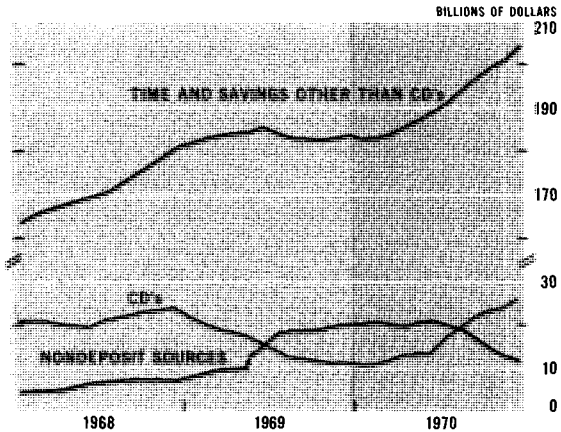
SOURCES OF FUNDS

Total deposits at banks rose sharply in 1970, in contrast to the decline during 1969 when monetary policy was quite restrictive. While demand deposits resumed their growth as market rates of interest declined and the public sought increased liquidity, the bulk of the increase in inflows at banks was attributable to the sharp rise in time and savings deposits.

Time and savings deposits other than large-denomination CD's—principally consumer-type time and savings deposits—grew rapidly after the first quarter of 1970. Banks generally raised the interest rates offered on these deposits shortly after the Board acted in January to liberalize ceiling rates under Regulation Q. Other authorities raised interest rate ceilings for savings and loan associations and mutual savings banks at the same time, and all three types of depository institutions subsequently experienced increased rates of deposit inflow.

Growth in total time deposits surged after midyear when banks became able to compete aggressively for large CD's. Even though ceiling rates on large CD's had been raised in January, along with rates on other time and savings deposits, banks could sell only limited volumes of CD's because interest rates on competing money

10. INTEREST-BEARING SOURCES OF BANK FUNDS



Seasonally adjusted monthly averages of daily figures for all commercial banks. Time and savings deposits other than CD's exclude both those due to domestic commercial banks and the U.S. Govt. and balances accumulated for repayment of personal loans. Nondeposit sources include borrowings from foreign branches and * beginning June 1969, bank-related commercial paper, loan repurchase agreements, and borrowings from foreign banks and branches in U.S. territories and possessions.

market instruments remained significantly above the rates that banks were permitted to offer. Following the suspension of the Regulation Q ceilings on large 30- to 89-day CD's in late June, banks quickly raised their offering rates on short-term CD's to competitive levels.

As a result banks were able to increase their outstanding CD's by \$4.9 billion during the month of July alone. There are indications that part of these CD's were acquired by investors who did not want to roll over their commercial paper in the wake of the substantial deterioration of confidence in such paper following the announced insolvency of a major railroad. In addition to CD inflows, banks during the summer used the Federal Reserve discount facility to meet unusual loan demands from customers who were unable to refund maturing issues in the commercial paper market.

But even after the pressures associated with the commercial paper crisis subsided, banks continued to issue large CD's in volume. They used a sizable portion of these inflows to restructure their liabilities, with particular emphasis on repaying higher-cost Euro-dollar borrowings and bank-related commercial paper. Many banks had relied

heavily on such funds during 1969 and early 1970 to supplement the funds they acquired through normal deposit channels. Repayments of borrowings from nondeposit sources were accelerated in September, when bank-related commercial paper was made subject to reserve requirements.

Total deposit inflows continued strong in late 1970. In view of the continuing weakness in demands for loans and the substantial readjustment of portfolios already accomplished, banks made sharp reductions near the year-end in rates paid on large CD's to moderate inflows of such deposits. By the year-end they had more than replaced the volume of CD's that had run off in 1969 and early 1970, and outstanding CD's were at a seasonally adjusted monthly average of \$26.0 billion in December—a new peak.

BANK CREDIT

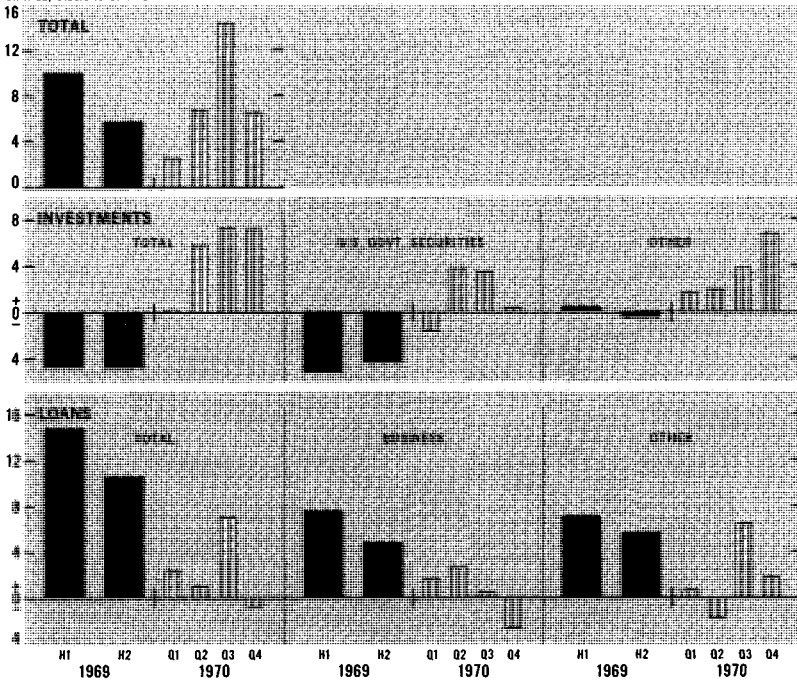
Bank credit developments in 1970 and early 1971 have reflected principally the marked increase in fund availability and the lessening of loan demands. Total loans and investments at all commercial banks, including loans sold to bank affiliates or subsidiaries, increased by \$30 billion in 1970, or nearly twice the increase over the preceding year. A substantial portion of this growth represented bank acquisitions of securities, which had registered a considerable decline in 1969.

Participating heavily in U.S. Treasury financing operations, banks acquired a net of more than \$7 billion, seasonally adjusted, of U.S. Government securities during the middle two quarters of 1970. And throughout the year they increased sharply the rate of acquisition of other securities—principally State and local government obligations—after having maintained their holdings of such securities virtually unchanged in 1969. In large measure, banks concentrated on acquiring shorter-term investments so as to restore their depleted liquidity positions. The large rise in liquid assets along with concerted efforts to reduce reliance on borrowed funds resulted in an appreciable improvement in over-all bank liquidity and contributed significantly to banks' willingness to extend a larger volume of loans.

Although the substantial rebuilding of liquidity was in large part desired, it also reflected the general weakness in demand for loans. Total loans at all commercial banks, including loans held by affiliates

11. BANK CREDIT, 1969-70

CHANGE, BILLIONS OF DOLLARS



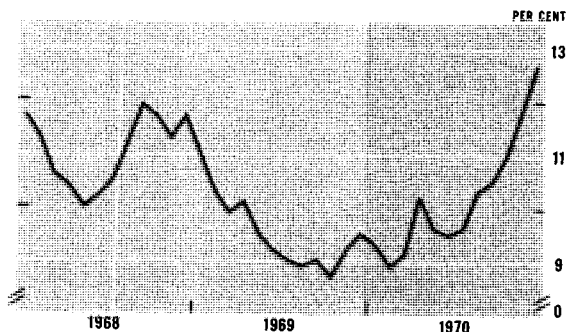
Seasonally adjusted data for all commercial banks. Beginning June 1969, loan items have been adjusted to include loans sold to bank affiliates, subsidiaries, holding companies, and foreign branches.

and subsidiaries, grew slowly in the first half of 1970, then rose by \$7 billion in the third quarter. During the latter period banks extended a large volume of credit to securities dealers as well as to finance companies and other borrowers experiencing difficulty in the commercial paper market. But in the fourth quarter loans at commercial banks declined on a seasonally adjusted basis.

The reduction in loans at banks in the fall reflected the general weakness in economic activity and the associated decline in credit requirements, together with the effects of the auto strike in the fourth quarter. In addition, banks have experienced substantial business loan repayments out of the proceeds of capital market financings as corporations placed considerable emphasis on lengthening their debt structure and improving liquidity positions.

12. LIQUIDITY RATIO

Weekly reporting banks



Monthly averages of Wednesday figures for all weekly reporting banks. Ratio of liquid assets to total liabilities less capital accounts and valuation reserves. Liquid assets include Federal funds, Treasury bills, Treasury certificates, Treasury notes and bonds maturing within 1 year, loans to brokers and dealers, loans to domestic commercial banks, balances with domestic banks, bankers acceptances, and tax warrants and bond anticipation notes.

Other loan categories have also shown limited growth, particularly consumer and mortgage loans. Demand for consumer credit was restrained by the weakness in sales of durable goods and in the fourth quarter by the additional effects of the auto strike. Whereas banks had sharply curtailed their extension of mortgage credit in 1969 and early 1970, when their fund inflows were constrained, since the autumn they have indicated an increased willingness to extend mortgage credit. The increase in mortgage loan portfolios did not pick up appreciably until late in the year, but this appears to reflect the long lags between mortgage commitments and the actual takedown of funds.

These changes in bank asset positions were an important factor in the decline in the prime rate of interest from $8\frac{1}{2}$ per cent in early 1970 to 6 per cent in January 1971. Other loan terms and conditions also have been eased, and banks are now more willing to undertake loan commitments that they would not have made earlier, including extensions of term loans to business. However, with concern over the quality of loan portfolios heightened by the well-publicized difficulties of several major firms, banks reportedly are continuing to emphasize quality standards. □

Adjustments in the Business Sector

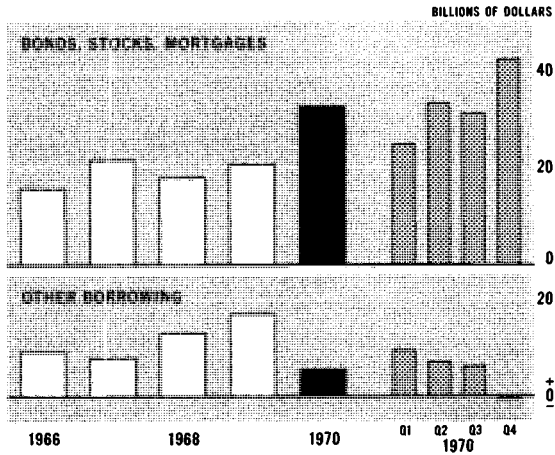
In the business area, financing problems had become much less acute by early 1971. The increased availability and declining cost of short-term credit, especially in the latter half of 1970, has made it easier for businesses to finance the current level of activity and should facilitate the return to a more normal rate of sales growth. In addition, the flow of internal funds, after having remained stable for several years, seems likely to increase in 1971, and this, together with the anticipated leveling off in fixed investment expenditures and the improved access to short-term credit, should moderate corporate needs for capital market funds.

During 1970, in contrast, corporate financing operations in money and capital markets were characterized by a large increase in new issues of long-term securities and by greatly reduced financing in shorter-term markets. This pattern reflected several factors: the continued sharp rise in spending for plant and equipment by certain industries, the slow growth in current sales, and the funding of a portion of the large volume of short-term debt incurred in 1969.

In the closing months of 1970 business corporations floated a record volume of long-term securities while apparently repaying short-term debt on balance. Much of the year-end weakness in business demand for short-term credit, however, was attributable to the continued influence of the auto strike. But by early 1971 the situation had changed considerably: The auto strike was over; plant and equipment expenditures were expected to show little or no further rise, but it seemed likely that inventory accumulation would resume; and there would probably be some improvement in the flow of internal funds, in part because of the revised depreciation schedules that became effective in early 1971.

Hence there should be increased needs for—and greater availability of—short-term credit and some reduction in corporate demands on long-term capital markets in 1971. Some corporations may still wish to lengthen the maturity of their debt or otherwise improve their liquidity positions. But pressures to do so have subsided since

13. CORPORATE EXTERNAL FINANCING



Flow of funds data for nonfinancial corporations. Quarterly data seasonally adjusted at annual rates. "Other borrowing" comprises bank loans n.e.c., open market paper, and other loans. Q4 1970 preliminary.

the easing of monetary policy has made renewal of maturing short-term debt more manageable and additional liquidity more readily available.

BUSINESS INVESTMENT

As of early 1971 business firms in the aggregate were planning almost no increase in spending for fixed assets during the year. This weakness reflects mainly developments in manufacturing. With their margin of unused capacity at the highest average level since early 1958, and with their profits greatly reduced, manufacturers were planning reductions in capital outlays in 1971 for the second consecutive year. In the public utility and communications sectors, on the other hand, present capacity is inadequate to meet demands efficiently, and as in 1970 a further substantial increase in capital expenditures is scheduled for 1971. Since public utility and communications companies finance a large part of their capital outlays with the proceeds of new bond and stock issues, the increased expenditures they have planned for 1971 are likely to be reflected in heavier corporate demands on long-term securities markets than would otherwise be suggested by the expected minimal growth in over-all business fixed investment.

Inventory accumulation (GNP basis) by nonfarm businesses declined in 1970 to the lowest rate since 1961. Weakness in the growth of final sales appears to have been a primary factor in the cutback, but other influences also contributed to the reduced rate. These included the depletion of auto stocks in the fall as a result of the strike, reluctance to incur additional short-term debt, the desire to conserve available funds for more pressing needs and, as the year progressed, some waning of inflationary expectations. Nevertheless, reflecting to a considerable extent the sluggishness in sales, inventory/sales ratios remained high by historical standards.

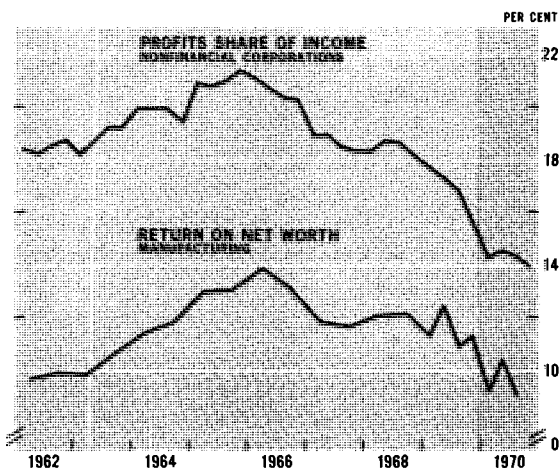
INTERNAL FUNDS

Although corporate profits declined less in 1970 than in most earlier periods of economic slowdown, the over-all profits picture—especially with respect to undistributed profits—has been exceptionally weak for some time. The profits share of income originating in nonfinancial corporate business has declined almost steadily in recent years, from 20 per cent or more in 1965 and 1966 to 14 per cent in 1970. Profits retained after payment of taxes and dividends have declined more than 50 per cent since 1966. Offsetting this decline has been a continued growth in capital consumption allowances. As a result, the total volume of internal funds has been static for several years.

Weakness in profits has been evident particularly in the manufacturing sector where both the ratio of profits to sales and the rate of return on net worth have declined to levels near the lowest since World War II. The erosion in profit margins has paralleled the decline in the capacity utilization rate, and if one judges from past experience, profit margins are not likely to rise to any significant extent until the utilization rate also rises sharply.

Nevertheless, trends within 1970 suggest a strengthening in profits and internal funds that should carry over into 1971. Abstracting the adverse developments in the fourth quarter because of the auto strike, the decline in profit margins slowed as the year progressed, reflecting efforts to reduce expenses and the faster growth in productivity; the share of profits in income, as well as total corporate profits before taxes (and before inventory profits), changed little after the first quarter; and total internal funds rose throughout the year from their first-quarter low. With somewhat faster growth in sales volume,

14. CORPORATE PROFITS



Quarterly except 1962-68 return on net worth, which is semiannual. Share of income: ratio of profits (before tax) and inventory valuation adjustment to income originating in nonfinancial corporate business, which is sum of profits, compensation of employees, and net interest paid; based on Dept. of Commerce seasonally adjusted data. Return on net worth: ratio of profits after tax, at annual rate, to stockholders' equity; not seasonally adjusted; source, FTC-SEC Quarterly Financial Report for Manufacturing Corporations.

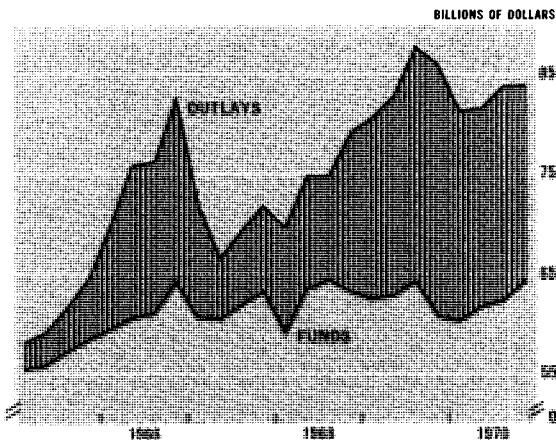
and especially with the recent liberalization in depreciation schedules for tax purposes, the flow of internal funds to nonfinancial corporations in 1971 may show the first significant increase since 1966.

EXTERNAL FINANCING

The failure of internal funds to grow in the face of a continued rise in spending for additions to fixed and working assets during recent years has required increased reliance by nonfinancial corporations on external sources of funds. In 1970 these businesses financed about 35 per cent of their total spending with funds raised in money and capital markets. This was the same as the record proportion in 1969, but the composition was quite different. Long-term financing in capital markets was three-fifths again as large as in 1969, whereas borrowing in short-term forms was the least since 1964.

The sharply reduced volume of borrowing by corporations from banks and other short-term lenders in 1970 reflected only in part the lower rate of inventory accumulation and the direct and indirect effects of the auto strike in the fourth quarter. An equally important

15. CAPITAL OUTLAYS AND INTERNAL FUNDS



Flow of funds data for nonfinancial corporations, seasonally adjusted at annual rates. "Outlays" comprise plant and equipment expenditures and change in inventories. "Funds" are sum of capital consumption allowances and undistributed profits, which are after inventory valuation adjustment and inclusion of foreign branch profits. Q4 1970 preliminary.

factor was the desire to limit further expansion of short-term debt, following the exceptionally large growth in such debt in 1969, and to lighten the pressure of frequent maturities by repaying short-term debt to the extent feasible.

Business demand for short-term credit remained weak through 1970. But the increased supply of such funds at declining cost, together with the return of confidence in financial markets, should result in a strengthening of credit demands in this area as sales prospects improve and inventory policies become more expansive.

Demands for long-term external funds, on the other hand, seem likely to moderate somewhat although remaining large by historical standards. A large share of the increase in long-term financing by corporations in 1970 reflected the expanded needs of public utility and communications companies, which rely heavily on such funds to finance plant and equipment outlays, and which will need to sell a substantial volume of security issues in 1971 too. But offerings by manufacturing corporations may be below the unusually large 1970 volume. Real estate investment trusts, whose offerings helped to swell the volume of new stock issues in 1970 to the largest total in

many years, may also do less financing in 1971 in view of the increasing availability of conventional mortgage financing. On the other hand, financial corporations, which did little long-term financing in 1970, may step up their offerings in 1971.

CORPORATE LIQUIDITY

Corporations added moderately to their holdings of liquid assets in 1970, largely in the form of time deposits at commercial banks. The ratio of liquid assets to total current liabilities rose somewhat in the fourth quarter, but not enough to offset the declines that had occurred earlier in the year. Thus, despite the switch from short- to long-term market financing, the over-all corporate liquidity ratio reached a new end-of-year low in 1970, though the deterioration was much less than in 1969. The ratio of total current assets to total current liabilities also declined to a new low, primarily because the slowdown in economic activity resulted in an even slower growth in accounts receivable than in total current liabilities. □

U.S. Balance of Payments

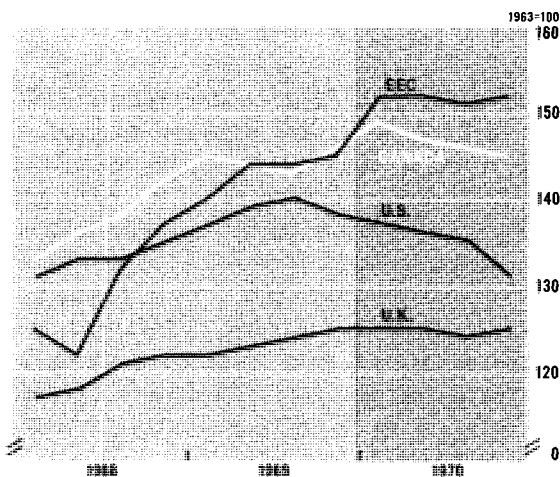
Developments in U.S. transactions with the rest of the world in 1970 illustrated the tenacity and complexity of problems involved in achieving a satisfactory over-all balance of payments position. There was indeed some strengthening of the merchandise trade surplus and of net receipts on international investments, but the cyclical situation, both here and abroad, that led to such gains also resulted in adverse shifts in capital flows. Meanwhile, other elements in the U.S. international accounts—notably military expenditures and U.S. Government aid and private transfers to foreign countries—which are not so responsive to business conditions here and abroad, continued to cause a large outflow of dollars.

MERCHANDISE TRADE

Events in 1970 underline the extent to which the traditional U.S. trade surplus had weakened during the period of excess domestic demand in the latter half of the 1960's and also show the sensitivity of trade flows to economic conditions in other industrial countries. Studies of the effects on U.S. trade of the demand inflation of the late 1960's, which followed an extended period of relative price stability, suggest that a large part—perhaps most—of the deterioration in the trade balance from its 1964 peak was associated with strong and sustained upward pressures on prices and wages in U.S. markets. The adverse effects of such developments in the international competitive position of U.S. industry can be overcome only with the passage of time.

In 1970 the U.S. trade balance with other countries responded well through midyear to the slowing of domestic demand and to the strong growth of demand in most other industrial countries. For most of the year policy in most countries was directed toward reducing inflationary pressures, and only as the year ended—with production in many industrialized countries flattening out—was attention abroad shifting to the problem of averting a general slowdown in economic growth. This course of events was reflected in the U.S. trade performance—leading to some erosion of the gains made in the first half of the year as foreign demands weakened.

16. INDUSTRIAL PRODUCTION



Seasonally adjusted OECD quarterly data.

U.S. exports in 1970 benefited from record shipments of agricultural products and a spurt in exports of large jet aircraft. The major support for foreign sales, however, was the demand in industrial countries for machinery and industrial materials. Even so, as the year progressed, and some slack developed in supply capabilities abroad, demand for these products decreased. New orders for machinery tended to level off, and easier supply conditions for steel abroad not only reduced U.S. exports but also supported a renewed surge of shipments from Europe and Japan to the United States.

The level of U.S. imports tended upward during the year, but it appears that perhaps three-quarters of the rise was accounted for by higher prices of imports. In the last quarter of the year, even though there was a decline in real economic activity, imports rose somewhat, reflecting especially strong demand for foreign steel, automobiles, and petroleum.

These trends indicate the difficulty of restoring a reasonable trade balance after a long period of domestic inflation, especially when growth rates and domestic demands in countries abroad are slowing. There were, however, some favorable indications in 1970 for the future of the trade balance. Import prices rose more rapidly than U.S. export prices, and while this factor may reduce the trade surplus in

current-dollar terms over the short run, over the longer run it may benefit the trade position as the relative advantage of foreign goods is diminished. With improved economic performance in the United States and resumption of stronger economic growth rates abroad, the U.S. trade balance should make further gains over time.

CAPITAL FLOWS

Flows of capital between the United States and foreign countries also respond to the cyclical situation. Indeed, the response may be so large and rapid as to overmatch changes in the current account. This is increasingly true of the immense stock of mobile funds that respond quickly to changes in interest rate levels in the important monetary centers, utilizing the convenient mechanism of the Euro-dollar market. Such flows of funds complicate the management of monetary policy and result in sudden, large shifts of international reserves (largely dollar holdings) among central banks.

In 1970 the need for the United States to pursue a relatively expansionary monetary policy, while other countries did not move in that direction until the closing months of the year, led to a return flow to foreign commercial banks of some \$6 billion of funds borrowed earlier by U.S. banks. This flow helped to restore needed reserves to some countries—notably the United Kingdom and France—and added to the reserve gains of other countries with continued strong basic positions—notably Germany.

These flows of liquid funds were not inspired—as were those of other recent years—by financial crises and currency speculation, but rather by market considerations. Under present-day conditions, when investors and borrowers are free to seek the most advantageous market, such flows respond readily to changing interest differentials among countries. These flows tend to be reversible as interest rate relationships change, and they do not have the same significance for the balance of payments as more deep-seated shifts in other transactions affecting reserves. A large part of the Euro-dollar reflows in 1970 represented a readjustment of the U.S. domestic banking system to its renewed regulatory and economic ability to compete for funds in domestic money markets. As noted earlier, the Federal Reserve took steps to moderate the rate at which U.S. banks were repaying their borrowings, in order to help offset the unsettling effect that might occur if large reflows continued over a short period.

Longer-term capital flows are also highly responsive to variations in economic activity here and abroad, and also to corresponding variations in the cost of funds. The outflow of U.S. funds in response to such variations remains inhibited by Government restraints, which have been retained in 1971 because of the persistence of large deficits in the U.S. balance of payments. U.S. industrial firms have indicated that they plan to carry out major programs to expand their foreign productive facilities in 1971. With domestic demand for loans relatively weak, it is to be expected that U.S. banks would wish to enlarge their foreign credits if there were no guidelines concerning foreign credit restraint. Though there was some increase in the outflow of capital for these purposes in 1970, it was probably much less than would have occurred without the restraint programs. In the case of U.S. purchases of foreign securities, the outflows were smaller than in other recent years, in part because of the restraints but also because Canadian borrowers made more use of their own capital markets.

The principal change in flows of foreign capital in response to changes in the economic situation—apart from flows of liquid funds—was in transactions in U.S. equity securities. Foreign investors shifted from net sales of \$0.2 billion in the first half to net purchases of \$0.8 billion in the second half, once the U.S. equity market began to show basic strength again.

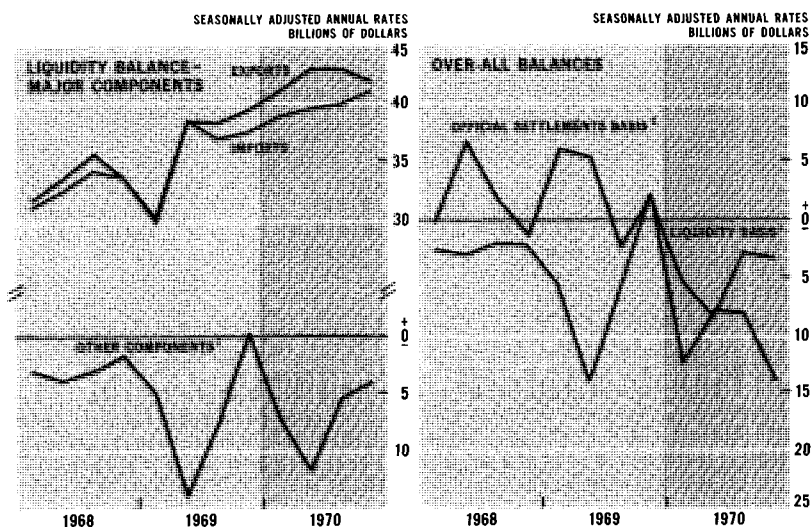
Taking U.S. and foreign private long-term investments together, there appears to have been a net increase in outflows of some \$1.5 billion from 1969 to 1970. Of course, the adverse shift in flows of short-term funds was much greater. Looking ahead, it seems likely that the outflow of U.S. private capital will continue to be large in 1971, though the amount will be limited by the restraint programs. However, with recovery in the U.S. economy, some increase in the inflow of funds for investment in corporate securities would be expected. Also, there is much less scope for return flows of borrowed private foreign short-term funds, after the attrition of 1970.

OVER-ALL BALANCE

The net result of divergent changes in the U.S. trade and capital accounts in 1970 was a moderate improvement in the liquidity balance

—apart from special transactions and the initial allocation of SDR's. Over the years there has been a tendency for the current and capital accounts of the U.S. balance of payments to move in opposite directions, as the cyclical conditions favoring improvement in the current account have, at the same time, tended to encourage net capital outflows. Given the large dollar outflows that are not related to economic conditions, large liquidity deficits tend to persist. From another point of view, the desire of foreign governments and private holders of assets to add to their liquid reserves, with the dollar a principal vehicle for doing so, is a factor in the continuation of U.S. balance of payments deficits.

17. U.S. BALANCE OF PAYMENTS



¹ Excludes special transactions with foreign governments and the SDR allocation.

² Excludes SDR allocation.

The U.S. balance of payments reflects a great diversity of economic and political decisions here and abroad—a diversity that is unique because of the pivotal role of the dollar in the world's monetary system. The large flow of dollars into foreign official accounts in 1970 was accommodated with relative smoothness, though not without concern that the continuation of such flows would disrupt the

progress being made toward an improved monetary system. Contributing to generally calm foreign exchange markets in 1970 were the exchange rate adjustments accomplished in 1969, increased consultation and cooperation among national authorities, and the introduction of SDR's. □

Part 2
Records, Operations, and
Organization

Record of Policy Actions of the Board of Governors

JANUARY 7, 1970

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

Effective February 12, 1970, the Board amended Regulations D and Q to narrow the category of "Federal funds" transactions that are exempt from the reserve requirements and interest rate limitations prescribed by these regulations.

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

Votes against this action: None.

A Federal funds transaction is one involving the transfer of member bank deposits at Federal Reserve Banks (or other immediately available funds) for a brief period, usually one business day.

In September 1969 the Board had published for comment proposed amendments to bring within the coverage of its regulations prescribing reserve requirements and interest rate limitations such transactions with any person other than a bank and its subsidiaries, various governmental institutions, or a securities dealer in certain cases. The proposed amendments were published in light of indications that member banks were conducting Federal funds transactions with various business customers, thereby obtaining funds from such sources in avoidance of reserve requirements and interest rate limitations.

The comments received had to do principally with broadening the definition of "bank" for purposes of the exemption from Regulations D and Q. Upon consideration of those comments, a "bank" was defined in the amendments now adopted to include a member bank, a nonmember commercial bank, a savings bank (mutual or stock), a building or savings and loan association or cooperative bank, the Export-Import Bank of the United States, or a foreign bank.

JANUARY 16, 1970

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS.

Effective January 16, 1970, the Board amended Regulation Q to make clear that only foreign national governments and agencies thereof with national jurisdiction are exempt from the interest rate limitations prescribed in that regulation.

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

In 1969 the Board had amended Regulation Q to broaden the exemption from interest rate limitations for foreign governments and agencies thereof, as well as for certain international institutions. Question arose whether the 1969 amendments were intended to extend only to foreign national governments as contrasted with foreign state, provincial, or local government units. The current amendment clarified the Board's intent.

JANUARY 20, 1970

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS.

Effective January 21, 1970, the Board amended the Supplement to Regulation Q to change the maximum rates of interest payable by a member bank on deposits. Specifically, the changes (1) raised from 4 to 4½ per cent the maximum rate of interest permitted to be paid by a member bank on savings deposits; (2) raised (i) from 5 to 5½ per cent the maximum rate on single-maturity time deposits of less than \$100,000 with maturity of 1 year but less than 2 years, and (ii) from 5 to 5¾ per cent the maximum rate on such deposits with a maturity of 2 years or more; and (3) raised (i) from 6¼ to 7½ per cent the maximum rate of interest on a single-maturity time deposit of \$100,000 or more with maturity of 1 year, and (ii) by ¾ per cent the maximum rate of interest on such deposits with maturities of less than 1 year (30-59 days, from 5½ to 6¼; 60-89 days, from 5¾ to 6½; 90-179 days, from 6 to 6¾; and 180 days to 1 year, from 6¼ to 7 per cent).

Votes for this action: Messrs. Martin, Mitchell, Daane, Maisel, and Brimmer. Vote against this action: Mr. Robertson. Absent and not voting: Mr. Sherrill.

The increase in the maximum interest rates payable by member banks on time and savings deposits was part of a coordinated move on the part of the Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board that involved general increases in ceiling rates on deposits at both banks and nonbank thrift institutions. In addition to an upward scaling of ceilings on both large-denomination time certificates of deposit (CD's) and consumer-type time certificates, maximum rates payable on savings deposits were raised for the first time in several years, in an effort to introduce greater equity into rates payable for smaller savings balances.

More broadly, these actions were designed to bring rates payable by banks and other savings institutions more into line with rates prevailing on competing market securities, in expectation that this would help to generate the deposit funds needed to finance a moderate pick-up in credit flows through financial institutions and encourage longer-term savings within the framework of continued over-all credit restraint. The revisions in the ceiling rates were held to moderate size so as not to foster sudden and large movements of funds into the banking system that could cause distortions in traditional financial flows or lead to an upsurge in the volume of bank lending.

In taking the actions, the Board expressed its belief that higher rates paid to savers by institutions generally would increase the pool of savings for investment in mortgages.

The change in the maximum interest rates payable by member banks on time deposits was the first since April 19, 1968, when maximum interest rates on deposits of \$100,000 or more were increased. The change in the maximum rate payable on passbook savings was the first since November 24, 1964.

Governor Robertson dissented only from that part of the action raising the maximum rates payable on CD's of \$100,000 or more. He considered it imperative to avoid a premature, excessively rapid rate of bank intermediation, lest the anti-inflationary benefits that the current level of restraint was producing be lost. While it was not clear that the maximum-rate increase would enable banks to sell more large

CD's, neither was it clear that such action would not enable them to gather in too large a volume of funds with which to expand bank credit. Also, he foresaw a further upward ratcheting of interest rates if the ceilings were raised sufficiently to do any good. In summary, he believed caution was indicated in adjusting the rate ceilings, for no one could accurately foresee the consequences.

FEBRUARY 26, 1970

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS.

Effective retroactively to January 21, 1970, the Board amended the Supplement to Regulation Q to authorize the same interest rate ceilings on 1- and 2-year "consumer type" time certificates, with provision for automatic renewal, as those prescribed for single-maturity certificates, that is, 5½ and 5¾ per cent, respectively.

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

Votes against this action: None.

The previous maximum rate had been 5 per cent on both types of instruments. For multiple-maturity time deposits maturing in from 90 days to 1 year the maximum rate remained at 5 per cent.

This action was intended as an equitable adjustment to comparable increases, announced on January 20 and effective on January 21, in the maximum rates member banks could pay on single-maturity time deposits of 1 year or more. It was taken in view of the convenience to bank customers of the automatic renewal feature of multiple-maturity deposits.

MARCH 3, 1970

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

Effective immediately, the Board approved an amendment to Regulation K regarding exemptions from its loan limits.

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

The purpose of this amendment was to make clear that obligations are exempt from the loan limits of the regulation to the extent that they are insured against foreign political and credit risks by the Foreign Credit Insurance Association, a joint enterprise of the Export-Import Bank and a group of some 70 U.S. insurance companies.

MARCH 12, 1970

AMENDMENT TO REGULATION Z, TRUTH IN LENDING.

Effective March 12, 1970, the Board approved an amendment to Regulation Z and adopted Supplement III to the regulation; both pertained to States exempted from provisions of the regulation. In addition, effective April 1, 1970, the State of Maine was granted exemption under the Federal Truth in Lending Act.

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

Section 123 of the Truth in Lending Act provides that the Board shall exempt from the disclosure and rescission requirements of the Act any class of transactions within a State if the State law provides requirements substantially similar to those imposed by the Federal law, and if there is adequate provision for enforcement.

The amendment to Regulation Z was designed to preserve the ability of consumers to file civil actions under the Truth in Lending Act in Federal as well as in State courts after one or more classes of credit transactions within a State have been exempted by the Board from the applicable requirements of the Act. Supplement III to the regulation listed each class of credit transaction within a specified State that would be granted an exemption.

The State of Maine was granted the first State exemption from the Act, applicable to all classes of credit transactions within the State except those in which a federally chartered institution—such as a Federal credit union, Federal savings and loan association, or national bank—is a creditor.

The Board later granted similar exemptions to the State of Oklahoma effective June 1, 1970, the State of Massachusetts effective July 1, 1970, and the State of Connecticut effective August 1, 1970.

MARCH 17, 1970

AMENDMENTS TO FOREIGN CREDIT RESTRAINT PROGRAM GUIDELINES.

Effective immediately, the guidelines covering foreign credits and investments by U.S. banks were amended in one specific respect.

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

The December 1969 revision of the voluntary foreign credit restraint program guidelines had resulted in an inadvertent tightening in one respect. The revised guidelines stated that a bank should not make new term loans to residents of developed countries of continental Western Europe except loans qualifying as "export term loans," whereas the exception in the previous guidelines had applied to loans to finance U.S. exports. Because "export term loans" were defined to exclude loans of less than \$250,000 each, the effect of the language of the revised guidelines was to prohibit, unintentionally, certain term loans to Western Europe that had earlier been permissible. The action at this time restored the language used previously in the special restraint for Western Europe.

The foreign credit restraint guidelines were later amended in two other respects:

The first amendment, effective May 13, generalized principles developed earlier in specific cases under which domestic subsidiaries of U.S. banking institutions were allowed to offset certain foreign borrowings against the foreign assets that are subject to guideline restraint. Under the amendments, domestic subsidiaries of Edge Act and agreement corporations of U.S. banks, in calculating their foreign assets that are to be consolidated with those of their parents and thereby made subject to guideline ceilings, were allowed to deduct any of the

subsidiaries' outstanding foreign borrowings with an original maturity of 3 years or more.

The second amendment, made on September 16 effective with the then-current monthly reporting period, permitted U.S. banks to count export term loans of any size against their export-term-loan ceilings. Previously, only such loans of \$250,000 or more were to be counted. The \$250,000 floor had been carried over, along with other criteria, from a Treasury Department reporting requirement that had been adopted because it was already in wide use among banks when the export-term-loan ceilings were created in 1969. The dropping of the dollar floor was intended to provide some benefit for banks, particularly smaller banks, as well as for smaller exporters seeking to arrange credits for their foreign customers.

MARCH 26, 1970

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

The Board extended to August 1, 1970, its authorization to the Federal Reserve Banks to provide, in accordance with certain specified principles, emergency credit facilities to nonmember depositary institutions.

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

Votes against this action: None.

As detailed on pages 92 and 93 of the Board's ANNUAL REPORT for 1969, on December 24, 1969, the Board authorized the Federal Reserve Banks to provide emergency credit facilities, in accordance with specified principles, to nonmember depositary institutions that might be in difficulty as to the adequacy of their liquidity reserves. The authority was effective until April 1, 1970.

No extensions of credit had been necessary under the emergency arrangements, and there appeared to be no strong prospect that any would be required in the months ahead. However, it seemed desirable that the Reserve Banks be able to respond quickly if any emergency situation should arise. Accordingly, the authority granted in December 1969 was extended to August 1, 1970.

The authority was subsequently extended again to February 1, 1971.

APRIL 9, 1970

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

Effective April 16, 1970, the Board amended Regulation A to eliminate the regulatory requirement that paper offered by member banks to the Federal Reserve Banks for discount or as collateral for advances under Section 13 of the Federal Reserve Act must in all cases be negotiable.

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

The Federal Reserve Act does not require that paper offered by member banks to the Federal Reserve Banks for discount or as collateral for advances under Section 13 of the Act must in all cases be negotiable. Under the Board's Regulation A, nonnegotiable paper had not been permitted for discounts and advances under Section 13 of the Act, but was permitted as collateral for advances under Section 10(b) of the Act, although at a rate of interest higher than the regular Reserve Bank rate.

This action recognized that it appeared unnecessary and undesirable to require for discounts and advances under Section 13 that paper otherwise eligible and of good quality must in all instances meet technical requirements as to negotiability in order to be discounted or used as collateral for advances at the regular discount rate. Elimination of the regulatory requirement, however, did not preclude a Reserve Bank in individual cases from declining to accept nonnegotiable paper for discount or as collateral for advances.

APRIL 9, 1970

AMENDMENT TO REGULATION T, CREDIT BY BROKERS AND DEALERS.

Effective May 15, 1970, the Board amended Regulation T to permit life insurance companies subject to registration with the Securities and Ex-

change Commission under Section 15 of the Securities Exchange Act of 1934 (because they offer or sell variable annuity contracts) to extend, maintain, or arrange for credit subject to Regulation G rather than to Regulation T, where the securities credit they extend is unrelated to transactions involving a variable annuity or a general securities business.

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

When Regulation T was amended in 1969 to include over-the-counter stock, its coverage was extended from brokers who were exchange members, or did business through exchange members, to encompass all stockbrokers registered with the Securities and Exchange Commission. In an unrelated development in the securities field, large life insurance companies had recently been determined in the courts to be brokers because they offered certain equity products as part of their insurance line. As a result, unless the Board provided relief, all lending activities of such insurance companies could have been subject to Regulation T.

The strict rules of Regulation T cover many aspects of loans in addition to initial margin and are inappropriate for the conventional activities involving portfolio investments of insurance companies. Nevertheless, under the terms of the regulation, as they existed, such activities were subject to those rules when credit to purchase or carry securities was involved.

In the latter part of 1969 the Board had published for comments a proposal to subject brokerage activities of insurance companies to Regulation T and their conventional lending activities to Regulation G, relating to securities credit extended by persons other than banks, brokers, or dealers. No adverse comments had been received, and the amendment now adopted reflected only technical changes from the original proposal. A temporary suspension of Regulation T as applied to insurance companies, granted by the Board in July 1969, was extended until the effective date of the amendment.

MAY 1, 1970

**AMENDMENTS TO REGULATION T, CREDIT BY
BROKERS AND DEALERS, AND REGULATION U,
CREDIT BY BANKS FOR THE PURPOSE OF
PURCHASING OR CARRYING MARGIN STOCKS.**

Effective immediately, the Board amended Regulations T and U to permit arbitrage transactions without regard to margin requirements up to 180 days in certain circumstances.

Votes for this action: Messrs. Robertson, Daane, Maisel, and Sherrill. Vote against this action: Mr. Brimmer. Absent and not voting: Messrs. Burns and Mitchell.

Transactions in a special arbitrage account are exempt from margin requirements under certain conditions. One requirement for exemption had been that the security purchased must be exchangeable or convertible within 90 days into the security sold in creating the arbitrage. The effect of the amendments approved at this time was to permit a 180-day exchange or conversion period when the security purchased is a due bill or other evidence of the right to receive the security sold, and when the security sold is trading as a when-issued security.

The amendments had been proposed for consideration at this time because of the unusual characteristics of the financing instrument being offered currently by a utility company and the effect of deteriorating market conditions on the likely success of the offering, which was the largest in history. The Board concluded that the type of arbitrage transaction within the added exception was not of the type intended to be restricted by the 90-day provision relating to arbitrage transactions when that provision was adopted in 1961. It decided, therefore, that in the circumstances the adoption of these limited technical amendments was justified in the public interest.

Governor Brimmer voted against the amendments because he felt it was inappropriate to take such an action if the specific effect would be to minimize the risk of loss to a private corporation, especially when certain options appeared to be available to the company.

MAY 5, 1970

AMENDMENTS TO MARGIN REGULATIONS.

Effective May 6, 1970, the Board amended the Supplements to Regulation G, Securities Credit by Persons Other Than Banks, Brokers, or Dealers, Regulation T, Credit by Brokers and Dealers, and Regulation U, Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks, to lower the margin requirement from 80 to 65 per cent for credit extended by brokers, dealers, banks, and other lenders to finance the purchase or carrying of stocks and from 60 to 50 per cent for credit extended by such persons to finance the purchase or carrying of convertible bonds. No change was made in the 70 per cent retention requirement applicable to undermargined accounts.

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

Votes against this action: None.

In the Securities Exchange Act of 1934, Congress granted the Board of Governors authority to impose margin requirements "for the purpose of preventing the excessive use of credit for the purchase or carrying of securities."

Since June 1968, when the margin requirements were increased from 70 to 80 per cent for stocks and from 50 to 60 per cent for convertible bonds, margin credit extended by brokers had dropped from \$6.7 billion to \$4.5 billion in March 1970, the latest month for which such information was available, and the number of margin accounts had dropped from 940,000 to 820,000. Meanwhile, credit extended by banks for purchasing or carrying securities had declined from a high of \$2.8 billion in February 1969 to \$2.4 billion in March 1970. In view of the sharp reduction in the use of credit for stock purchases, which reduction had been accompanied by a rapid drop in stock prices in recent months, the Board concluded that a move to less restrictive margin requirements would be appropriate.

The action covered new extensions of credit by brokers and dealers (Regulation T) and loans by banks and other lenders (Regulations U and G, respectively) for the purpose of purchasing or carrying securities

registered on a national stock exchange or named in the Board's over-the-counter margin list.

No change was made in the 70 per cent "retention requirement" applicable to undermargined accounts. That requirement specifies the portion of the proceeds of a sale of securities from a margin account that must be retained in the account if the equity in that account does not match the margin requirements.

JUNE 4, 1970

AMENDMENT TO REGULATION V, LOAN GUARANTEES FOR DEFENSE PRODUCTION.

Effective June 4, 1970, the Board amended the Supplement to Regulation V to permit the governmental agency guaranteeing a loan under the Defense Production Act of 1950, as amended, to prescribe from time to time a higher interest rate than would otherwise be payable on such a loan if the agency determines that such higher rate is necessary to obtain V-loan financing of a contract or other operation essential to the national defense.

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

In 1969 the Supplement to Regulation V had been 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.

The current amendment was intended to make clear that the agency guaranteeing a particular loan may from time to time prescribe a higher rate if it determines the loan to be necessary for the purpose of financing any contractor, subcontractor, or other person in connection with the performance of any contract or other operation deemed by the guaranteeing agency to be necessary to expedite production and deliveries or services under Government contracts for the procurement of materials or the performance of services for the national defense.

JUNE 12, 1970

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

Effective June 30, 1970, the Board amended Regulations D and Q to narrow the category of member bank subordinated notes that are exempt from reserve requirements and interest rate limitations.

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

Votes against this action: None.

The effect of these amendments was to prescribe conditions that must be met if subordinated notes or debentures issued by a member bank are to be exempt from interest rate controls (Regulation Q) and reserve requirements (Regulation D). The new conditions were designed to distinguish clearly between capital-type funds and deposit-type funds.

The basic rule for new issues provided that, in order to be exempt from Regulations Q and D, a subordinated note must have an original maturity of 7 years or more and be in an amount of at least \$500. Certain statements designed to assure that an investor in such notes would understand the nature of his investment were required to be included in each note, and the issuance of such notes had to be approved in advance by the member bank's primary Federal bank supervisor. In exigent circumstances, the supervisor could permit the issuance of non-deposit subordinated notes with a maturity of less than 7 years.

Formerly, the exemption for subordinated notes had applied if the maturity of the obligation was more than 2 years. The changes were considered necessary in view of recent evidence that member banks had been able to market such obligations to acquire deposit-type funds. The changes were adopted following extensive consideration by the Interagency Coordinating Committee on Bank Regulation, which includes representatives of the three Federal bank supervisory agencies and the Federal Home Loan Bank Board.

JUNE 23, 1970

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS.

Effective June 24, 1970, the Board amended the Supplement to Regulation Q to suspend the maximum limitations theretofore prescribed on the rate of interest that member banks may pay on single-maturity deposits of \$100,000 or more that mature 30 days or more but less than 90 days after the date of deposit. Prior to the amendment, such deposits maturing in 30–59 days had been subject to a maximum limitation of 6¼ per cent, and those maturing in 60–89 days to a maximum limitation of 6½ per cent.

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

The Board took this action in order to place member banks in a better position to obtain funds with which to meet unusual demands upon them for short-term credit accommodation as a consequence of serious current uncertainties in financial markets.

Particular concern was centered in the market for commercial paper, which had been shaken by the insolvency proceedings instituted over the preceding weekend by a major railroad corporation. Since it appeared that pressures might pyramid in the commercial paper market, banks were assured promptly that the Federal Reserve discount window would be available to assist them in meeting the needs of businesses unable to roll over their maturing paper. The Regulation Q action, taken shortly thereafter, was intended to enable banks to obtain funds that investors had become reluctant to place in other markets and to rechannel those funds to borrowers previously dependent upon the issuance of commercial paper. Thus the resulting increases in bank credit would not constitute an increase in total credit flows, to the extent that they represented simply a transfer of borrowings from other financing avenues. Under such circumstances, appropriate accommodation through bank lending would be a constructive element in the process of adjustment to changing financial conditions and would not interfere with the continuing objective of curbing inflation.

The Board's action was taken after consultation with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, as required by law.

No change was made in the ceilings applicable to longer-term CD's of \$100,000 or more, which remained at 6¾ per cent for maturities of 90 to 179 days, 7 per cent for 180 days to 1 year, and 7½ per cent for 1 year or more. Likewise, no change was made in the ceilings on savings deposits or time deposits (including CD's) of less than \$100,000, on which the maximum rates payable ranged from 4½ to 5¾ per cent.

Governor Robertson's position was that the regulatory action should not be taken until the circumstances that might impel it were clear, rather than conjectured, and that its desirability should be weighed from the broader standpoint of monetary policy and the struggle against inflation. Efforts by banks to sell CD's could generate unsettling pressures in other domestic short-term markets, including the commercial paper market, and if banks thereby gained loanable funds domestically, they were likely to pay back their more expensive Euro-dollar borrowings, thus aggravating the already adverse balance of payments situation. He believed such developments would interfere substantially with the broader objective of fostering only moderate growth in bank credit and money in the interest of curbing inflation and encouraging an orderly resumption of sustainable economic growth.

AUGUST 17, 1970

AMENDMENTS TO REGULATION D, RESERVES OF MEMBER BANKS.

Effective September 17, 1970, the Board amended Regulation D to apply a 5 per cent reserve requirement against funds obtained by member banks through the issuance of commercial paper by their affiliates. Effective October 1, 1970, it amended the Supplement to Regulation D to reduce from 6 to 5 per cent the reserves required to be maintained by member banks against time deposits in excess of \$5 million.

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

Votes against this action: None.

In imposing reserve requirements against funds obtained by member banks through the issuance of commercial paper or similar obligations by their affiliates, the Board used for the first time the authority contained in the Act of December 23, 1969, which explicitly authorized

such action. In January the Board had published for comment a proposal to apply reserve requirements to such paper, but it subsequently deferred action on the proposal in order to avoid additional stringency in money and credit conditions.

The main purpose of the action now taken was to maintain the effectiveness of the reserve requirement instrument. About \$7.5 billion of bank-related commercial paper was outstanding, the total having risen by \$5.5 billion during the preceding 12 months. The application of the 5 per cent reserve requirement to such paper was expected to increase the required reserves of the affected member banks by roughly \$350 million. Since most commercial paper is issued in denominations of \$100,000 or more, the extension of reserve requirements to bank-related commercial paper served to put instruments of this kind on a more nearly equal footing with negotiable CD's issued by banks.

The action to reduce reserve requirements against time deposits in excess of \$5 million, which coincided in terms of effective date with the beginning of the fall period of seasonal expansion of deposits and required reserves, was expected to release reserves to the extent of about \$300 million at banks issuing commercial paper and in the amount of about \$400 million at other member banks.

Accordingly, the dual action was estimated to result in a reduction in required reserves of about \$350 million for the banking system as a whole. The greater portion of the net reserves thus released would become available to banks that in the current circumstances might be expected to use a sizable share of the available funds in financing housing and State and local governments.

OCTOBER 1, 1970

AMENDMENT TO REGULATION D, RESERVES OF MEMBER BANKS.

Effective November 9, 1970, the Board amended the definition of the term "savings deposit" contained in Regulation D.

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

The amendment was designed to prevent the use of funds deposited by a trust department of a member bank in a savings deposit in the commercial department of that bank in tandem with a checking account so as to avoid the higher demand deposit reserve requirements. The amendment, as adopted, was narrower in scope than a version that had previously been published for comment. The effect of confining the amendment to savings deposits was that the trust department of a member bank could continue to classify a certain portion of the funds on deposit in its commercial department as a time deposit, in accordance with an interpretation issued by the Board in 1959.

OCTOBER 23, 1970

AMENDMENT TO REGULATION Z, TRUTH IN LENDING.

Effective October 23, 1970, the Board amended Regulation Z to allow creditors of open-end accounts to reduce the periodic rate or rates applicable to those accounts without the necessity of giving advance notice.

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

Regulation Z provided that if any change was to be made in the terms of an open-end credit account plan previously disclosed to the customer, the creditor must give the customer written disclosure of such proposed change not less than 30 days prior to the effective date of such change or 30 days prior to the beginning of the billing cycle within which such change would become effective, whichever date was earlier. Pursuant to the amendment now adopted, no notice was necessary if the only change was a reduction in the periodic rate or rates applicable to the account, thereby benefiting the customer.

NOVEMBER 10, 1970

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

Effective November 11, 1970, the Board approved actions that had been taken by the boards of directors of the Federal Reserve Banks of Boston,

Richmond, Atlanta, St. Louis, Minneapolis, and San Francisco establishing a rate of $5\frac{3}{4}$ 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.

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

The Board later approved similar actions by the directors of the Federal Reserve Banks of New York, Cleveland, Chicago, Kansas City, and Dallas effective November 13, and by the directors of the Federal Reserve Bank of Philadelphia effective November 16, 1970.

Effective the same dates the Board approved for the respective Federal Reserve Banks a rate of $6\frac{1}{4}$ per cent (rather than $6\frac{1}{2}$ 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 reductions 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 April 1969, as described on pages 74–76 of the Board's ANNUAL REPORT for 1969.)

The reduction in the discount rate—the rate charged member banks for borrowing from their district Reserve Banks—was made within the general framework of the moderately expansive monetary policy that had been initiated earlier in the year. More specifically, the action was taken in recognition of the reductions that had occurred recently in other short-term interest rates, including particularly the 3-month Treasury bill rate, and was designed to bring the discount rate into better alignment with short-term rates generally.

The action had the effect of assuring that the Federal Reserve did not desire to resist the interest rate declines that were being manifested in various markets, in an environment in which signs of economic weakness were becoming more apparent. Business spending was faltering, and labor demand and consumer spending continued sluggish. In addition, recent evidence suggested that growth in bank credit and money

was falling short of monetary policy targets for the fourth quarter. On the other hand, there was some reason to anticipate that the economy would show more strength once the strike against a major automobile manufacturer was settled, and inflationary attitudes remained a problem. A larger discount rate reduction would have increased the risk of rekindling inflationary expectations at a time when it appeared that some progress in dampening them was being made.

The current reduction in the discount rate was the first since August 1968, when the rate was lowered from 5½ to 5¼ per cent. Since then the rate had been increased to 5½ per cent in December 1968, and to 6 per cent in April 1969.

NOVEMBER 22, 1970

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

Effective November 23, 1970, the Board amended Regulation A so as to facilitate a simplification of procedures with respect to extensions of Reserve Bank credit by elimination of regulatory language that implied that a formal written application must be submitted by a member bank in connection with each borrowing from a Reserve Bank and that a promissory note must be executed in connection with each such borrowing.

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

The amendments represented essentially procedural and technical improvements and reflected no change in the Federal Reserve's general monetary and credit policies. They were intended to facilitate the adoption by the Federal Reserve Banks of a uniform, continuing lending agreement in lieu of formal applications and promissory notes, along with procedures under which (1) the Reserve Banks would accrue interest on advances and collect such interest at the time of repayment instead of computing and charging interest on a discount basis at the time of the advance, and (2) all changes in the discount rate would be made immediately applicable to outstanding loans. In order to provide sufficient lead time for all concerned, including member banks, to familiarize themselves with the new procedures, the Board, after con-

sultation with the Reserve Banks, expressed the view that February 4, 1971, would be an appropriate date for inauguration of the new procedures at all Reserve Banks.

NOVEMBER 30, 1970

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

Effective December 1, 1970, the Board approved actions that had been taken by the boards of directors of the Federal Reserve Banks of Boston, Cleveland, Atlanta, Minneapolis, and Dallas establishing a rate of $5\frac{1}{2}$ per cent (rather than $5\frac{3}{4}$ 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. Burns, Robertson, Daane, Maisel, Brimmer, and Sherrill. Votes against this action: None. Absent and not voting: Mr. Mitchell.

The Board later approved similar actions by the directors of the Federal Reserve Banks of New York, Philadelphia, and San Francisco effective December 4, by the directors of the Federal Reserve Bank of Kansas City effective December 10, and by the directors of the Federal Reserve Banks of Richmond, Chicago, and St. Louis effective December 11, 1970.

Effective the same dates the Board approved for the respective Federal Reserve Banks a rate of 6 per cent (rather than $6\frac{1}{4}$ 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 reductions in rates on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of Section 13 of the Act.

The discount rates of the respective Federal Reserve Banks had been reduced from 6 to $5\frac{3}{4}$ per cent effective during the week beginning November 11. Since that time there had been a further downward trend in short-term interest rates, against a background of sluggishness in demands for money and in over-all economic activity. The further reduction in the discount rate to $5\frac{1}{2}$ per cent was made in recognition of the declining trend in short-term interest rates and was in keeping with a desire to maintain a suitable alignment between the discount rate and market rates.

NOVEMBER 30, 1970

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

Effective January 7, 1971, the Board amended the Supplement to Regulation D and amended Regulation M for the purpose of strengthening the inducement for U.S. banks to retain their Euro-dollar liabilities and thus moderate the pace of repayment of Euro-dollar borrowings.

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

A matter of increasing concern was the deleterious effect on the U.S. balance of payments of the repayment by U.S. banks of their Euro-dollar borrowings. Such repayments had already assumed heavy proportions, and pressure toward acceleration of that movement seemed certain to intensify if U.S. short-term rates declined further and domestic demands for credit continued to moderate. In the circumstances, the Board took three interrelated actions designed to strengthen the inducement for U.S. banks to retain their Euro-dollar liabilities.

First, the Board raised from 10 to 20 per cent the reserves required to be maintained by member banks against Euro-dollar borrowings that exceed the amounts that the banks are allowed as a reserve-free base. The higher requirement was intended to give banks an added inducement to preserve their reserve-free bases against a time of future need instead of allowing their bases to be lowered automatically by repaying their Euro-dollar borrowings. The higher requirement became effective in the 4-week reserve computation period ending December 23, 1970.

In a second step, to assure that the higher marginal reserve requirement did not penalize banks that had Euro-dollar liabilities above their reserve-free bases, the Board amended its regulations so as to make the marginal reserve requirement applicable to borrowings above either (1) the minimum base equal to a percentage of deposits, or (2) the average level in the reserve computation period ended November 25, 1970, whichever was higher.

Third, the Board amended its regulations to discourage repayment of Euro-dollar liabilities not only by banks that used an historically

determined reserve-free base originally related to their May 1969 borrowings but also by those banks that operated under a minimum base equal to 3 per cent of their over-all deposits subject to reserve requirements. The amendment applied the automatic downward adjustment to reserve-free bases of the latter kind as well as of the former. This particular amendment became effective with the reserve computation period ending January 20, 1971.

Although the steps announced were deliberately of modest scale, the Board noted that it had under review other measures that might be adopted for the purpose of tempering the repayment of Euro-dollars while avoiding penalty to banks that operated so as to retain their reserve-free bases.

DECEMBER 22, 1970

AMENDMENTS TO REGULATION Q, INTEREST ON DEPOSITS.

Effective January 1, 1971, the Board amended Regulation Q to authorize the use of a 360-day basis in computing simple daily interest on time and savings deposits.

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

The effect of the amendment was to permit, although not require, member banks to pay simple daily interest at the applicable maximum rate by using 360 rather than 365 as the denominator of a fraction in which the numerator is the actual number of days the deposit earns interest. The Board also changed an outstanding interpretation of Regulation Q so as to authorize the compounding of interest daily or continuously by use of a similar time factor.

The intent of the Board was to move in the direction of setting more general regulatory standards for the payment of interest on deposits, allowing reasonable flexibility thereunder for adaptation by banks to accepted practices and competitive innovations.

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 1970, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions. The summary descriptions of economic and financial conditions are based on the information that was available to the Committee at the time of the meetings, rather than on data as they may have been revised later.

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

Under the Committee's rules relating to the availability of information to the public, the policy record for each meeting is released approximately 90 days following the date of the meeting and is subsequently published in the Federal Reserve *Bulletin* as well as in the Board's ANNUAL REPORT.

Policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by

the Committee to execute transactions for the System Open Market Account. In the area of domestic open market activities the Federal Reserve Bank of New York operates under two separate directives from the Open Market Committee—a continuing authority directive and a current economic policy directive. In the foreign currency area it operates under an authorization for System foreign currency operations and a foreign currency directive. These four instruments are shown below in the form in which they were in effect at the beginning of 1970. 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, 1970)

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

(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account at the close of business on the day of a meeting of the Committee at which action is taken with respect to a current economic policy directive shall not be increased or decreased by more than \$2.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount

of bankers' acceptances held at any one time shall not exceed (1) \$125 million or (2) 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York, whichever is the lower;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates not less than (1) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury for the account of the Federal Reserve Bank of New York, 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.

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.

CURRENT ECONOMIC POLICY DIRECTIVE

(in effect January 1, 1970)

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.

AUTHORIZATION FOR SYSTEM FOREIGN CURRENCY OPERATIONS

(in effect January 1, 1970)

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 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 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	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
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against 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.

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, 1970)

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

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

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

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

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

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

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

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

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

C. To aid in avoiding disorderly conditions in exchange markets. Special factors that might make for exchange market instabilities include (1) responses to short-run increases in international political tension, (2) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, and (3) market rumors of a character likely to stimulate speculative transactions. Whenever exchange market instability threatens to produce disorderly conditions, System transactions may be undertaken if the Special Manager reaches a judgment that they may help to re-establish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. In such cases, the Special Manager shall consult as soon as practicable with the Committee or, in an emergency, with the members of the Subcommittee designated for that purpose in paragraph 6 of the Authorization for System foreign currency operations; and

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

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

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

MEETING HELD ON JANUARY 15, 1970

Authority to effect transactions in System Account.

Growth in real gross national product came to a halt in the fourth quarter of 1969, according to preliminary Commerce Department estimates, but prices and costs were continuing to rise rapidly. Staff projections suggested that there would be little change in real economic activity in early 1970. It appeared likely that upward pressures on prices would persist, although perhaps moderating somewhat as the year progressed.

Signs of weakness in the economy at the year-end were reflected in various monthly economic series. Industrial production had declined in December for the fifth successive month. Although the unemployment rate remained at the low November level of 3.4 per cent, nonfarm employment had edged down, and employment in manufacturing was reduced for the fourth month in a row. Retail sales were about unchanged in December, and after adjustment for price increases, they remained below the level of a year earlier. Housing starts and manufacturers' new orders for durable goods had continued downward in November, the latest month for which data were available.

Average wholesale prices rose considerably further from mid-November to mid-December for both industrial commodities and farm and food products. Among industrial commodities, advances were particularly marked for nonferrous metals and for machinery and equipment. The consumer price index again rose substantially in November.

The Commerce Department figures for the fourth quarter indicated that real GNP had leveled out primarily because of a reduction in the rate of inventory accumulation by business; growth in final sales slowed only moderately further. The staff projections for the first half of 1970 suggested that the rate of inventory accumulation would decline further and that growth in final sales would remain sluggish. It appeared likely that Federal expenditures and residential construction outlays would decline in both the first and second quarters and that growth in spending by State and local governments would remain slow.

There were some elements of strength in the outlook, including reported plans by businesses to increase outlays on new plant and equipment substantially further in 1970. In addition, under recent legislation the income tax surcharge had been reduced from 10 to 5 per cent as of January 1 (and would be eliminated as of July 1), and social security benefits had been raised by 15 per cent as of January 1—with the higher payments, including a retroactive payment, to begin in April. However, the stimulating effect of this legislation on consumer spending was expected to be offset in part by other factors tending to slow growth in personal income and by some rise in the saving rate.

The small surplus in U.S. foreign trade that had been recorded in the third quarter was maintained in the first 2 months of the fourth quarter, as both exports and imports increased moderately. With respect to the over-all payments balance, extremely heavy capital inflows in the final weeks of the year resulted in large surpluses in December and in the fourth quarter as a whole on both the “liquidity” and “official reserve transactions” bases of calculation.¹ It appeared that the year-end inflow reflected further repatriations out of German mark holdings together with the return of funds from various sources by U.S. corporations partly in order to comply with U.S. Government controls on direct investments abroad. Some of the inflow was reversed early in January.

The Treasury was expected to announce in late January the terms on which it would refund bonds maturing in mid-February. It seemed likely that the Treasury would decide to refund bonds maturing in mid-March at the same time. About \$6.7 billion of such securities would mature on those two dates, of which \$5.6 billion were held by the public.

System open market operations since the mid-December meeting of the Committee had been directed at maintaining the prevailing firm

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

conditions in the money market. When seasonal forces around the turn of the year tended to produce considerable tautness in the money market—as reflected in effective Federal funds rates of 9.5 and 9.75 per cent on a number of days—the pressure on marginal reserve positions of member banks was eased somewhat. The average rate on Federal funds in the 4 weeks ending January 7 was slightly below 9 per cent, little changed from the preceding 3 weeks. Average member bank borrowings declined by about \$200 million, to approximately \$1.0 billion; average net borrowed reserves declined somewhat more as a result of a seasonal increase in excess reserves at year-end.

In the opening weeks of 1970 interest rates moved down for Treasury securities of all maturities and for new corporate and municipal bonds. These reductions reflected in part the demands of small investors who were employing funds that they had withdrawn from depository institutions. For corporate and municipal bonds the reductions extended declines that had been under way since early and mid-December, respectively. Yields on Treasury securities, however, had remained under upward pressure until the end of 1969, for various reasons—including dealer efforts to hold down inventories in the face of high financing costs; bank sales of coupon-bearing issues in reaction to certain provisions of the newly enacted Tax Reform Act; and sales of Treasury bills by foreign official institutions. Three-month Treasury bill rates had reached record highs on December 29—8.08 per cent for the market rate and 8.10 per cent for the average auction rate. But by the day before this meeting the market rate on 3-month bills had fallen to 7.87 per cent, about the same as it had been a month earlier. However, yields on Treasury notes and bonds were still above their mid-December levels.

Both commercial banks and nonbank thrift institutions—savings and loan associations and mutual savings banks—apparently had experienced very heavy outflows of consumer-type time and savings funds after year-end interest and dividend crediting. Earlier, in response to reduced net inflows of savings funds and pessimistic appraisals of the outlook, the thrift institutions had cut back their new mortgage commitments substantially. With mortgage interest rates continuing under upward pressure, the ceiling rate on federally underwritten home mortgages was raised from 7½ to 8½ per cent, effective January 5.

In December total time and savings deposits of commercial banks had increased for the first time in a year. Flows of consumer-type deposits had remained weak in that month, and holdings by domestic depositors of large-denomination negotiable certificates of deposit (CD's) had continued to contract. However, there was a sizable further rise in foreign official time deposits. Over the fourth quarter as a whole total time and savings deposits had been about unchanged.

Private demand deposits and the money stock declined during most of December. However, they increased sharply in the final week of the year—as a result in part of various technical factors and in part of exceptionally large year-end money flows, apparently including the repatriation of funds from abroad by corporations in compliance with Government controls on foreign direct investments. The year-end surge, which was believed likely to prove temporary, was sufficient to cause the money stock to grow at an annual rate of about 2 per cent from November to December and about 1 per cent over the fourth quarter as a whole. In the third quarter the money stock had not grown.

Bank credit, as measured by the proxy series—daily-average member bank deposits²—declined from November to December at an annual rate of 0.5 per cent. After adjustment for changes in the outstanding volume of funds obtained by banks from “nondeposit”

² 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, the best available measure, although indirect, of developing movements in bank credit. Because the deposit figures are compiled on a daily basis with a very short lag, they 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 (p. A-17 of the January 1970 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 BULLETIN for October 1966. 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. Changes in U.S. bank liabilities to foreign branches and, more recently, in funds raised by other means—particularly the sale of commercial paper by bank affiliates—have become important sources of such divergence. Accordingly, an “adjusted” proxy series, taking approximate account of such changes, is also calculated for Committee use.

sources—including a reduction in the average level of their Euro-dollar borrowings through foreign branches and a rise in the volume of funds obtained through sales of commercial paper by bank affiliates—the proxy series increased at an annual rate of 1.5 per cent from November to December. The adjusted bank credit proxy rose at a 2 per cent annual rate during the fourth quarter, following a decline at a 4.3 per cent rate in the third quarter.

Staff projections suggested that the adjusted bank credit proxy would decline over the first quarter and the money stock would change little on balance, assuming maintenance of prevailing money market conditions and no changes in maximum interest rates payable on time and savings deposits under the Board's Regulation Q. The adjusted proxy series was projected to contract at annual rates of 1 to 4 per cent from December to January and 4 to 7 per cent from January to February, in large part because of anticipated net reductions in time and savings deposits.

While taking note of the leveling off in real economic activity, the Committee agreed that any marked relaxation of monetary restraint would be premature at present in light of the persistence of inflationary pressures and expectations. At the same time, considerable concern was expressed about the prospect that in the first quarter both bank credit and the money stock would continue to show no significant growth if prevailing money market conditions and Regulation Q ceiling rates were maintained. In this connection it was reported that the Board of Governors planned shortly to consider increases in the Regulation Q ceilings.

In the discussion of open market policy, some members expressed the view that the specific money market conditions sought—within the range of conditions sufficiently firm to be consistent with a posture of monetary restraint—should be those most likely to be conducive to modest growth in bank credit and the money stock over the first quarter. Other members thought that a slight lessening of pressures on the money market might be accommodated, but they nevertheless favored relying mainly on early action with respect to Regulation Q in the effort to encourage some growth in bank credit. Still others indicated that on balance they were inclined toward maintaining the prevailing conditions in the money market.

The Committee concluded that in the conduct of open market

operations increased stress should be placed on the objective of achieving modest growth in the monetary aggregates, with about equal weight being given to bank credit and the money stock. It was agreed that operations should be directed at maintaining firm conditions in the money market, but that they should be modified if it appeared that the objective with respect to the aggregates was not being achieved. It was also agreed that account should be taken of the forthcoming Treasury refunding, and of the effects of any action by the Board with respect to Regulation Q.

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

The information reviewed at this meeting suggests that real economic activity leveled off in the fourth quarter of 1969 and that little change is in prospect for the early part of 1970. Prices and costs, however, are continuing to rise at a rapid pace. Most market interest rates have receded from highs reached during December. Bank credit and the money supply increased slightly on average in December and also over the fourth quarter as a whole. Outstanding large-denomination CD's held by domestic depositors have continued to contract in recent months while foreign official time deposits have expanded considerably. Flows of consumer-type time and savings funds at banks and nonbank thrift institutions have remained weak, and there apparently were sizable net outflows after year-end interest crediting. U.S. imports and exports have both grown further in recent months but through November the trade balance showed little or no further improvement from the third-quarter level. At the year-end the overall balance of payments statistics were buoyed by large temporary inflows of U.S. corporate funds. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to the orderly 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, possible bank regulatory changes and the Committee's desire to see a modest growth in money and bank credit, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining firm conditions in the money market; provided, however, that operations shall be modified

if money and bank credit appear 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.

MEETING HELD ON FEBRUARY 10, 1970

Authority to effect transactions in System Account.

According to information reviewed at this meeting, over-all economic activity apparently was weakening further in early 1970 but prices and costs were continuing to rise rapidly. Staff projections suggested that real GNP, which had leveled off in the fourth quarter of 1969, would decline slightly in the first half of 1970 but would begin growing again in the second half. Some moderation in the rate of price advance was expected over the course of the year.

Industrial production was tentatively estimated to have declined in January for the sixth consecutive month. There were various indications that the demand for labor was continuing to ease: Total nonfarm employment was about unchanged in January at the level reached 3 months earlier, the average length of the workweek in manufacturing had declined sharply, and the over-all unemployment rate had risen to 3.9 per cent after 2 months at the (revised) level of 3.5 per cent. Retail sales estimates for November and December had been revised downward to levels below October, and weekly sales data for January suggested only a slight advance in that month. Private housing starts declined again in December, reaching their lowest level since June 1967, and the downtrend had apparently continued in January.

Average wholesale prices continued to rise at a rapid pace from mid-December to mid-January; the increase was exceptionally sharp for farm products and foods. The consumer price index again advanced rapidly in December.

Federal budget estimates recently released by the administration showed small surpluses in both the 1970 and the 1971 fiscal years, despite the reduction of the income tax surcharge from 10 to 5 per cent on January 1, 1970, and its scheduled expiration on July 1. The budget document implied tight controls over expenditures; it suggested that Federal purchases of goods and services would decline over the course of the 1970 calendar year, with substantial cutbacks in defense expenditures. However, a sharp rise in transfer payments was in prospect for the second quarter, reflecting an increase in social security benefit payments—and a retroactive payment for the period since January 1—under legislation that had been enacted earlier.

The staff's GNP projections for the first half of 1970 suggested further reductions in business inventory accumulation and in residential construction outlays as well as in defense spending. Only moderate increases in consumer spending were projected—despite the reduction in the surtax in the first quarter and the anticipated increase in social security benefit payments in the second—because it appeared likely that smaller gains in employment and shorter workweeks would tend to slow the growth in personal income and that the personal saving rate would rise somewhat. It was expected, however, that business capital spending would increase substantially further in the first half.

The projections of resumed growth in real GNP in the second half of 1970 were based in part on expectations of a recovery in residential construction outlays, some step-up in spending by State and local governments, an end to the reduction in business inventory accumulation, and the elimination of the income tax surcharge at midyear. However, the rate of increase in real GNP was expected to be held to moderate proportions by continuing declines in defense spending and by a leveling off in business capital outlays.

The surplus in U.S. merchandise trade rose in December, as imports declined more than exports. For the fourth quarter as a whole the trade surplus was somewhat larger than in the preceding quarter. The over-all payments balance reverted to deficit in January on both the liquidity and official settlements bases, as a result of cessation (and partial reversal) of the exceptionally large year-end inflow of funds that had produced large surpluses in December and in the fourth quarter as a whole.

In foreign exchange markets sterling strengthened significantly after mid-January. The Italian lira was under considerable selling pressure throughout the month. Euro-dollar rates declined more than seasonally in January, in part because of reduced demands for Euro-dollars by U.S. banks.

On January 28 the Treasury announced that, in exchange for bonds maturing on February 15 and March 15, it would offer three new notes having, respectively, maturities of 18 months, 3½ years, and 7 years, and yields of 8¼, 8⅛, and 8 per cent. The refunding was favorably received by the market, and according to preliminary estimates, only about 15 per cent of the \$5.6 billion of maturing securities held by the public were turned in for cash.

Interest rates on new corporate and municipal bonds and on outstanding Treasury securities of all maturities had fluctuated over a relatively wide range since the January 15 meeting of the Committee. The rate declines that had been under way earlier in the month continued for a time after mid-January, against the background of additional reports indicating weakness in the economy. Subsequently, however, yields turned up under the pressure of a mounting volume of new corporate and municipal issues and continued large-scale borrowing by Federal agencies. Then, around the month-end, yields moved sharply downward as market participants interpreted statements by various officials as suggesting that monetary restraint would be eased soon. On the day before this meeting the market rate on 3-month Treasury bills was 7.30 per cent, about 55 basis points below its mid-January level.

At both commercial banks and nonbank thrift institutions, outflows of savings funds—which had been unusually heavy following year-end interest and dividend crediting—continued at a significant rate throughout January. On January 20 the Board of Governors of the Federal Reserve System announced moderate increases in maximum interest rates payable by member banks on time and savings deposits.¹ At about the same time the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board announced increases in maximum rates payable by the banks and savings and loan associations over which they have regulatory authority. Thus far these actions had had little observable effect on flows of time and savings funds.

¹ By amendment to Regulation Q effective Jan. 21, 1970, the Board of Governors increased from 4 to 4½ per cent the maximum rate payable on passbook savings and on 30- to 89-day “consumer-type” time deposits—those of less than \$100,000—of multiple maturity. Maximum rates were increased from 5 per cent to 5½ and 5¾ per cent, respectively, for 1-year and 2-year single-maturity consumer-type deposits; for other consumer-type deposits (that is, multiple maturities of 90 days and over and single maturities of less than 1 year) the previous maximum of 5 per cent was retained. In addition, the following changes were made in maximum rates payable on time deposits of \$100,000 or more:

<i>Maturity</i>	<i>New maximum</i>	<i>Previous maximum</i>
	(per cent)	
30-59 days	6¼	5½
60-89 days	6½	5¾
90-179 days	6¾	6
180 days to 1 year	7	6¼
1 year or more	7½	6¾

Private demand deposits and the money stock declined over the course of January, following a sharp and sudden rise at the year-end, and by early February they were below their average December levels. However, the erosion of the year-end bulge in these series was slower than expected, and from December to January on the average the money stock increased at an annual rate of 9 per cent. Meanwhile, total time and savings deposits contracted sharply—at an estimated annual rate of 12.5 per cent—because of the large outflow of consumer-type deposits.

Reflecting diverse movements among deposit categories, the bank credit proxy—daily-average member bank deposits—declined from December to January at an annual rate estimated at about 3.5 per cent. A sharp increase in funds obtained through sales of commercial paper by bank affiliates was nearly offset by a decline in the average level of Euro-dollar borrowings through foreign branches. After taking into account the net change in funds from these “nondeposit” sources, the adjusted bank credit proxy was estimated to have declined at an annual rate of about 3 per cent from December to January. In the fourth quarter of 1969 the money stock and the adjusted proxy series had increased at annual rates of about 1.5 and 2 per cent, respectively.

Along with the amendment to Regulation Q, on January 20 the Board of Governors published for comment a proposed rule applying reserve requirements to certain types of bank-related commercial paper. It was noted that the proposed action was of a type explicitly authorized by legislation enacted December 23, 1969. Earlier—on October 29, 1969—the Board had announced that it was considering applying interest rate ceilings to certain bank-related commercial paper, but action on that proposal subsequently was withheld while consideration was being given to the application of reserve requirements to the same type of paper.

System open market operations since the preceding meeting of the Committee had been directed at maintaining firm conditions in the money market, with operations subject to modification if it appeared that the Committee’s objective of modest growth in the money stock and bank credit over the first quarter was not being achieved. In fact, not only had the average levels of two aggregates moved in opposite directions from December to January—the money stock rising and the bank credit proxy declining—but also, during the period since the previous meeting, the projections for the first quarter had been revised

upward for the money stock and downward for the proxy series. In the 4 weeks ending February 4, the Federal funds rate averaged slightly more than 9 per cent and member bank borrowings about \$1 billion, both relatively close to their averages in the preceding 4 weeks. Average net borrowed reserves increased somewhat as excess reserves declined from the seasonal high they had reached at the year-end.

The latest staff projections suggested that, if prevailing money market conditions were maintained, the average level of the money stock would decline from January to February and would rise by a roughly equal amount from February to March; and that over the first quarter as a whole the money stock would expand at an annual rate of 3 to 4 per cent. The adjusted bank credit proxy, on the other hand, was projected to decline over the quarter at an annual rate of 2 to 4 per cent. This projection reflected an expectation that time and savings deposits—particularly consumer-type deposits—would continue to contract for a time, although there was some prospect that the decline would end in late February or early March as the quarterly interest-crediting period approached. It also seemed possible that by March large-denomination CD's—particularly those of longer maturity—might become at least marginally competitive with other market securities.

An alternative set of projections suggested that the money stock would grow slightly more rapidly over the first quarter—at an annual rate of 4 to 5 per cent—if money market conditions were eased somewhat at present. It was anticipated that with such a change time and savings deposits would be stronger than otherwise in March; and that the adjusted bank credit proxy might advance sufficiently in that month to result in no net decline, or perhaps a slight rise, over the first quarter as a whole. It was noted that any easing of money market conditions would be expected to have a greater stimulative effect on bank credit in the second quarter than in the first.

The Committee concluded that, in light of the latest economic developments and the current business outlook, it was appropriate to move gradually toward somewhat less restraint at this time. In particular, the Committee decided that money market conditions should be shaded in the direction of less firmness, beginning immediately, with a view to encouraging moderate growth in money and bank credit over the months ahead. It was agreed that the shift toward less firm money market conditions should be implemented cautiously, with close attention to succes-

sive estimates of growth rates in the monetary and credit aggregates; and that operations should be modified promptly if those aggregates appeared to be deviating significantly from a pattern of moderate growth.

Some members expressed the view that the longer any relaxation of prevailing money market firmness was postponed the greater the likelihood that developments in the economy would necessitate an unduly large and abrupt move toward monetary ease later on. At the same time, some members noted that caution was needed to avoid creating an exaggerated impression of the amount of relaxation contemplated, since widespread misunderstanding on that score could stimulate a new surge of inflationary expectations.

It was also agreed that in the conduct of open market operations account should be taken of the current Treasury refunding and of any regulatory action by the Board of Governors with respect to bank-related commercial paper. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real economic activity, which leveled off in the fourth quarter of 1969, may be weakening further in early 1970. Prices and costs, however, are continuing to rise at a rapid pace. Long-term market interest rates recently have fluctuated under the competing influences of heavy demands for funds and shifts in investor attitudes regarding the outlook for monetary policy. Bank credit declined in January but the money supply increased substantially on average; both had risen slightly in the fourth quarter. Flows of time and savings funds at banks and non-bank thrift institutions have remained generally weak since year-end, and they apparently have been affected little thus far by the recent increases in maximum rates payable for such funds. The U.S. foreign trade balance improved somewhat in December, as imports fell off. The over-all balance of payments has been in substantial deficit in recent weeks. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to the orderly 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 current Treasury refunding, possible bank regulatory changes and the Committee's desire to see moderate growth in money and bank credit over the months ahead, System open market operations until the next meet-

ing of the Committee shall be conducted with a view to moving gradually toward somewhat less firm conditions in the money market; provided, however, that operations shall be modified promptly to resist any tendency for money and bank credit to deviate significantly from a moderate growth pattern.

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

The members who dissented from the policy directive did so primarily because they felt that any overt move toward less firm money market conditions was premature at this time and could strengthen market expectations of substantial easing. While recognizing some areas of weakness in the economy, they were impressed by the strength of inflationary expectations, the continuing increases in prices and wages, business plans for a large volume of capital spending, and the prospectively large balance of payments deficit. They were also concerned about the prospects for adequate fiscal restraint, even though the budget called for a small surplus. They agreed with the majority of the Committee that some growth in the monetary and credit aggregates was called for, but in their view this objective could have been covered adequately by a directive similar to the one the Committee had adopted at its January meeting. Thus, they preferred not to relax restraint at this time because of the risk of encouraging resurgent growth in over-all demand before inflationary pressures and expectations had been adequately dampened.

MEETING HELD ON MARCH 10, 1970

1. Authority to effect transactions in System Account.

The latest information lent support to the view that over-all economic activity was weakening further in early 1970 after leveling off in the fourth quarter of 1969. As before, staff projections suggested that real GNP would decline somewhat in the first half of the current year, but would then rise at a moderate rate in the second half. While prices and costs were continuing to increase at a rapid pace, some slowing of their advance was still expected over the course of the year.

In February, according to tentative estimates, industrial production fell for the seventh consecutive month. Employment and hours of work in manufacturing declined substantially. Total nonfarm employment was about unchanged, and the over-all rate of unemployment rose further from 3.9 to 4.2 per cent, its highest level since October 1965. Incomplete weekly data suggested that retail sales, which had declined in January, might have fallen further in February. Private housing starts continued downward in January, reaching their lowest level since April 1967, and new orders received by manufacturers of durable goods dropped considerably after 3 months of moderate reductions.

Preliminary calculations indicated that wholesale prices of both industrial commodities and farm products and foods had risen further from mid-January to mid-February but that the increases were less than in the previous month. On a seasonally adjusted basis, the consumer price index continued to rise about as fast in January as in the two preceding months.

According to the latest Commerce-SEC survey, taken in February, businesses planned to increase their spending on new plant and equipment by about 10.5 per cent in the full year 1970 but at a slower rate in the first half. However, it seemed unlikely that such spending would accelerate in the second half, as implied by the survey—particularly in view of recent declines in new orders for machinery and equipment and a reported reduction in the fourth quarter of 1969 in manufacturers' appropriations for capital spending.

The staff projections still allowed for relatively rapid increases in business fixed investment outlays in the first half and a leveling off in

such outlays later in the year. The projections also continued to suggest that the rate of inventory accumulation would decline further in the first half and stabilize in the second; that residential construction outlays would fall sharply further in the first half and then turn up; and that defense spending would decline throughout the year. It was expected that consumer spending would be stimulated somewhat in the second quarter by the increase in social security benefit payments, and in the third quarter by the elimination of the remaining 5 per cent income tax surcharge at midyear. It appeared likely, however, that growth in consumer spending would remain moderate in the year as a whole as a result of both smaller gains in wage and salary income and an increase in the saving rate.

U.S. imports rose more than exports in January, and the surplus in U.S. merchandise trade narrowed. According to tentative estimates, the over-all balance of payments—which had been in substantial deficit in January on both the liquidity and official settlements bases—continued in deficit in February.

In foreign exchange markets, demand for sterling remained strong during February. Inflows of funds to the United Kingdom became exceptionally large in early March, and on March 5 the Bank of England reduced its discount rate to $7\frac{1}{2}$ per cent from the 8 per cent rate that had been in effect for about a year. On March 6 the German monetary authorities announced that certain credit-tightening measures, including an increase in the discount rate of the German Federal Bank from 6 to $7\frac{1}{2}$ per cent, were being taken in light of domestic inflationary pressures and of the continued expansion in bank credit. The Italian lira had remained under heavy selling pressure in recent weeks and—also on March 6—the Bank of Italy announced that it was raising its discount rate from 4 to $5\frac{1}{2}$ per cent.

In markets for domestic securities both long- and short-term interest rates had declined considerably on balance since the beginning of February, despite a very heavy calendar of new corporate bond offerings and a continuing sizable volume of municipal and Federal agency issues. The rate declines reflected the increasing signs that the economy was weakening and the growing belief among investors that monetary restraint would shortly be—or had already been—relaxed. Treasury bill rates fell steadily during much of February, but these rates tended to stabilize later in the month when the Treasury followed its suc-

cessful refunding operation by a sale of \$1.75 billion of additional tax-anticipation bills due in April and by an increase in the size of its regular auctions of 6-month and 1-year bills. On the day before this meeting the market rate on 3-month bills, at about 6.85 per cent, was 45 basis points below its level 4 weeks earlier and about 85 basis points below its early February level.

The outflows of time and savings funds at banks and at nonbank thrift institutions, which had been very large in January, apparently came to an end in February—as a consequence of both the declines in yields on competing market instruments and the advances in rates offered by these institutions under the new higher ceilings that became effective in late January. Preliminary figures indicated that there were relatively small net inflows of funds to savings and loan associations and mutual savings banks in early February. In January net acquisitions of mortgages by savings and loan associations were the smallest for any month in nearly 3 years, and the volume of outstanding commitments was at a 2-year low.

At commercial banks time and savings deposits expanded almost as rapidly over the course of February as they had declined in January, and their average level in February was only fractionally below that in the previous month. There were net increases during February in consumer-type deposits—particularly at country banks—and in the volume of large-denomination CD's outstanding. It appeared that the volume of CD's held by foreign official institutions had increased considerably.

In contrast to time deposits, the average levels of private demand deposits and the money stock contracted sharply from January to February—at estimated annual rates of about 15 and 10 per cent, respectively. The bank credit proxy—daily-average member bank deposits—was estimated to have declined from January to February at an annual rate of more than 9 per cent, and after adjustment for a net increase in funds raised from nondeposit sources, at a rate of more than 6 per cent.

System open market operations since the February 10 meeting of the Committee had been directed at fostering somewhat less firm conditions in the money market, in accordance with the Committee's decision at that meeting and in light of the unfolding evidence of weakness in both the money stock and the adjusted bank credit proxy. The

money market remained firm for a time as the effects of large-scale reserve supplying operations were offset by such factors as unexpectedly sharp declines in float, but market conditions subsequently eased. Thus, in the latter part of February and early March the average Federal funds rate fell below 8.50 per cent from levels well above 9 per cent earlier in February, and in the week ending March 5 member bank borrowings averaged about \$835 million, compared with average weekly levels of more than \$1 billion during February.

Staff projections suggested that money and bank credit would grow at moderate rates over the months ahead if the somewhat less firm conditions recently achieved in the money market were maintained. Specifically, the projections suggested that the money stock would rise on the average from February to March at an annual rate of 4 to 7 per cent, resulting in growth during the first quarter as a whole at a rate of about 2 per cent; and that money would continue to expand in the second quarter, at a rate of about 3 per cent. The adjusted bank credit proxy was projected to increase from February to March at an annual rate of 8 to 11 per cent—resulting in a first-quarter growth rate of 0.5 per cent—and at a rate of about 5 per cent in the second quarter. The projections for the adjusted proxy series were influenced to an important degree by the expectation that time and savings deposits would continue to expand rapidly, but that this would be partly offset by slower expansion and then some decline in bank use of nondeposit funds.

The Committee agreed that growth of money and bank credit during coming months at about the rates projected would be appropriate in the current economic environment. Concern was expressed in the discussion about the risks of unduly large changes in money market conditions. Concern also was expressed about both the danger of excessive growth in the aggregates and the risk of shortfalls from desirable growth rates, which some members thought were particularly likely for the money stock in a period of economic weakness such as the present. In view of the importance attached to avoiding such extremes, the Committee decided to convey in its directive the objective of achieving growth in money and bank credit over the months ahead at about the moderate rates indicated, and to call for maintenance of money market conditions consistent with that objective.

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

The information reviewed at this meeting suggests that real economic activity, which leveled off in the fourth quarter of 1969, is weakening further in early 1970. Prices and costs, however, are continuing to rise at a rapid pace. Market interest rates have declined considerably in recent weeks, partly as a result of changing investor attitudes regarding the outlook for economic activity and monetary policy. Both bank credit and the money supply declined on average in February, but both were tending upward in the latter part of the month. Outflows of time and savings funds at banks and nonbank thrift institutions, which had been sizable in January, apparently ceased in February, reflecting advances in rates offered on such funds following the recent increases in regulatory ceilings, together with declines in short-term market interest rates. The U.S. foreign trade surplus narrowed in January and the over-all balance of payments deficit has remained large in recent weeks. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee desires to see moderate growth in money and bank credit over the months ahead. System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining money market conditions consistent with that objective.

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

Absent and not voting: Mr. Francis. (Mr. Kimbrel voted as his alternate.)

2. Amendment to continuing authority directive.

At its meeting on October 7, 1969, the Committee had modified paragraph 2 of the continuing authority directive regarding domestic open market operations by adding language authorizing Reserve Banks other

than the New York Bank to purchase special short-term certificates of indebtedness from the Treasury for their own account at times when the New York Bank was closed. At this meeting the Committee amended the language adopted at that time for purposes of clarification. After this amendment, paragraph 2 read as follows:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, if the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury 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.

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

Absent and not voting: Mr. Francis. (Mr. Kimbrel voted as his alternate.)

Another amendment to the continuing authority directive that had been made on October 7, 1969, involved the addition of a paragraph 3 authorizing the Reserve Banks to engage in lending of U.S. Government securities held in the System Open Market Account, under such instructions as the Committee might specify from time to time. That action had been taken on the basis of a judgment by the Committee that in the existing circumstances such lending of securities was reasonably necessary to the effective conduct of open market operations and to the effectuation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager of the System Open Market Account that the lending activity in question remained necessary and, accordingly, that the authorization should remain in effect subject to periodic review.

The Committee also approved certain modifications that had been recommended by the Manager, in light of the operating experience to date, in the instructions it had issued in conjunction with this authorization. Among the more important of these were an increase from \$75 million to \$150 million in the dollar limit on the par value of securities involved in outstanding loans to any individual dealer at any time; a lengthening from three to five business days of the limit on the duration of loans to dealers, with loans remaining subject to renewal; and certain revisions in the rates to be charged on contracts renewed beyond their initial maturity.

3. Amendment to authorization for System foreign currency operations.

The Committee approved an increase from \$1,000 million to \$1,250 million equivalent in the System swap arrangement with the Bank of Italy, and the corresponding amendment to paragraph 2 of the authorization for System foreign currency operations, subject to the understanding that the action would become effective upon a determination by Chairman Burns that it was in the national interest. Chairman Burns made the indicated determination later on the day of this meeting. As a result of this action, paragraph 2 read as follows:

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

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	200
National Bank of Belgium	500
Bank of Canada	1,000

Foreign bank	Amount of arrangement (millions of dollars equivalent)
National Bank of Denmark	200
Bank of England	2,000
Bank of France	1,000
German Federal Bank	1,000
Bank of Italy	1,250
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	300
Bank of Norway	200
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. Burns, Hayes, Brimmer, Daane, Heflin, Hickman, Maisel, Mitchell, Robertson, Sherrill, Swan, and Kimbrel. Votes against this action: None.

Absent and not voting: Mr. Francis. (Mr. Kimbrel voted as his alternate.)

This action was taken on recommendation of the Special Manager, who advised that it should prove helpful in providing against destabilizing short-run pressures on the lira. It was understood that the U.S. Treasury would concurrently make available a \$250 million swap facility to the Bank of Italy.

4. 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, 1970, and their assumption of duties, the Committee followed its customary practice of reviewing

all of its continuing authorizations and directives. The actions taken with respect to the continuing authority directive for domestic open market operations and the authorization for System foreign currency operations have been described in the preceding portions of the record for this date. Except for the changes resulting from those actions, the Committee reaffirmed the two instruments, and also the foreign currency directive, in the form in which they were outstanding at the beginning of the year 1970.

Votes for these actions: Messrs. Burns, Hayes, Brimmer, Daane, Heflin, Hickman, Maisel, Mitchell, Robertson, Sherrill, Swan, and Kimbrel. Votes against these actions: None.

Absent and not voting: Mr. Francis. (Mr. Kimbrel voted as his alternate.)

MEETING HELD ON APRIL 7, 1970

1. Authority to effect transactions in System Account.

The available information continued to suggest that over-all economic activity had weakened further in the first quarter of 1970 and that prices and costs had continued to rise rapidly. Staff projections of real GNP for the remainder of the year had been revised upward somewhat, chiefly in response to recent fiscal developments. However, it was still expected that growth would be moderate and that the rate of price advance would slow somewhat as the year progressed.

Partial data for March suggested that industrial production declined a little further and that retail sales were about unchanged from February. The unemployment rate increased in March for the third consecutive month, to 4.4 per cent. On the other hand, both private housing starts and new orders received by manufacturers of durable goods turned up in February, the latest month for which data were available.

Average wholesale prices of both industrial commodities and farm products and foods rose further from mid-February to mid-March, but the increases were smaller than in the previous month. On a seasonally adjusted basis, the consumer price index advanced in February at about the same rate as during the past year but a little less rapidly than in immediately preceding months.

The staff projections, as revised, suggested that real GNP would edge up, rather than decline slightly further, in the second quarter and that expansion would be somewhat faster in the third and fourth quarters than had been thought earlier—although it would still be well below the economy's growth potential. The major development that led to the revisions in the projections was the announcement, in the wake of the postal strike that occurred in mid-March, of proposed pay increases for postal workers and other Federal civilian and military employees, retroactive to the beginning of the year. It appeared that the planned pay raise would add appreciably to consumer expenditures during the 1970 calendar year and that the new revenue measures concurrently proposed would have little impact before 1971. Also, a sharp decline in total business inventories in January, together with the increase in new orders for durable goods in February, suggested that the inventory adjustment might have been proceeding faster than expected and thus might come to an end sooner.

The U.S. foreign trade surplus expanded sharply in February, as a result of a steep rise in exports and some decline in imports. With respect to the over-all balance of payments, tentative estimates for the first quarter suggested that the deficit on the liquidity basis was at a high rate comparable with the 1969 average. It appeared that a very large deficit was incurred in the first quarter on the official settlements basis—following the surpluses of 1969—as a result of large reductions in liabilities of U.S. banks to their foreign branches.

In foreign exchange markets, pressures on the Italian lira had moderated substantially in recent weeks. Sterling and the Canadian dollar were in strong demand, and most other major foreign currencies tended to strengthen against the U.S. dollar.

On March 19 the U.S. Treasury had auctioned \$1.75 billion of tax-anticipation bills due in September. The Treasury was expected to announce in late April the terms on which it would refund securities maturing in mid-May, of which the public held about \$5 billion.

Yields on long-term securities—which had declined considerably in February—rose during the first part of March under the pressure of an unusually heavy current and prospective volume of new issues, particularly of corporate bonds. In the latter part of the month, however, long-term yields began moving down again as a result of indications of some relaxation of monetary policy and of the reduction on March 25 in the prime lending rate of banks from 8½ to 8 per cent. Short-term interest rates had tended on balance to decline further in recent weeks. For example, the market rate on 3-month Treasury bills, at about 6.40 per cent on the day before this meeting, was approximately 45 basis points below its level 4 weeks earlier.

The continued decline in short-term rates enhanced the ability of both banks and nonbank thrift institutions to compete for time and savings funds, although the volume of net inflows to nonbank institutions apparently remained quite moderate in the first part of March. At commercial banks, time and savings deposits expanded considerably on the average from February to March; inflows of consumer-type deposits strengthened further, the volume of large-denomination CD's held by individuals, partnerships, and corporations increased significantly for the first time since November 1968, and State and local and foreign official holdings continued to grow rapidly.

Private demand deposits and the money stock changed little during

most of March, but in the final week of the month they increased sharply. As in the last week of December, when there also had been a sudden bulge in private demand deposits, the rise appeared to be due in good part to technical factors—on this occasion reflecting the effects on financial clearings of the 4-day Easter holiday abroad, the postal workers' strike, and the air traffic controllers' slowdown. Tentative estimates indicated that, on the average from February to March, the money stock increased at an annual rate of about 11.5 per cent—bringing the growth rate over the first quarter¹ to a little more than 3 per cent.

The bank credit proxy—daily-average member bank deposits—also increased considerably on the average in March. However, banks reduced their reliance on funds from nondeposit sources, particularly Euro-dollar borrowings. After adjustment for this development, the proxy series expanded at an annual rate of about 10 per cent from February to March, resulting in a growth rate over the first quarter of about 0.5 per cent.

System open market operations since the March 10 meeting had been directed primarily at maintaining money market conditions consistent with the moderate growth rates in money and bank credit desired by the Committee. Somewhat less firm conditions were sought early in the period, when projections for March suggested that growth in the monetary aggregates was falling short of the Committee's objectives for that month and for the first quarter. Subsequently, however, the projections were revised upward on the basis of additional data, and no further easing of conditions was sought. Since the previous meeting the Federal funds rate had fluctuated mostly in a 7¼ to 8 per cent range, somewhat below the 7½ to 8½ per cent range of late February and early March. Member bank borrowings averaged about \$900 million in the 4 weeks ending April 1, compared with about \$1 billion in the previous 4 weeks.

Staff analysis suggested that, over the second quarter, annual growth rates of about 3 per cent in the money stock and 5.5 per cent in the adjusted bank credit proxy might be attained if money market conditions remained about the same as those prevailing recently. The indicated quarterly growth rate for the proxy series allowed for continued

¹ Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

rapid expansion in time and savings deposits and for a substantial decline in U.S. Government deposits. It appeared likely that in the month of April the proxy series would rise considerably on the average. The money stock was expected to fall rather sharply for a few weeks after its end-of-March bulge before resuming growth, but it was expected to average moderately higher in April than in the previous month.

In the Committee's discussion some members expressed the view that recent developments had reduced the risk of a cumulative downswing in economic activity but that they had increased the risk of a resurgence of inflationary expectations. Others stressed the belief that risks of both types remained significant. In any case, the members agreed that continued moderate growth in money and bank credit over the months ahead—at about the rates indicated in the analysis described above—would be appropriate. It was noted during the discussion that precise achievement of such objectives could not be expected, in part because of the desirability of avoiding excessive fluctuations in money market conditions and in part because of uncertainties regarding future relationships among financial variables.

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

The information reviewed at this meeting suggests that real economic activity weakened further in early 1970, while prices and costs continued to rise at a rapid pace. Fiscal stimulus, of dimensions that are still uncertain, will strengthen income expansion in the near term. Most long-term interest rates backed up during much of March under the pressure of heavy demands for funds, but then turned down in response to indications of some relaxation of monetary policy and to the reduction in the prime lending rate of banks. Short-term rates declined further on balance in recent weeks, contributing to the ability of banks and other thrift institutions to attract time and savings funds. Both bank credit and the money supply rose on average in March; over the first quarter as a whole bank credit was about unchanged on balance and the money supply increased somewhat. The U.S. foreign trade surplus increased in February, but the over-all balance of payments appears to have been in considerable deficit during the first quarter. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation,

while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee desires to see moderate growth in money and bank credit over the months ahead. System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining money market conditions consistent with that objective, taking account of the forthcoming Treasury financing.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Daane, Francis, Heflin, Hickman, Maisel, Mitchell, Robertson, Sherrill, and Swan. Votes against this action: None.

2. Amendments to authorization for System foreign currency operations.

At this meeting the Committee amended paragraph 1 of the authorization for System foreign currency operations in two respects. The limit on System holdings of guaranteed sterling specified in paragraph 1B(4) was reduced from \$300 million to \$200 million, the level that had been in effect prior to the increases of April and May, 1968; and the authority to have outstanding, under special arrangements with the Bank of Italy, up to \$500 million of forward commitments in Italian lire, originally approved in November 1965 and contained in paragraph 1C(2), was removed by the deletion of that paragraph. With these changes, and with the renumbering as 1C(2) of the paragraph previously numbered as 1C(3), paragraph 1 of the authorization read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive 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 \$200 million equivalent.

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

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

(2) Other forward commitments to deliver foreign currencies, up to \$550 million equivalent.

D. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after

any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

Votes for these actions: Messrs. Burns, Hayes, Brimmer, Daane, Francis, Heflin, Hickman, Maisel, Mitchell, Robertson, Sherrill, and Swan. Votes against these actions: None.

These actions were taken on the recommendation of the Special Manager, who advised that as a result of recent changes in circumstances the need had passed for the enlarged authority to hold guaranteed sterling and for the authority to have forward commitments in lire under special arrangements with the Bank of Italy.

MEETING HELD ON MAY 5, 1970

1. Authority to effect transactions in System Account.

Preliminary estimates of the Commerce Department indicated that real GNP had declined at an annual rate of 1.6 per cent in the first quarter of 1970, after having edged down at a rate of 0.4 per cent in the preceding 3-month period. Staff projections suggested that real economic activity would change little in the second quarter and would resume growth at a moderate pace after midyear. Although prices and costs in general were continuing to rise rapidly, some components of major price indexes recently had shown moderating tendencies. Since early April there had been a sharp, sustained decline in prices of common stocks.

In April the unemployment rate rose for the fourth consecutive month, to 4.8 per cent. Industrial production—which had edged up in March after 7 months of contraction—was tentatively estimated to have declined again, in part because of the effects of work stoppages in the trucking industry. In March new orders for durable goods had dropped appreciably, but private housing starts had risen sharply for the second consecutive month. Retail sales had changed little, according to preliminary estimates. However, incomplete weekly figures for April suggested that sales might have risen a little in that month.

The preliminary wholesale price index declined from mid-March to mid-April as a result of a reduction in prices of farm products and foods. Average prices of industrial commodities increased at about the same rate as in the previous month, which was somewhat less rapid than in most other recent months. The pace of advance in the seasonally adjusted consumer price index slowed somewhat further in March, although it remained substantial.

According to the Commerce Department estimates, the decline in real economic activity in the first quarter of 1970—as in the preceding quarter—reflected a reduction in inventory investment; in both quarters total final sales had advanced moderately. The staff projections suggested that inventory investment would fall a little further in the second quarter and would then rise somewhat after midyear. It appeared likely that consumer spending would be sustained in coming months by the second-quarter increases in Federal pay and in social security benefits, both of which were retroactive to the beginning of 1970, and by the

elimination at midyear of the remaining 5 per cent income tax surcharge. Also, it was expected that residential construction activity would turn up in the second half. On the other hand, the projections for the final two quarters of the year allowed for a slowing of the rise in business spending on plant and equipment and for a resumption of the decline in Federal outlays on goods and services.

The surplus on U.S. foreign trade improved somewhat in the first quarter, as exports rose more than imports. However, the over-all balance of payments was in considerable deficit on both the liquidity and the official settlements bases. The deficit on the latter basis was particularly large because of the substantial decline, beginning in mid-January, in outstanding Euro-dollar borrowings of U.S. banks through their branches abroad.

In foreign exchange markets most major foreign currencies had remained in strong demand during recent weeks. Effective April 15, the Bank of England reduced its discount rate from $7\frac{1}{2}$ to 7 per cent, the second half-point reduction since early March.

On April 29 the Treasury announced the terms on which it would refinance securities that matured in mid-May, including \$4.9 billion held by the public. In exchange for the maturing securities, holders were offered the choice of two reopened issues—the $7\frac{3}{4}$ per cent notes of May 1973 (priced to yield 7.98 per cent) and the 8 per cent notes of February 1977 (priced at par). In addition, \$3.5 billion of an 18-month, $7\frac{3}{4}$ per cent note (priced to yield 7.79 per cent) was offered to the public for cash. Subscription books were open on May 5—the day of this meeting—for the cash offering, and on May 4–6 for the exchange offering.

Conditions in financial markets had been unsettled in recent weeks, and interest rates on most types of market securities had advanced rapidly. In long-term debt markets, yields on new corporate issues and on Treasury bonds now exceeded their late-1969 highs, and yields on municipal securities were close to those peaks. The market rate on 3-month Treasury bills had risen since the previous meeting of the Committee by about 50 basis points—to 6.90 per cent on the day before the meeting—and rates on 6-month and 1-year bills had moved up by about 90 and 95 basis points, respectively.

Among the factors contributing to these rate increases, and to the unsettlement in financial markets generally, were the concern about

prospects for the Government's anti-inflationary program—stimulated in part by the Federal pay raise that followed the recent postal workers' strike—and the uncertainties resulting from the President's announcement on April 30 of U.S. military operations in Cambodia. The rate increases also reflected the continuing very heavy volume of offerings in capital markets; perhaps some increase in liquidity preferences; and the disappointment of earlier expectations of further easing of conditions in the money market. The bulk of the recent advances in Treasury bill rates occurred during the last 10 days of April, after it had become evident that the Federal Reserve was fostering somewhat firmer money market conditions and that seasonal demands for bills were falling short of dealers' prior expectations.

During the course of April the bank credit proxy (daily-average member bank deposits) declined somewhat and the money stock receded from the peak to which it had suddenly risen—in good part because of technical factors—at the end of March. The bulge in money proved to be even larger than had been estimated earlier and its erosion during April was not so rapid as had been anticipated. In terms of monthly average levels, both the money stock and the proxy series increased substantially from March to April. The money stock expanded at an annual rate tentatively estimated at 12.5 per cent; the proxy series, after adjustment for some further reduction in banks' use of funds from nondeposit sources, rose at an estimated 14 per cent rate.

When it became apparent soon after the April 7 meeting that both money and bank credit were expanding more rapidly on the average than desired by the Committee, System open market operations were directed at achieving somewhat firmer conditions in the money market. Later, particularly when it appeared that the Treasury's cash financing might be in jeopardy, it was found necessary first to moderate developing tendencies toward undue firmness and then to calm market unsettlement. In total, during the six business days preceding this meeting the Federal Reserve purchased more than \$1.7 billion of Treasury bills. In the process the System supplied reserves more readily than it might otherwise have done, although to a large extent these operations served to offset reserve drains resulting from other factors. The effective rate on Federal funds, which had fluctuated mostly in a range of 7½ to 8 per cent in late March and early April, subsequently moved into an 8 to 8½ per cent range. In the 3 weeks ending April 29, member bank

borrowings averaged about \$960 million, compared with an average in March of slightly under \$900 million.

Staff analysis suggested that annual rates of growth of about 4 per cent for both the money stock and the adjusted bank credit proxy over the second quarter¹ might be attained with money market conditions similar to or slightly firmer than those currently prevailing. The indicated growth rates—somewhat higher for the money stock and somewhat lower for the proxy series than those contemplated by the Committee at its previous meeting—took account of the likelihood that the public's demand for money now was greater than had been thought earlier and that, as a consequence of recent increases in short-term market interest rates, the pace of expansion in time and savings deposits would be considerably slower in May and June than previously anticipated. For May alone it was expected that the money stock would rise on the average, although much less than it had in April, and that the proxy series would decline.

The Committee agreed that growth in money and bank credit during the second quarter at about the 4 per cent annual rates indicated above would be appropriate to the underlying economic situation and outlook. At the same time, however, the members agreed that account should be taken of the current Treasury financing, and that operations directed at attaining the targets for the aggregates should be modified if necessary in light of "even keel" considerations. It was also agreed that operations should be modified to moderate unusual pressures in financial markets, should they develop.

In considering the language of the second paragraph of the current economic policy directive, the Committee decided that reference should be made to "bank reserves" as well as to "money market conditions" in the statement concerning open market operations. The purpose was to clarify the Committee's intention that information regarding deviations from the expected paths of various aggregative reserve measures was to be used as a supplement to—but not as a substitute for—data reflecting money market conditions in making decisions regarding possible System operations.

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

¹ Calculated on the basis of the daily-average levels in March and June.

The information reviewed at this meeting indicates that real economic activity weakened further in the first quarter of 1970. Growth in personal income, however, is being stimulated in the second quarter by the enlargement of social security benefit payments and the Federal pay raise. Prices and costs generally are continuing to rise at a rapid pace, although some components of major price indexes recently have shown moderating tendencies. Most market interest rates have risen sharply in recent weeks as a result of heavy demands for funds, possible shifts in liquidity preferences, and the disappointment of earlier expectations regarding easing of credit market conditions. Prices of common stocks have declined markedly since early April. Attitudes in financial markets generally are being affected by the expansion of military operations in Southeast Asia and by concern about the success of the Government's anti-inflationary program. Both bank credit and the money supply rose substantially from March to April on average, although during the course of April bank credit leveled off and the money supply receded sharply from the end-of-March bulge. The over-all balance of payments was in considerable deficit during the first quarter. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee desires to see moderate growth in money and bank credit over the months ahead. System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining bank reserves and money market conditions consistent with that objective, taking account of the current Treasury financing; provided, however, that operations shall be modified as needed to moderate excessive pressures in financial markets, should they develop.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Daane, Heflin, Hickman, Maisel, Mitchell, Robertson, Sherrill, and Swan. Vote against this action: Mr. Francis.

In dissenting from this action Mr. Francis expressed the view that under present economic circumstances the target for growth in the money stock during the second quarter should remain at the 3 per cent annual rate favored by the Committee as a whole at recent meetings.

He noted that second-quarter growth at a 4 per cent annual rate would imply a rise from February—the recent monthly low for the money stock—to June at about a 6 per cent annual rate, which in his judgment would be excessive for the period in question.

2. Action with respect to continuing authority directive.

At this meeting the Committee suspended, for the period from the opening of business May 5, 1970, until the close of business May 26, 1970, the provision of paragraph 1(a) of the continuing authority directive limiting changes in System Account holdings of U.S. Government securities between meetings of the Committee to \$2 billion.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Daane, Francis, Heflin, Hickman, Maisel, Mitchell, Robertson, Sherrill, and Swan. Votes against this action: None.

This action was taken on the recommendation of the System Account Manager, who advised that increased leeway for System purchases of Government securities might well be required during the period in question, in view of the unsettled conditions in markets for Government securities and of the uncertain prospects for the Treasury financing now in process.

MEETING HELD ON MAY 26, 1970

Authority to effect transactions in System Account.

Revised Commerce Department estimates indicated that real GNP had declined in the first quarter of 1970 at an annual rate of 3.0 per cent, rather than at the 1.6 per cent rate estimated earlier. Staff projections still suggested that real GNP would remain about unchanged in the second quarter, and that it would begin to grow again in the second half of the year. Prices and costs were generally continuing to rise at a rapid pace, but recently there had been some indications of moderating tendencies. Common stock prices had dropped sharply and continuously since early April, with the composite index of stocks listed on the New York Exchange down about one-fourth over that interval.

In April industrial production declined by about as much as it had risen in March and was approximately 2.5 per cent below its July 1969 peak. Employment in manufacturing was down substantially from March. Total nonfarm payroll employment also declined, in part because of strikes, and the over-all unemployment rate rose to 4.8 from 4.4 per cent in March. Private housing starts fell substantially after 2 months of strong advance. Retail sales increased in April, according to preliminary estimates, and weekly figures suggested that sales in early May were holding at about the April level.

Average wholesale prices were now estimated to have remained unchanged from mid-March to mid-April, as a sharp decline in prices of farm products and foods offset a further advance in prices of industrial commodities. The consumer price index rose considerably further in April.

The downward revision in the official GNP figures for the first quarter was attributable mainly to new information indicating that business inventory investment had declined more than previously estimated. As before, the staff projections suggested that inventory investment would fall only a little further in the second quarter, and that it would rise somewhat over the second half of the year—contributing to the resumption of growth in real GNP anticipated then. It was still expected that consumer spending would be sustained by the second-quarter increases in Federal pay and social security benefits and by the elimination at midyear of the income tax surcharge; also that residential construction outlays would turn up in the second half. However, it now

appeared probable that the growth in business spending on new plant and equipment would taper off somewhat more over the course of the year than had been anticipated earlier. Largely for this reason, the staff projection of the rise in real GNP in the second half had been reduced somewhat.

The surplus on U.S. merchandise trade, which had improved somewhat in the first quarter, continued in April at about the first-quarter rate. According to tentative estimates, the over-all balance of payments remained in considerable deficit in April and early May.

In foreign exchange markets demands for most major foreign currencies had continued strong in recent weeks. Demands for the Canadian dollar, which were particularly heavy, moderated only briefly after the Bank of Canada reduced its discount rate from 8 to 7½ per cent on May 12; and rumors of a possible upward adjustment in the exchange rate for that currency began to circulate.

Conditions in domestic financial markets had remained highly unsettled in recent weeks amid mounting concern about a possible liquidity crisis. Interest rates on long-term Treasury, corporate, and municipal securities had risen further to new record highs, in part because of a continuing heavy volume of offerings in capital markets and perhaps some increase in liquidity preferences. In short-term markets, rates on Treasury bills had fluctuated over a relatively wide range since early May but had changed little on balance; the 3-month bill rate, at about 7 per cent on the day before this meeting, was 10 basis points above its level of 3 weeks earlier. Attitudes in financial markets generally were being influenced by uncertainties arising from U.S. military operations in Cambodia and their domestic aftermath, including new uncertainties about the prospects for the Government's anti-inflationary program.

In late April and early May, when it appeared that the disturbed conditions in securities markets were jeopardizing the Treasury's May financing, the System supplied reserves through open market operations more readily than it might otherwise have done. The outcome of the two-part financing remained in doubt until the financing had been completed. As it turned out, subscriptions to the cash offering of 18-month notes—for which books were open May 5, the day of the preceding meeting of the Committee—totaled only slightly more than the \$3.5 billion offered. Consequently, these subscriptions were allotted in full, in contrast to the usual partial allotments. However, in the exchange

offering—in which holders of securities maturing in mid-May were offered notes of May 1973 or of February 1977—redemptions for cash were much smaller than had been expected. As a result, in the financing as a whole the Treasury raised about \$2 billion of new money, considerably more than it had anticipated. For the exchange offering, subscription books were open on May 4–6; and for both parts of the financing, the settlement date was May 15.

System open market operations since the May 5 meeting had been conditioned by “even keel” considerations during the final stages of the financing and, more generally, by the desirability of calming market unsettlement. Operations also were influenced by the fact that in May both the money stock and bank credit appeared to be running significantly above levels consistent with the Committee’s target growth rates for the second quarter. However, in view of the very sensitive state of the securities markets, no effort was made to attain the degree of firmness in money market conditions that might have been required to restore the monetary aggregates to the targeted growth path. Since the May 5 meeting the Federal funds rate had fluctuated mostly in a range of $7\frac{7}{8}$ to $8\frac{1}{8}$ per cent, compared with a range of 8 to $8\frac{1}{2}$ per cent in late April and early May. Member bank borrowings averaged about \$920 million in the 3 weeks ending May 20, a little below the \$960 million average of the preceding 3 weeks.

Both the money stock and the bank credit proxy—daily-average member bank deposits—increased substantially from March to April. The money stock expanded at an annual rate now estimated at about 10.5 per cent; the proxy series, after adjustment for some reduction in banks’ use of funds from nondeposit sources, grew at a rate of about 13.5 per cent. According to tentative estimates for May, the money stock was rising considerably more on the average than had been expected earlier, and the adjusted bank credit proxy was declining much less than had been anticipated.

Staff analysis suggested that if prevailing money market conditions were maintained the money stock would increase slightly further from May to June and the adjusted bank credit proxy would rise more rapidly, although not so fast as in the previous month. The analysis implied that, if these expectations were realized and if current estimates for May were correct, both aggregates would increase at annual rates

of about 7 per cent over the second quarter.¹ It appeared that somewhat firmer money market conditions than those currently prevailing would be required if the second-quarter growth rates of about 4 per cent—which the Committee earlier had concluded would be appropriate to the underlying economic situation—were to be attained. Looking forward to the third quarter, the analysis suggested that a 4 per cent growth rate in the money stock probably would be associated with more rapid growth in the adjusted proxy series—perhaps at a 7 per cent rate—partly because the Treasury was expected to raise a large volume of new money in July and August.

In its discussion of open market policy, the Committee considered the implications both of the uncertainties and the strains that were unsettling financial markets at present and of the underlying economic situation and outlook. The members agreed that moderate growth in money and bank credit remained the appropriate longer-run objective of policy. They concluded, however, that it was necessary at present to give priority to the objective of moderating pressures on financial markets, recognizing that that might temporarily entail higher growth rates in the monetary aggregates than were considered appropriate for the longer run.

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 declined more than previously estimated in the first quarter of 1970, but little further change is projected in the second quarter. Prices and costs generally are continuing to rise at a rapid pace, although some components of major price indexes recently have shown moderating tendencies. Since early May most long-term interest rates have remained under upward pressure, partly as a result of continued heavy demands for funds and possible shifts in liquidity preferences, and prices of common stocks have declined further. Attitudes in financial markets generally are being affected by the widespread uncertainties arising from recent international and domestic events, including doubts about the success of the Government's anti-inflationary program. Both bank credit and the money supply rose substantially from March to April on average; in May bank credit

¹ Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

appears to be changing little while the money supply appears to be expanding rapidly. The over-all balance of payments continued in considerable deficit in April and early May. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, in view of current market uncertainties and liquidity strains, open market operations until the next meeting of the Committee shall be conducted with a view to moderating pressures on financial markets, while, to the extent compatible therewith, maintaining bank reserves and money market conditions consistent with the Committee's longer-run objectives of moderate growth in money and bank credit.

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

Absent and not voting: Mr. Heflin. (Mr. Morris voted as his alternate.)

MEETING HELD ON JUNE 23, 1970

Authority to effect transactions in System Account.

Information reviewed at this meeting suggested that real economic activity was changing little in the second quarter of 1970 after having declined at a 3 per cent annual rate in the first quarter. Prices and costs generally were continuing to rise at a rapid pace, although some important components of major price indexes recently had shown moderating tendencies. Staff projections suggested that growth in real GNP would resume after midyear—although the increase projected for the second half had again been revised downward somewhat—and that the rate of price advance would slow as the year progressed.

Retail sales edged down in May, according to advance estimates, after rising substantially in April. Industrial production declined appreciably in May, and was about 3 per cent below its July 1969 peak. The labor market continued to weaken: the unemployment rate rose to 5.0 per cent, its highest level in more than 5 years; nonfarm payroll employment declined significantly; and the factory workweek was shortened slightly further. Some of the recent reductions in output and employment were attributable to the effects of strikes in the trucking industry and elsewhere.

Average wholesale prices increased somewhat from mid-April to mid-May, following no change in the month ending in mid-April. In both months prices of industrial commodities advanced and prices of farm products and foods declined. The consumer price index continued to rise at a rapid rate in May.

The staff estimate that real GNP would change little in the second quarter was based mainly on the expectation that inventory investment would level out following the substantial reduction earlier in the year. It now appeared that growth in consumer spending in the second quarter would remain close to the first-quarter rate, and that the unusually large rise in disposable income resulting from retroactive increases in Federal pay and social security benefits would be reflected in a sharply higher rate of personal saving.

With respect to the outlook for the second half of the year, the increases projected earlier for both inventory investment and final sales had been revised downward somewhat. Among major categories

of final sales, it was now expected that State and local government outlays would rise somewhat less than earlier projections had suggested and that business fixed investment would turn down in the fourth quarter instead of leveling off. It was still anticipated that Federal expenditures would decline further, that consumer spending would continue upward at a moderate rate, and that residential construction outlays would turn up later in the year.

The U.S. balance of payments was in very heavy deficit in April and May, according to preliminary data. Because there was a net increase in Euro-dollar borrowings by U.S. banks over these 2 months, the deficit on the official settlements basis was not quite so large as that on the liquidity basis.

In foreign exchange markets the major development in recent weeks had been the decision by the Canadian Government, effective June 1, to allow the exchange rate for the Canadian dollar to float temporarily. This action, which was coupled with a reduction in the Bank of Canada's discount rate from $7\frac{1}{2}$ to 7 per cent, followed very strong gains in Canadian reserves since the beginning of the year. Reaction to the Canadian move tended to add to demands for certain other currencies, including the German mark—which was already in strong demand partly as a consequence of tightness in German credit markets. Tight credit conditions in Germany also were exerting upward pressure on Euro-dollar interest rates in June.

Conditions in domestic financial markets had been highly unsettled at the time of the May 26 meeting of the Committee. During the following week they calmed considerably, and yields on long-term Treasury, corporate, and municipal bonds moved down from their late-May peaks. Contributing to the improvement were: the partial recovery of common stock prices following the sharp, sustained decline that had been under way since early April; the sizable volume of Treasury notes and bonds, as well as bills, purchased by the Federal Reserve; and some temporary abatement of the heavy flow of new corporate and municipal security offerings, partly as a result of cancellations and postponements of previously scheduled issues. The calendar of new offerings was still substantial, however, and a resumption of upward pressures on long-term interest rates carried corporate yields to new peaks in mid-June. Market conditions re-

mained sensitive throughout the period, and the prevailing uncertainties were aggravated a few days before this meeting when a major railroad corporation indicated that it was insolvent and was unable to pay off maturing commercial paper.

In short-term markets, interest rates on commercial paper had advanced somewhat recently, and investors in such paper reportedly were becoming increasingly selective. However, most other short-term rates had declined in recent weeks. The market rate on 3-month Treasury bills, at about 6.55 per cent on the day before this meeting, was approximately 45 basis points below its level of 4 weeks earlier.

System open market operations since the preceding meeting had been directed mainly at moderating pressures in financial markets. For this purpose the System provided reserves actively, buying Treasury securities or arranging repurchase agreements on most days in the interval. The effective rate on Federal funds was held for the most part at 8 per cent or below. Average member bank borrowings varied over a wide range, from a high \$1.2 billion in the statement week ending June 3 to a low of \$650 million 2 weeks later.

Earlier on the day of this meeting the Board of Governors had amended Regulation Q, effective the next day, to suspend interest rate ceilings on CD's and other single-maturity time deposits in denominations of \$100,000 and over with maturities of 30 through 89 days.¹ This action was taken in recognition of the possibility that current uncertainties in financial markets, including the commercial paper market, could result in unusual demands upon commercial banks for short-term credit accommodation.

During the course of May the outstanding volume of large-denomination CD's of all maturities had declined slightly. Growth in such CD's had been substantial from early February through mid-April, but had slowed considerably in the latter part of April when increases in interest rates on competitive short-term securities reduced the relative attractiveness of CD's offered at then-prevailing ceiling rates. Inflows of other types of time and savings funds at banks—and at nonbank thrift institutions—had remained sizable in May.

¹ The ceiling rates on such deposits had been 6¼ and 6½ per cent for maturities of 30–59 days and 60–89 days, respectively.

The annual rate of increase in the money stock from April to May was about 4 per cent—less than half the rate estimated at the time of the May 26 meeting and even further below the rapid rates experienced in March and April. According to tentative estimates, the money stock was declining slightly on the average in June. These estimates implied that the annual rate of growth of money over the second quarter ² would be about 4.5 per cent, compared with 3.8 per cent in the first quarter.

The bank credit proxy—daily-average member bank deposits—was about unchanged on the average in May after adjustment for an increase in banks' use of funds from nondeposit sources. In March and April the adjusted proxy series had risen considerably. Tentative estimates suggested that the adjusted proxy series was expanding at a substantial rate in June; and that its growth over the second quarter would be at an annual rate of about 7 per cent, following the 0.5 per cent increase of the first quarter.

Staff analysis suggested that if prevailing money market conditions were maintained the money stock would increase at an annual rate of about 5 per cent over the third quarter—growing somewhat faster than this from June to July and then slowing as the quarter progressed. It was expected that growth in time deposits—and, consequently, in the bank credit proxy—would be stimulated by the Board's suspension of Regulation Q ceiling rates on large-denomination CD's of less than 90 days maturity. According to a rough estimate presented at the meeting, the adjusted proxy series might grow in the third quarter at an annual rate of about 9 per cent. It was noted, however, that any such estimates were highly uncertain in part because of the difficulties of foreseeing the extent to which credit flows would be shifted to banking channels from the market.

The Committee concluded that uncertainties and strains in financial markets remained sufficiently great to warrant giving continued priority in open market operations to the objective of moderating pressures in those markets. The members also decided that, to the extent compatible with that course, operations should be directed at fostering moderate growth in money and bank credit in the longer

² Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

run—including growth in money over the third quarter at about the 5 per cent annual rate indicated by the analysis noted above. It was agreed that more rapid growth in bank credit than contemplated earlier would not necessarily be inconsistent with the Committee's longer-run objective; to the extent that the Board's Regulation Q action resulted simply in a shift of credit flows from market to banking channels, it would not involve an increase in over-all credit flows.

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

The information reviewed at this meeting suggests that real economic activity is changing little in the current quarter after declining appreciably earlier in the year. Prices and costs generally are continuing to rise at a rapid pace, although some components of major price indexes recently have shown moderating tendencies. Since late May market interest rates have shown mixed changes following earlier sharp advances, and prices of common stocks have recovered part of the large decline of preceding weeks. Attitudes in financial markets continue to be affected by uncertainties and conditions remain sensitive, particularly in light of the insolvency of a major railroad. In May bank credit changed little and the money supply rose moderately on average, following substantial increases in both measures in March and April. Inflows of consumer-type time and savings funds at banks and nonbank thrift institutions have been sizable in recent months, but the brief spring upturn in large-denomination CD's outstanding at banks has ceased. The over-all balance of payments was in heavy deficit in April and May. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, in view of persisting market uncertainties and liquidity strains, open market operations until the next meeting of the Committee shall continue to be conducted with a view to moderating pressures on financial markets. To the extent compatible therewith, the bank reserves and money market conditions maintained shall be consistent with the Committee's longer-run objective of moderate growth in money and bank credit, taking account of the Board's regulatory action effective June 24 and some possible consequent shifting of credit flows from market to banking channels.

Votes for this action: Messrs. Burns, Brimmer, Daane, Francis, Heflin, Hickman, Maisel, Mitchell, Robertson, Sherrill, Swan, and Treiber. Votes against this action: None.

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

MEETING HELD ON JULY 21, 1970

1. Authority to effect transactions in System Account.

Preliminary estimates of the Commerce Department indicated that real GNP had edged up at an annual rate of 0.3 per cent in the second quarter, after declining at rates of 3.0 per cent in the first quarter and 0.9 per cent in the fourth quarter of 1969. Staff projections suggested that the rate of increase in real GNP would pick up somewhat in the third and fourth quarters, but that it would remain well below the economy's growth potential. Prices and wage rates generally were continuing to rise at a rapid pace, but it appeared that improvements in productivity were slowing the rise in costs, and some major price measures were showing moderating tendencies.

Available data for June offered a mixed picture of economic developments. Industrial production declined further, but less than in other recent months. Retail sales increased slightly, according to advance estimates, and private housing starts rose sharply. Although the unemployment rate declined to 4.7 from 5.0 per cent in May, continued weakness in the demand for labor was reflected in a further sizable reduction in nonfarm payroll employment.

Average wholesale prices of industrial commodities rose further from mid-May to mid-June, but advances were less widespread than earlier and prices of nonferrous metals and a number of other materials were under downward pressure. Prices of farm products and foods declined for the third consecutive month, after allowance for seasonal influences.

According to the Commerce Department figures, inventory accumulation increased somewhat in the second quarter after having declined substantially in the two preceding quarters. The rate of growth in consumer spending rose only a little, despite an unusually large advance in disposable income resulting from retroactive increases in Federal pay and social security benefits. Among other major categories of final purchases, Federal expenditures for goods and services declined and the rate of expansion in State and local government outlays slackened. Business spending for fixed investment remained about unchanged in the second quarter and—according to revised figures—in the first quarter also.

The projection of moderately faster growth in real GNP in the second half was based largely on expectations of a recovery in residential

construction and more rapid advances in outlays by State and local governments. Expansion in consumer spending was expected to remain relatively strong. At the same time, it appeared likely that declines in defense outlays and, later in the year, in business fixed investment would hold down the over-all rate of growth.

The surplus on U.S. foreign trade expanded further in May—continuing the improvement that had been under way since mid-1969. Nevertheless, because of large outflows of private capital the over-all balance of payments remained in heavy deficit in the second quarter on both the liquidity and the official settlements bases.

In foreign exchange markets, selling pressure on the Italian lira developed following the resignation of the Rumor Government on July 6. The mark remained in demand, reflecting chiefly the tight monetary conditions in Germany. Early in July the German Government announced proposed measures to increase fiscal restraint. This was followed by some easing of monetary policy, including a reduction in the discount rate of the German Federal Bank from 7½ to 7 per cent effective July 16.

Pressures in domestic financial markets had abated in recent weeks from the peaks that had been reached in the latter part of June, after a major railroad corporation indicated that it was insolvent and unable to pay off maturing commercial paper. Uncertainties and strains persisted, however—particularly in the market for commercial paper, the outstanding volume of which contracted sharply following the indication of the railroad's insolvency. It appeared that a large proportion of the funds so freed were being rechanneled through the banking system; there had been sharp increases recently both in bank loans to businesses and finance companies and in the outstanding volume of large-denomination CD's of short maturity, for which Regulation Q rate ceilings had been suspended effective June 24. The massive readjustment under way was facilitated by Federal Reserve assurances to member banks that the discount window was available to assist them in meeting the needs of businesses unable to replace maturing commercial paper.

Since the previous meeting of the Committee average prices of common stocks had continued to fluctuate in a range somewhat above the lows of late May. Interest rates on long-term bonds had declined considerably on balance, despite a continuing heavy volume of new corporate offerings. The reductions in bond yields reflected the abate-

ment of general pressures in financial markets, including some lessening of inflationary expectations and a growing belief that monetary policy would become more expansive.

In the corporate bond market the spread between yields on Aaa and Baa offerings had widened recently, however, suggesting that investors had become more concerned about credit risks in this market as well as in the market for commercial paper. There also were indications that the desire to reduce credit risks had enhanced the relative attractiveness of Treasury and Federal agency securities. For example, market rates on Treasury bills had declined in recent weeks—substantially, in the case of longer-term bills—even though the Treasury had auctioned \$2.5 billion of tax-anticipation bills due in March 1971 on July 2 and \$2.25 billion of such bills due in April 1971 on July 16.

The Treasury was expected to announce in late July the terms on which it would refund securities maturing in mid-August, including \$5.6 billion held by the public. It was considered likely that the Treasury would also undertake some cash borrowing in August, perhaps in connection with the refunding.

System open market operations since the preceding meeting of the Committee had been directed mainly at maintaining money market conditions conducive to stability in financial markets generally, amid the churning occasioned by developments in the commercial paper market. Member bank borrowings rose sharply during the period—from an average of less than \$900 million in the statement week ending June 24 to nearly \$1.7 billion in the July 15 statement week. The increase was in large part a consequence of special discount window accommodation of banks lending to firms that were finding it difficult to roll over maturing commercial paper. For the most part the Federal funds rate remained in a 7 to 7⁵/₈ per cent range, somewhat below the range prevailing before the June 23 meeting, and for much of the period the open market operations found necessary were quite limited. However, the System undertook a large volume of repurchase agreements late in the period when reserve drains from market factors proved to be much heavier than anticipated and the Federal funds rate came under some upward pressure.

Average interest rates on conventional new-home mortgages remained unchanged in June at about the levels that had prevailed since the beginning of the year. Net inflows of savings funds to nonbank thrift

institutions were relatively strong during the month, and outflows immediately after midyear interest and dividend crediting were quite small. In view of such experience, it appeared likely that these institutions would step up the rate at which they were making new mortgage commitments.

Following the Board's action on Regulation Q in late June, major commercial banks acted quickly to raise their offering rates on large-denomination CD's of less than 90 days' maturity—generally into a range of 7½ to 8 per cent, in contrast to the previous ceiling rates of 6¼ and 6½ per cent for maturities of 30 to 59 and 60 to 89 days, respectively. The subsequent influx of funds was very large; in the 3 weeks ending July 15, large-denomination CD's outstanding at weekly reporting banks increased by about \$3 billion, the most rapid advance on record. Private demand deposits also expanded sharply in early July.

The latest staff analysis suggested that both the money stock and the bank credit proxy—daily-average member bank deposits—would rise considerably on the average from June to July. However, assuming that prevailing money market conditions were maintained, growth in the money stock was expected to slow sharply in the two succeeding months and to be at an annual rate of about 5 per cent over the third quarter.¹ It appeared likely that the rate of expansion in large-denomination CD's would moderate after banks completed their initial adjustments to the Regulation Q action and were no longer faced with large loan demands from firms experiencing run-offs of outstanding commercial paper. However, the annual rate of growth in the proxy series over the third quarter was still expected to be high—about 14 per cent, after adjustment for an anticipated reduction in banks' use of funds from nondeposit sources.

The Committee decided that pressures in financial markets had abated sufficiently to warrant reducing the special emphasis recently given in open market operations to moderating such pressures, and increasing the emphasis placed on achieving the longer-run growth rates in the monetary aggregates that were considered appropriate to the underlying economic situation. At the same time, the Committee decided that account should be taken of the uncertainties and strains that

¹ Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

did persist in financial markets, as well as of the “even keel” considerations associated with the forthcoming Treasury financing.

While there were some differences in the members’ assessment of the economic outlook, they agreed that moderate growth in the monetary aggregates—including growth in the money stock at about a 5 per cent annual rate in the third quarter—would be desirable. A majority also concurred in the view that, if moderate deviations from that growth rate should develop, it would be preferable if they were in an upward direction.

With respect to bank credit, it was noted that a relatively rapid rate of expansion in the third quarter need not be disturbing in light of the shift of credit flows from market to banking channels that was under way.

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

The information reviewed at this meeting indicates that real economic activity changed little in the second quarter after declining appreciably earlier in the year. Prices and wage rates generally are continuing to rise at a rapid pace. However, improvements in productivity appear to be slowing the rise in costs, and some major price measures are showing moderating tendencies. Since mid-June long-term interest rates have declined considerably, and prices of common stocks have fluctuated above their recent lows. Although conditions in financial markets have improved in recent weeks uncertainties persist, particularly in the commercial paper market where the volume of outstanding paper has contracted sharply. A large proportion of the funds so freed apparently was rechanneled through the banking system, as suggested by sharp increases in bank loans and in large-denomination CD’s of short maturity—for which rate ceilings were suspended in late June. Consequently, in early July bank credit grew rapidly; there was also a sharp increase in the money supply. Over the second quarter as a whole both bank credit and money supply rose moderately. The overall balance of payments remained in heavy deficit in the second quarter. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country’s balance of payments.

To implement this policy, while taking account of persisting market uncertainties, liquidity strains, and the forthcoming Treasury financing,

the Committee seeks to promote moderate growth in money and bank credit over the months ahead, allowing for a possible continued shift of credit flows from market to banking channels. System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining bank reserves and money market conditions consistent with that objective; provided, however, that operations shall be modified as needed to counter excessive pressures in financial markets should they develop.

Votes for this action: Messrs. Burns, Brimmer, Daane, Francis, Heflin, Hickman, Maisel, Robertson, Sherrill, Swan, and Treiber. Votes against this action: None.

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

2. Authority to purchase securities directly from the Treasury.

Paragraph 2 of the Committee's continuing authority directive, as most recently amended on March 10, 1970, authorizes the Federal Reserve Bank of New York (and, under certain circumstances, other Reserve Banks) to purchase special short-term certificates of indebtedness directly from the Treasury, subject to certain conditions. This authorization is, in turn, based on a provision of Section 14(b) of the Federal Reserve Act authorizing the Federal Reserve Banks to buy and sell obligations of specified types "directly from or to the United States," subject to certain conditions.

It was noted at this meeting that the statutory authority in question had expired on June 30, 1970, and that paragraph 2 of the continuing authority directive had accordingly been in a state of *de facto* suspension since that date; and that the paragraph would remain in suspension until pending legislation, which would extend the authority until July 1, 1971, was enacted. (Such legislation was enacted on July 31, 1970.)

MEETING HELD ON AUGUST 18, 1970

Authority to effect transactions in System Account.

According to revised estimates of the Commerce Department, real GNP had edged up at an annual rate of 0.6 per cent in the second quarter of 1970—slightly more than preliminary estimates had indicated—after having declined appreciably in the first quarter. Prices and wage rates generally were continuing to rise at a rapid pace, but there were some indications that upward pressures on prices were moderating. Staff projections still suggested that growth in real GNP would pick up somewhat in the third and fourth quarters but would remain well below the economy's potential; also that the rate of price advance would slow as the year progressed.

In July industrial production increased slightly—about offsetting its decline in June—and was approximately 3 per cent below the peak that had been reached a year earlier. Retail sales also rose, according to advance estimates. On the other hand, the labor market continued to ease: nonfarm payroll employment dropped for the fourth successive month, and the unemployment rate moved back up to the 5 per cent level of May, after having declined in June to 4.7 per cent.

Average wholesale prices rose sharply from mid-June to mid-July, mainly because of an upsurge in prices of farm products and foods; the increase for industrial commodities was somewhat below the average for the first half of the year. Although the consumer price index continued to rise at a rapid rate in June, after seasonal adjustment it advanced less over the second quarter as a whole than it had over the first. The increase in unit labor costs in the private nonfarm sector slowed substantially during the second quarter, largely because of improvements in productivity.

The staff's GNP projections for the second half assumed that there would not be an extended strike in the automobile industry when current wage contracts expired in mid-September. The expectation that over-all activity would expand somewhat further depended importantly on a fairly sharp recovery in residential construction activity and on some acceleration in expenditures of State and local governments. It was anticipated that consumer spending would continue to rise at about the average pace of the first half. On the other hand,

business outlays on fixed investment were expected to turn down and defense spending to continue declining.

The surplus on U.S. foreign trade increased sharply further in June. Preliminary indications were that the over-all balance of payments, which had been in heavy deficit during the second quarter, had improved somewhat in July on the liquidity basis. On the other hand, it appeared that the official settlements deficit had remained heavy, reflecting substantial reductions in outstanding liabilities of U.S. banks to their foreign branches following the June 24 suspension of Regulation Q ceilings on large-denomination CD's with maturities of less than 90 days.

In foreign exchange markets, demand had been heavy in recent weeks for the Canadian dollar, the exchange rate for which remained on a floating basis. There also were strong demands for the German mark and some other European currencies, especially the Dutch guilder. On August 12 the German Federal Bank, acting to offset the effects on bank liquidity of the large amounts of foreign exchange it had acquired, imposed high marginal reserve requirements on commercial banks.

In domestic securities markets demands for funds had remained heavy in recent weeks, and some uncertainties persisted, especially in the market for commercial paper, which had been most directly affected by the insolvency of a major railroad in the latter part of June. The volume of commercial paper outstanding had contracted further—although most recently it appeared to be stabilizing—and investors remained highly selective and cautious about investing in less than prime-grade issues in this market or in lower-grade securities in other markets. Long-term interest rates—which had declined considerably in late June and early July—subsequently showed mixed changes: municipal yields continued downward, but yields on Treasury and new corporate bonds edged up. Treasury bill rates also had been under some upward pressure in recent weeks. On the day before this meeting the market rate on 3-month bills, at 6.53 per cent, was about 15 basis points above its level of 4 weeks earlier.

In July interest rates on new-home mortgages remained close to the high levels that had prevailed since the beginning of the year. However, the availability of funds to the mortgage market appeared to be increasing as a result of continued heavy savings inflows to thrift institutions.

In late July the Treasury announced the terms on which it would

refinance securities maturing in mid-August, including about \$5.6 billion held by the public. Holders of the maturing issues were offered the choice of two new $7\frac{3}{4}$ per cent notes—a $3\frac{1}{2}$ -year note priced at par and a 7-year note priced to yield 7.80 per cent. In addition, the Treasury indicated that it would sell for cash about \$2.75 billion of a new 18-month, $7\frac{1}{2}$ per cent note (priced to yield 7.54 per cent). The volume of subscriptions received in the cash offering was very large, and the Treasury accepted somewhat more than originally planned. According to estimates at the time of this meeting, the financing yielded more than \$2 billion of new cash after allowance had been made for attrition in the exchange offering.

On the day before this meeting, the Board of Governors had announced that it was amending Regulation D to apply regular time and demand deposit reserve requirements to funds obtained by member banks through the issuance of commercial paper by their affiliates, and at the same time to reduce from 6 to 5 per cent the reserves that member banks must hold against time deposits in excess of \$5 million. The actions would become effective in the reserve computation period beginning October 1 and would be applicable to affected deposits and commercial paper outstanding in the week beginning September 17. It was expected that the net result for all member banks would be a reduction in required reserves of about \$350 million.

Private demand deposits and the money stock expanded moderately on the average from June to July. The money stock rose at an annual rate of 4.1 per cent—considerably less than had been expected at the time of the preceding meeting of the Committee and almost the same as the 4.2 per cent rate of growth recorded over the second quarter.¹ There was an unusually large increase in commercial bank time and savings deposits in July. As at nonbank thrift institutions, inflows of savings funds to banks were heavy, but the bulk of the rise in total time and savings deposits was attributable to the sharp expansion that had occurred in the outstanding volume of large-denomination CD's after the Board acted in late June to suspend rate ceilings on such CD's of 30 to 89 days maturity. The rise in CD's outstanding appeared to be slowing somewhat in early August.

¹ Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

Because of the strength in time and savings deposits, the bank credit proxy—daily-average member bank deposits—increased substantially from June to July; growth was at an annual rate of 18 per cent, after adjustment for some decline in banks' reliance on funds from non-deposit sources. Banks added considerably to their holdings of short-term Government securities, mainly by investment in tax-anticipation bills auctioned by the Treasury on July 2 and 16. They also expanded sharply their loans to finance companies, particularly in the early weeks of the month when some finance companies were encountering difficulty in rolling over maturing commercial paper.

System open market operations since the preceding meeting of the Committee had been directed at fostering money market conditions that were favorable to stable financial markets and that were consistent with a moderate rate of growth in the money stock. Money market conditions were permitted to ease somewhat during the period when it began to appear that the money stock was falling below a path consistent with growth over the third quarter at the 5 per cent annual rate favored by the Committee. Thus, the Federal funds rate fluctuated mostly in a range of $6\frac{1}{2}$ to 7 per cent, compared with a 7 to $7\frac{5}{8}$ per cent range in the preceding interval between meetings. Average member bank borrowings in the period remained quite high—about \$1.2 billion—chiefly as a result of special accommodation at the discount window for banks lending to firms that were encountering difficulties in rolling over maturing commercial paper. However, during the period such borrowings declined somewhat as pressures in the commercial paper market moderated.

Staff analysis suggested that if prevailing money market conditions were maintained the money stock would grow at an annual rate of about 4 per cent over the third quarter and into the fourth; and that some further easing of money market conditions would be required if money were to grow at a 5 per cent rate. Within the third quarter it was expected that the growth rate of money would increase somewhat from July to August and then slacken moderately in September. The analysis suggested that a 5 per cent growth rate for the money stock over the third quarter would be associated with a 16.5 per cent rate of expansion in the adjusted credit proxy—reflecting a high but slowing rate of growth in time deposits.

In the Committee's discussion it was noted that expectations of

continuing inflation had abated considerably in recent months, even though prices were still advancing at an undesirably rapid rate. It was the consensus of the Committee that monetary policy at present should be sufficiently stimulative to foster moderate growth in real economic activity, but not so stimulative as to risk a resurgence of inflationary expectations. Considerable stress was placed on the need to encourage an adequate flow of credit to the housing industry and to State and local governments if a satisfactory rate of growth in over-all activity were to be achieved.

Against this background, the Committee decided that open market operations should be directed at promoting some easing of conditions in credit markets and growth in the money stock at a rate somewhat greater than that of the second quarter. In the latter connection most members continued to believe, as they had at the preceding meeting, that an appropriate target rate of growth for the money stock over the period ahead would be an annual rate of about 5 per cent; and should moderate deviations from that growth rate develop, they preferably should be in an upward rather than a downward direction.

As to bank credit, the Committee took note of the reintermediation process now under way and decided that the growth rate should be allowed to reflect any continued shift of credit flows from market to banking channels. It also directed that account be taken of possible liquidity problems, if they should emerge in the coming period, and of the effect of the Board's actions with respect to Regulation D.

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

The information reviewed at this meeting suggests that real economic activity, which edged up slightly in the second quarter after declining appreciably earlier in the year, may be expanding somewhat further. Prices and wage rates generally are continuing to rise at a rapid pace. However, improvements in productivity appear to be slowing the rise in costs, and some major price measures are showing moderating tendencies. Credit demands in securities markets have continued heavy, and interest rates have shown mixed changes since mid-July after declining considerably in preceding weeks. Some uncertainties persist in financial markets, particularly in connection with market instruments of less than prime grade. In July the money supply rose moderately on average and bank credit expanded sub-

stantially. Banks increased holdings of securities and loans to finance companies, some of which were experiencing difficulty in refinancing maturing commercial paper. Banks sharply expanded their outstanding large-denomination CD's of short maturity, for which rate ceilings had been suspended in late June, and both banks and non-bank thrift institutions experienced large net inflows of consumer-type time and savings funds. The over-all balance of payments remained in heavy deficit in the second quarter, despite a sizable increase in the export surplus. In July the official settlements deficit continued large, but there apparently was a marked shrinkage in the liquidity deficit. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee seeks to promote some easing of conditions in credit markets and somewhat greater growth in money over the months ahead than occurred in the second quarter, while taking account of possible liquidity problems and allowing bank credit growth to reflect any continued shift of credit flows from market to banking channels. System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining bank reserves and money market conditions consistent with that objective, taking account of the effects of other monetary policy actions.

Votes for this action: Messrs. Burns, Daane, Heflin, Hickman, Maisel, Mitchell, Robertson, Sherrill, and Swan. Votes against this action: Messrs. Hayes, Brimmer, and Francis.

Messrs. Hayes, Brimmer, and Francis believed that it was appropriate for money to grow at a moderate rate at present. They dissented from this directive primarily because they were opposed to the promotion of "some easing of conditions in credit markets" as a specific objective of Committee policy at this time. In their judgment such easing was not presently required for the purpose of encouraging a satisfactory rate of expansion in economic activity, and it would involve an unduly large risk of rekindling inflationary expectations.

The views of the dissenting members regarding bank credit differed.

Mr. Brimmer indicated that he was deeply troubled by the rapid recent and projected growth rates in bank credit, and that he favored fostering growth at only a modest rate. Mr. Hayes thought that a sizable increase in bank credit in the last month or two had been appropriate, in view of the shrinkage in commercial paper following the insolvency of a major railroad corporation. However, he observed that he would be troubled by continued rapid growth in bank credit now that the commercial paper market seemed to be stabilizing. Mr. Francis expressed the view that bank credit was likely to be misleading as a proximate guide to policy because of the reintermediation in process, and that the Committee accordingly should focus on the growth rate in money.

MEETING HELD ON SEPTEMBER 15, 1970

Authority to effect transactions in System Account.

Information reviewed at this meeting suggested that real GNP, which had edged up in the second quarter, was expanding somewhat further in the third. Wage rates generally were continuing to increase at a rapid pace, but improvements in productivity appeared to be slowing the rise in costs and some major price measures were advancing less rapidly than before.

In August industrial production declined slightly; on balance production had changed little since May. Retail sales also moved down a little in August, according to advance estimates, and were only moderately above their average level in the second quarter. The labor market eased slightly further: nonfarm payroll employment declined and the unemployment rate edged up to 5.1 from 5.0 per cent in July. On the other hand, the latest data for private housing starts indicated that such starts had risen sharply in July after increasing appreciably in June.

Average wholesale prices declined from mid-July to mid-August as a result of a reduction in prices of farm products and foods; this volatile series had risen sharply in the previous month. At the same time the advance in prices of industrial commodities slowed further. In July the rate of increase in the seasonally adjusted consumer price index was below that of June and was significantly below the average monthly rise in the first half of the year.

According to the latest staff estimates, the advance in real GNP expected for the third quarter was to an important extent attributable to the recovery of residential construction activity. Also, growth in State and local government outlays had stepped up from the low second-quarter pace, and consumer spending was expanding at a rate close to that of the first half—although not so rapidly as had been projected earlier. On the other hand, the estimates suggested that business capital outlays were beginning to edge down and that defense spending was continuing to decline.

The economic outlook was clouded by uncertainty regarding the duration of a strike, which had begun on the day of this meeting, at a major automobile manufacturer. Staff projections suggested that, apart from possible effects of the strike, real GNP would pick up somewhat in the fourth quarter of 1970 and would expand further in the first two

quarters of 1971, but would still remain well below the economy's potential. However, it was noted that the rise in real GNP projected for the fourth quarter was not likely to be realized if the automobile strike continued well into that quarter. At the same time, it appeared that much of the loss of output and income that would result from such an extended strike would probably be made up in the first quarter of 1971.

With respect to the U.S. balance of payments, the deficit on the liquidity basis in July and August—while still large—was considerably smaller than earlier in the year. A major part of the recent improvement had occurred in private capital flows. In addition, in July both exports and imports declined about equally and the foreign trade surplus remained at the high level to which it had risen in June. On the official settlements basis the deficit continued very high after mid-year as a result of repayments of Euro-dollar borrowings by U.S. banks.

In foreign exchange markets sterling had been under selling pressure recently, particularly in early September. The Italian lira had strengthened significantly in the latter part of August. On August 27 the Bank of France reduced its discount rate from 8 to $7\frac{1}{2}$ per cent, and on September 1 the Bank of Canada cut its rate from 7 to $6\frac{1}{2}$ per cent.

System open market operations since the August 18 meeting had been directed at promoting some easing of conditions in credit markets and moderate growth in the money supply. Reserves had been provided liberally during the period, first to foster somewhat easier market conditions and later to resist a persistent tendency toward firmness that developed. In the latter part of August Federal funds traded mostly in a range of $6\frac{1}{8}$ to $6\frac{3}{8}$ per cent, well below the $6\frac{1}{2}$ to 7 per cent range generally prevailing earlier in the month. In the first half of September, however, the funds rate rose to levels above $6\frac{1}{2}$ per cent largely as a result of a shift in the distribution of reserves away from the major money centers. Member bank borrowings averaged about \$690 million in the 4 weeks ending September 9, down sharply from the \$1.2 billion average of the previous 4 weeks. However, part of this decline reflected a further reduction in special accommodations at the discount window for banks lending to firms that were encountering difficulties in rolling over maturing commercial paper.

Most short- and long-term interest rates declined in the latter part

of August, to a large extent because of growing expectations among investors of a significant near-term easing of monetary policy. These expectations were stimulated in part by the announcement of the Board of Governors on the day before the August 18 meeting of a reduction in reserve requirements on time and savings deposits¹ and by the easing of money market conditions following that meeting. Most yields turned up in early September, however, against the background of the firmer money market conditions that developed then and of the continuing heavy volume of new offerings in capital markets.

On balance, yields on corporate and municipal bonds had changed little since mid-August, but yields on Treasury notes and bonds and on most types of short-term securities had declined somewhat. On the day before this meeting the market rate on 3-month Treasury bills was 6.33 per cent, 20 basis points below its level 4 weeks earlier. The relationships among yields on market securities of different grades suggested that investors continued to be highly concerned about credit quality.

At commercial banks growth in the outstanding volume of large-denomination CD's was relatively rapid in August—although it moderated considerably from the unusually rapid pace that had been recorded in July following the suspension in late June of rate ceilings on such CD's maturing in 30 to 89 days. Inflows of consumer-type time and savings deposits also remained substantial in August, although not so large as in July. As a result of these gains in time and savings deposits and a marked increase in private demand deposits, the bank credit proxy—daily-average member bank deposits—rose sharply further from July to August. During the month banks reduced their reliance on funds obtained through the issuance of commercial paper by their affiliates, in anticipation of the application of reserve requirements to such funds. After adjustment for this development and for repayments of Euro-dollar borrowings by U.S. banks, the bank credit proxy increased at an annual rate of about 24 per cent from July to August.

¹ The Board reduced from 6 to 5 per cent the reserves that member banks must hold against time and savings deposits in excess of \$5 million. At the same time, it applied regular time and demand deposit reserve requirements on funds obtained by member banks through the issuance of commercial paper by their affiliates. The Board announced that both actions would become effective in the reserve computation period beginning October 1 and would be applicable on such deposits and commercial paper outstanding in the week beginning September 17.

Growth of the adjusted proxy series appeared to be slowing considerably in September.

The money stock, according to the latest published statistics, rose sharply in the first part of August but then moved down through early September. On the average in August, the published measure showed an increase at an annual rate of about 11 per cent—compared with annual rates of about 4 per cent in July and close to 4 per cent over each of the first two quarters of the year.² Including a projection for the rest of September, growth over the third quarter was estimated at about a 4.5 per cent annual rate.

It was noted at the meeting, however, that the rates of growth calculated for money would be somewhat different if adjustments were made for biases that had developed in the data because of the accounting procedures employed in connection with certain types of international transactions. It was reported that work was now in process on statistical revisions, including not only adjustments for these biases but also benchmark corrections and revisions of seasonal factors. Although the final revisions were not expected to be available until late autumn, tentative calculations based on the preliminary information now available suggested that the adjustments for biases due to these types of international transactions might in themselves raise the growth rates for the first two quarters by about 1 or 2 percentage points and might lower the rate for the third quarter by about 1 percentage point.

Staff analysis suggested that some easing of currently prevailing money market conditions probably would be required if the money stock series, adjusted for bias, were to grow at an annual rate of about 5 per cent over the fourth quarter. The analysis also suggested that such a growth rate for money would be associated with a 10 per cent rate of expansion in the adjusted bank credit proxy. The anticipation of marked slowing in bank credit growth—from a third-quarter rate tentatively estimated at 17.5 per cent—reflected in part expectations that the rate of increase of time deposits would slacken as banks completed their adjustments to the suspension of rate ceilings on large-denomination CD's of shorter term. Also, it appeared likely that there would be a considerable abatement in the shift of credit flows from market to banking channels that had followed earlier pressures in the

² Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

commercial paper market and that had contributed importantly to the rapid growth of the bank credit proxy in the third quarter.

The Committee agreed that some easing of conditions in credit markets and moderate growth in the money stock—at an annual rate of about 5 per cent in the fourth quarter—remained appropriate as the objectives of monetary policy at this time, although a few members felt that somewhat faster expansion of money would be preferable. A few members also expressed the view that it would be desirable to place less emphasis on a specific growth rate for the money stock, particularly in light of present data uncertainties.

It was noted in the discussion that prospects for a satisfactory rate of economic growth depended importantly on continued recovery in residential construction outlays and State and local government expenditures. In view of the sensitivity of these types of spending to interest rates, some members stressed the desirability of fostering somewhat lower levels of interest rates over the months ahead.

There was some sentiment in the Committee for increasing the weight given to developments in bank credit in day-to-day decisions regarding open market operations, now that the period of rapid reintermediation appeared to be drawing to a close. The Committee concluded, however, that for the time being the practice should be continued of giving preponderant weight to the money stock in assaying the implications of the behavior of financial aggregates for System operating decisions.

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

The information reviewed at this meeting suggests that real economic activity, which edged up slightly in the second quarter, is expanding somewhat further in the third quarter, led by an upturn in residential construction. Wage rates generally are continuing to rise at a rapid pace, but improvements in productivity appear to be slowing the rise in costs, and some major price measures are rising less rapidly than before. Interest rates declined in the last half of August, but most yields turned up in early September, as credit demands in securities markets have continued heavy; existing yield spreads continue to suggest concern with credit quality. The money supply rose rapidly in the first half of August but moved back down through early September. Bank credit expanded sharply further in August as

banks continued to issue large-denomination CD's at a relatively rapid rate, while reducing their reliance on the commercial paper market after the Board of Governors acted to impose reserve requirements on bank funds obtained from that source. The balance of payments deficit on the liquidity basis diminished somewhat in July and August from the very large second-quarter rate, but the deficit on the official settlements basis remained high as banks repaid Euro-dollar liabilities. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee seeks to promote some easing of conditions in credit markets and moderate growth in money and attendant bank credit expansion over the months ahead. System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining bank reserves and money market conditions consistent with that objective.

Votes for this action: Messrs. Burns, Brimmer, Daane, Francis, Heflin, Hickman, Maisel, Robertson, Sherrill, and Swan. Vote against this action: Mr. Hayes.

Absent and not voting: Mr. Mitchell.

In dissenting from this action, Mr. Hayes indicated that he was concerned about again calling in the directive for an easing of conditions in credit markets. Short-term interest rates had declined since the last Committee meeting and he was not convinced that further easing would be required to achieve the objective, which he favored, of moderate growth in money and bank credit. He feared the possible inflationary effects of a policy calling for progressive easing of credit conditions.

MEETING HELD ON OCTOBER 20, 1970

Authority to effect transactions in System Account.

Preliminary estimates of the Commerce Department indicated that real output of goods and services had risen at an annual rate of 1.4 per cent in the third quarter, compared with a 0.6 per cent rate of growth in the second. Nonfarm payroll employment declined on the average in the third quarter and the unemployment rate rose further. Wage rates generally were continuing to increase at a rapid pace, but it appeared that gains in productivity were slowing the advance in costs and some major price measures were rising less rapidly than earlier. A strike at a major automobile manufacturer that had begun in mid-September was retarding current economic activity and clouding the near-term outlook.

Industrial production, which had been declining irregularly since July 1969, fell considerably in September; much of the reduction in that month was directly attributable to the strike in the automobile industry. Retail sales were about unchanged from August, and in the third quarter as a whole sales rose less than in any of the three preceding quarters. Nonfarm payroll employment leveled off in September, following earlier declines, but the unemployment rate advanced sharply from 5.1 to 5.5 per cent. Private housing starts, on the other hand, increased substantially in the third quarter.

The wholesale price index rose considerably from mid-August to mid-September after having declined in the previous month; to a large extent these fluctuations reflected the volatile behavior of prices of farm products and foods. Average prices of industrial commodities continued upward in September, but in the third quarter as a whole the rate of advance was somewhat slower than in the second quarter. In August the increase in the consumer price index was smaller than in any other month since December 1968. It appeared that output per manhour in the private nonfarm sector of the economy had increased appreciably in both the second and third quarters, contributing to a significant slowing of the rise in unit labor costs.

Staff projections suggested that real GNP might edge up in the fourth quarter at about the same pace as in the third if the strike in the automobile industry were settled by the end of October. On this assumption it appeared likely that the main effects of the strike on

business activity would be to hold down inventory accumulation and to keep consumer spending from accelerating very much from the low rate of expansion recorded in the third quarter.

With respect to other sectors, the projections for the fourth quarter contemplated an acceleration of the advance in residential construction outlays that had begun in the third quarter, continued growth in State and local government expenditures at a rather rapid rate, and declines in business capital investment and defense outlays. Some rebound in over-all economic activity was expected in the first quarter of 1971, but it was anticipated that the rate of expansion would moderate in the second quarter when it was assumed that production and sales lost by the strike would have been largely made up.

The surplus on U.S. foreign trade fell substantially in August from the unusually high level of the previous 2 months. Preliminary estimates indicated that the over-all balance of payments deficit had declined markedly on the liquidity basis from the second to the third quarters—reflecting mainly improvements in private capital flows. On the official settlements basis, however, the deficit remained close to its high second-quarter level as U.S. banks made sizable repayments of their Euro-dollar liabilities to foreign branches. By mid-October several large banks had reduced, or had announced intentions to reduce, such Euro-dollar liabilities by amounts large enough to lower their “reserve-free” bases.¹

In foreign exchange markets, sterling had strengthened recently, after having been under selling pressure in early September. The rate for the Canadian dollar had declined sharply from its mid-September peak. On the day of this meeting the Bank of France reduced its discount rate from $7\frac{1}{2}$ to 7 per cent.

On October 15 the Treasury auctioned a \$2.5 billion issue of tax-anticipation bills due to mature in June 1971. The Treasury was expected to announce on October 22 the terms on which it would refund

¹ Amendments by the Board to its Regulations D and M, effective September 4, 1969, had (among other things) placed a 10 per cent reserve requirement on borrowings by 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. At the same time the Board had provided that the reserve-free base so established would be reduced when and to the extent that the liabilities of any bank to its foreign branches dropped below the original base in any subsequent period used to compute the reserve requirement.

\$7.7 billion of notes maturing November 16. It was anticipated that the Treasury would offer intermediate-term notes in exchange for the maturing securities and that it would engage in a subsequent cash financing to cover attrition and perhaps to raise additional new cash.

System open market operations since the September 15 meeting of the Committee had been directed at promoting some easing of conditions in credit markets and moderate growth in the money stock. Money market conditions varied considerably—tending toward ease in the latter part of September and toward firmness in early October—as a result of unexpectedly wide swings in market factors affecting reserves; but on balance such conditions eased somewhat. Thus, the average rate on Federal funds since the preceding meeting was about $6\frac{1}{8}$ per cent, compared with $6\frac{1}{2}$ per cent in the previous intermeeting period; and member bank borrowings in the 5 weeks ending October 14 averaged about \$490 million, \$200 million below the average of the previous 4 weeks.

Interest rates on short-term securities and on Treasury notes and bonds also had declined on balance since mid-September, in reflection of the easing of money market conditions, indications of sluggishness in the economy, and the reduction in the prime lending rate of banks—from 8 to $7\frac{1}{2}$ per cent—in the latter part of September. On the day before this meeting the market rate on 3-month Treasury bills was 5.94 per cent, about 40 basis points below its level 5 weeks earlier. Yields on corporate and municipal bonds had changed little over the period, however, in the face of a continuing very heavy flow of new issues.

In September secondary market yields on federally insured residential mortgages again edged down, and the average contract interest rate on new-home mortgages declined for the first time in 2 years. The availability of mortgage funds had continued to improve recently as savings inflows to nonbank thrift institutions remained substantial.

At commercial banks also, inflows of consumer-type time and savings deposits remained substantial in September. Outstanding large-denomination CD's continued to expand at a relatively rapid pace despite reductions in the interest rates offered by banks for such deposits. Private demand deposits and the money stock had increased slightly from August to September, according to the latest published statistics. Growth in the money stock over the third quarter was now

estimated to have been at an annual rate of about 5 per cent,² after a tentative allowance for the biases resulting from the accounting procedures employed in connection with certain types of international transactions.

There was a sharp decline during September in business loans at banks, adjusted to include loans that had been sold to affiliates. Growth in bank holdings of U.S. Government securities moderated substantially, but holdings of municipal and Federal agency securities increased markedly further. Banks continued to reduce their reliance on funds obtained from nondeposit sources—both Euro-dollar borrowings and funds obtained through the sale of commercial paper by bank affiliates. The bank credit proxy—daily-average member bank deposits—increased at an annual rate of about 10 per cent in September, after adjustment for changes in nondeposit funds. Over the third quarter the adjusted proxy series expanded at an annual rate of about 17 per cent.

Staff analysis suggested that if money market conditions similar to those recently prevailing were maintained the money stock series, roughly adjusted for the biases related to international transactions, would grow at annual rates of about 4.5 per cent in October and about 5 per cent over the fourth quarter. It appeared that such growth rates for money would be associated with expansion in the adjusted bank credit proxy at an annual rate of about 9 per cent in the quarter.

In the Committee's discussion considerable concern was expressed about the indications of actual and prospective weakness in economic activity, apart from the effects of the auto strike, and about the level to which the unemployment rate had risen. Concern also was voiced about the continuing advances in prices and costs, although some members expressed the view that progress was being made toward controlling inflation.

The Committee agreed that some easing of conditions in credit markets and moderate growth in the money stock—at an annual rate of about 5 per cent in the fourth quarter—remained appropriate as the objectives of policy. As at the previous meeting, some members advocated a somewhat faster growth rate for the money stock, and a few observed that data uncertainties argued for reducing the emphasis placed on a specific growth rate for money. Several members again

² Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

stressed the desirability of fostering declines in interest rates over coming months in order to encourage needed recovery in residential construction outlays and State and local government spending. It was noted that in the weeks immediately ahead account would have to be taken of "even keel" considerations arising from the forthcoming Treasury financings.

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

The information reviewed at this meeting suggests that real output of goods and services increased slightly further in the third quarter but that employment declined and unemployment continued to rise; activity in the current quarter is being adversely affected by a major strike in the automobile industry. Wage rates generally are continuing to rise at a rapid pace, but improvements in productivity appear to be slowing the increase in costs, and some major price measures are rising less rapidly than before. Most interest rates have declined since mid-September, although yields on corporate and municipal bonds have been sustained by the continuing heavy demands for funds in capital markets. The money supply rose slightly on average in September and increased moderately over the third quarter as a whole. Bank credit expanded further in September but at a rate considerably less than the fast pace of the two preceding months. Banks continued to issue large-denomination CD's at a relatively rapid rate and experienced heavy inflows of consumer-type time and savings funds, while making substantial further reductions in their use of nondeposit sources of funds. The balance of payments deficit on the liquidity basis diminished in the third quarter from the very large second-quarter rate, but the deficit on the official settlements basis remained high as banks repaid Euro-dollar liabilities. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee seeks to promote some easing of conditions in credit markets and moderate growth in money and attendant bank credit expansion over the months ahead. System open market operations until the next meeting of the Committee shall

be conducted with a view to maintaining bank reserves and money market conditions consistent with those objectives, taking account of the forthcoming Treasury financings.

Votes for this action: Messrs. Burns, Brimmer, Francis, Hickman, Maisel, Mitchell, Robertson, Sherrill, Swan, and Morris. Vote against this action: Mr. Hayes.

Absent and not voting: Messrs. Daane and Heflin.
(Mr. Morris voted as Mr. Heflin's alternate.)

In dissenting from this action, Mr. Hayes said that he favored moderate growth in the monetary aggregates—including expansion in money and bank credit at annual rates of about 5 and 9 per cent, respectively, in the fourth quarter—and that he would have no objection to some easing of credit market conditions if that was the natural result of demand factors under such a policy course. As at the two preceding meetings, however, he was concerned about the directive language reading “the Committee seeks to promote some easing of conditions in credit markets,” because it implied to him that a persistent push toward lower interest rates was intended, irrespective of market forces. Such a course, in his view, would involve undue risks of rekindling inflationary expectations and of weakening the international position of the dollar.

MEETING HELD ON NOVEMBER 17, 1970

Authority to effect transactions in System Account.

Information reviewed at this meeting suggested that real output of goods and services, which had risen at an annual rate of 1.4 per cent in the third quarter, was changing little in the current quarter. Part but not all of the weakness in over-all activity was attributable to a strike at a major automobile manufacturer, which had begun in mid-September and which apparently was now coming to an end. Although recent movements in major price measures had been erratic, the general tendency in these measures had been toward a slower rate of increase.

In October retail sales, industrial production, and nonfarm payroll employment all declined and the unemployment rate edged up to 5.6 from 5.5 per cent in September. Sales fell sharply at automobile dealers, but they increased at other types of retail establishments after having changed little since April. Production was cut back further in October in the motor vehicle and supplier industries and also in industries that make business and defense equipment and many types of industrial materials. Although payroll employment rose moderately in the nonmanufacturing sector, it declined in manufacturing even apart from the effects of the automobile shutdown.

Average wholesale prices of industrial commodities advanced sharply from mid-September to mid-October after some slowing in the third quarter. Wholesale prices of farm products and foods declined about as much in October as they had risen in the previous month. The consumer price index rose considerably in September, but over the third quarter as a whole it had increased less than in either of the two preceding quarters.

Wage rates were continuing to advance at a rapid pace; the increases provided by contract settlements concluded during the third quarter, while somewhat smaller than the second-quarter increases, were significantly larger than those of 1968 and 1969. However, output per manhour in the private nonfarm sector had risen considerably further in the third quarter, and the rate of advance in unit labor costs in the second and third quarters taken together was the lowest since mid-1967.

According to the latest staff projections—in which it was assumed that the automobile industry would be back in full production by early December—real GNP would remain about unchanged in the fourth quarter, partly because of the effects of the strike in curtailing business inventory investment and growth in consumer spending. It appeared likely that over-all economic activity would rebound sharply in the first quarter of 1971 in the aftermath of the strike; but that the pace of expansion would moderate considerably in the second quarter, when automobile output and sales were expected to fall back from their earlier post-strike surge.

Over the three quarters ending with the second quarter of 1971 the average rate of growth in real GNP was expected to be relatively low. The projections for that period contemplated further sizable advances in residential construction expenditures and State and local government outlays. However, it was anticipated that consumer expenditures would increase only moderately on balance, and that business capital investment and defense outlays would decline. The rate of advance in prices was still expected to slow, but by less than had appeared likely earlier.

The surplus on U.S. foreign trade declined further in September; for the third quarter as a whole the surplus was slightly below the high second-quarter rate. The over-all balance of payments on the liquidity basis improved markedly from the second to the third quarter, largely because of a reversal of flows involved in U.S. bank lending to foreigners and a renewal of foreign buying of U.S. stocks. The deficit on the official settlements basis remained near the high level of the second quarter as a result of substantial repayments of Euro-dollar borrowings by U.S. banks.

Preliminary estimates for October suggested that on both bases the over-all payments deficit was remaining at about the third-quarter rate. Repayments of Euro-dollar borrowings by U.S. banks appeared to be continuing at a fairly steady pace; although Euro-dollar interest rates had declined markedly during October, they were still considerably above comparable U.S. interest rates.

In the foreign exchange markets, most currencies had strengthened against the dollar recently. Abroad, discount rates were reduced by the National Bank of Belgium, from $7\frac{1}{2}$ to 7 per cent, on October 22; by the Bank of Japan, from $6\frac{1}{4}$ to 6 per cent, on October 28; and by the

Bank of Canada, from $6\frac{1}{2}$ to 6 per cent, on November 12. These actions followed indications of easing of demand in the respective domestic economies. The German Federal Bank cut its discount rate from 7 to $6\frac{1}{2}$ per cent on the day of this meeting.

On October 22 the Treasury announced the terms on which it would refund securities maturing in mid-November, including \$6 billion held by the public. Holders of the maturing obligations were offered the choice of a new $7\frac{1}{4}$ per cent, $3\frac{1}{2}$ -year note priced at par or a reopened $7\frac{1}{2}$ per cent, $5\frac{3}{4}$ -year note priced to yield 7.39 per cent. The offering was very well received by the market; redemptions for cash were smaller than had been expected and the notes traded at substantial premiums on a "when-issued" basis. Near the end of October, when it announced the results of the refunding, the Treasury also announced that on November 5 it would auction \$2 billion of a $6\frac{3}{4}$ per cent, 18-month note, employing methods similar to those normally used in Treasury bill auctions. This financing also was highly successful; the average issuing rate in the auction was 6.21 per cent, well below expectations.

Short-term interest rates had declined substantially further since the October 20 meeting of the Committee. For example, the market rate on 3-month Treasury bills, at 5.30 per cent on the day before this meeting, was about 65 basis points below its level 4 weeks earlier and lower than at any time in the preceding 2 years. The recent rate declines reflected a reduction in demands for short-term credit as a result of the prolonged strike in the automobile industry and the general sluggishness in the economy; the reinvestment in short-term securities of the proceeds of the continuing heavy volume of capital market issues; and widespread expectations among investors of imminent reductions in Federal Reserve discount rates and the prime lending rate of commercial banks. On November 11 and succeeding days Federal Reserve Bank discount rates were reduced to $5\frac{3}{4}$ per cent from the 6 per cent level that had been in effect since early April 1969. On November 12 the prime lending rate—which had been cut from 8 to $7\frac{1}{2}$ per cent in the latter part of September—was lowered to $7\frac{1}{4}$ per cent.

In October some further easing of conditions in markets for residential mortgages was reflected in an additional slight decline in secondary market yields on federally insured loans. Inflows of savings

funds to nonbank thrift institutions were again substantial, and it appeared that the volume of mortgage loans and of new commitments for such loans—both of which had increased considerably in the third quarter—had continued large.

At commercial banks the rate of growth in total time and savings deposits from September to October was below the very high third-quarter rate, although the expansion remained substantial for both consumer-type deposits and large-denomination CD's. The money stock changed little from September to October—declining slightly according to the published statistical series, and rising slightly after a tentative allowance was made for the biases resulting from the accounting procedures employed in connection with certain types of international transactions. On both bases the money stock had increased only slightly in September, but over the third quarter as a whole it had grown at an annual rate of about 5 per cent.¹

The lack of significant growth in the money stock in October contrasted with expectations at the time of the preceding Committee meeting of expansion in that month at about a 4.5 per cent rate. The shortfall appeared to be associated with the weakness in demands for short-term credit; business loans at banks (adjusted to include loans that had been sold to affiliates) declined even more sharply in October than in the preceding month. Growth in the bank credit proxy—daily-average member bank deposits—also fell considerably short of expectations. After adjustment for a further marked reduction in bank reliance on funds obtained from nondeposit sources, the proxy series increased at an annual rate of less than 1 per cent, compared with growth rates of about 10 per cent in September and more than 17 per cent in the third quarter as a whole.

System open market operations had been directed at achieving a slight easing of money market conditions early in the period following the October 20 meeting of the Committee, when current estimates indicated that the monetary aggregates were growing at rates moderately below those desired. Somewhat greater easing had been sought later in the period, when revised data indicated that the shortfall in the aggregates was greater than had been thought earlier and when

¹ Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

conditions associated with the Treasury financings were such that "even keel" considerations offered less of a constraint on operations. Most recently, the Federal funds rate had been fluctuating in a range around 5¾ per cent, compared with the range above 6 per cent that had prevailed shortly before the October 20 meeting. In the 4 weeks ending November 11 member bank borrowings averaged about \$475 million, down slightly from the average in the preceding 5 weeks.

Staff analysis suggested that, in light of the current weakness in demands for money and credit, attainment of even a 4 per cent annual rate of growth for money over the fourth quarter probably would necessitate some easing of prevailing money market conditions. The analysis suggested, however, that if subsequently there were no further substantial change in money market conditions, money growth would step up in the first quarter of 1971, when demands for money and credit were expected to strengthen temporarily in connection with the bulge in GNP anticipated in the aftermath of the auto strike. It appeared that growth in the money stock at an annual rate of 4 per cent in the fourth quarter might be associated with expansion in the adjusted bank credit proxy at a rate of about 4.5 per cent.

The Committee agreed that, in light of the current and prospective economic situation, some easing of conditions in credit markets and moderate growth in money remained appropriate as objectives of monetary policy. Concern was expressed about the shortfalls from expected growth rates for the monetary aggregates that had been experienced in October, and the members decided that an easing of money market conditions would be desirable at present for the purpose of stimulating more substantial growth in the aggregates.

As at other recent meetings, there were some differences of view with respect to the emphasis that should be placed on the growth rate of money relative to other indicators of policy, and with respect to the specific growth rate for money that should be sought. The Committee decided that it would be undesirable to "whipsaw" money and credit market conditions to the extent that might be required to attain a 5 per cent money growth rate in the fourth and first quarters individually. In particular, the Committee agreed that a 4 per cent growth rate in the fourth quarter would be acceptable if the results of operating experience over coming weeks bore out the indication of the staff analysis that attainment of a 5 per cent rate would require a sharp easing of money market conditions. This judgment was reached

in light of the expectation that money growth would pick up in the first quarter if there were no further substantial change in money market conditions. At the same time, it was noted that the policy objectives for the first quarter and subsequent periods would, of course, be considered by the Committee at future meetings.

During the discussion the Committee considered the degree to which money market conditions should be eased in coming weeks in pursuing the longer-run objectives for the monetary aggregates, in light of the possibility that a marked easing might substantially accelerate the currently large outflows of short-term capital from the United States. The Committee decided that, if it was found in the course of operations that easing sufficient to reduce the Federal funds rate to around 5 per cent was still not producing an adequate response in terms of growth rates in the aggregates, members' views regarding appropriate further operations should be ascertained. It was noted in this connection that the Board of Governors was prepared to consider measures to moderate the pace of repayments of Euro-dollar borrowings by U.S. banks if those repayments threatened to exceed tolerable limits.

The Committee also considered a proposal for making somewhat more use than was customary at this time of the year of open market purchases of longer-term Treasury securities in meeting reserve needs. Most members thought that a moderate volume of such purchases, if practicable, could serve a constructive purpose.

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

The information reviewed at this meeting suggests that real output of goods and services is changing little in the current quarter and that unemployment has increased. Part but not all of the weakness in over-all activity is attributable to the strike in the automobile industry which apparently is now coming to an end. Wage rates generally are continuing to rise at a rapid pace, but gains in productivity appear to be slowing the increase in unit labor costs. Recent movements in major price measures have been erratic but the general pace of advance in these measures has tended to slow. Most interest rates declined considerably in the past few weeks, and Federal Reserve discount rates were reduced by one-quarter of a percentage point in the week of November 9. Demands for funds in capital markets have continued heavy, but business loan demands at banks

have weakened. The money supply changed little on average in October for the second consecutive month; bank credit also was about unchanged, following a slowing of growth in September. The balance of payments deficit on the liquidity basis was at a lower rate in the third quarter and in October than the very high second-quarter rate, but the deficit on the official settlements basis remained high as banks repaid Euro-dollar liabilities. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee seeks to promote some easing of conditions in credit markets and moderate growth in money and attendant bank credit expansion over the months ahead, with allowance for temporary shifts in money and credit demands related to the auto strike. System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining bank reserves and money market conditions consistent with those objectives.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Daane, Francis, Heflin, Hickman, Mitchell, Robertson, Sherrill, and Swan. Vote against this action: Mr. Maisel.

Mr. Maisel dissented from this action because he believed that the objectives for growth in money and credit favored by the majority were unsatisfactory. He favored seeking a growth rate for money in the fourth quarter at least as high as the rate that had prevailed on the average in the first three quarters of the year. Indeed, he thought the information developed at this and prior meetings on the state of the economy and its prospects should have led the Committee to reconsider and change the policies it had previously pursued. The monetary conditions sought under this directive would, he believed, increase the probabilities that output and employment would continue on a path that was too far below the economy's potential. In his judgment the gap between actual and potential output and the consequent lost production, income, and jobs would be greater than could be justified on the basis of the needs of the economy, demand pressures on prices, or the balance of payments.

MEETING HELD ON DECEMBER 15, 1970

Authority to effect transactions in System Account.

The information reviewed at this meeting suggested that real output of goods and services had declined in the fourth quarter of 1970, largely because of the strike in the automobile industry that had extended from mid-September until late November. A bulge in activity was in prospect for the first quarter of 1971, in connection with the resumption of higher production and sales of automobiles.

In November retail sales, industrial production, and nonfarm payroll employment continued to decline and the unemployment rate rose further—to 5.8 from 5.6 per cent in October. The weakness in economic activity appeared to extend to areas well beyond those affected by the strike. While the decline in total retail sales was attributable to another sharp reduction at automobile dealers, sales at other types of retail establishments increased relatively little. Within the manufacturing sector, the cutbacks that occurred in production and employment were centered in industries making business and defense equipment and various types of industrial materials, as well as automobile parts and supplies; automobile assemblies were maintained at the reduced October rate. In the nonmanufacturing sector payroll employment changed little. On the other hand, private housing starts rose further in October, the latest month for which data were available.

Major price measures had behaved in a diverse manner recently. Average wholesale prices of industrial commodities leveled off from mid-October to mid-November after rising sharply in the previous month. Prices of farm products and foods declined further, and the total wholesale price index edged down. In contrast, the consumer price index continued upward in October at the accelerated rate recorded in September.

Staff projections had been revised since the previous Committee meeting to indicate a decline in real GNP in the fourth quarter, rather than little change; and a rebound in the first quarter, in the aftermath of the strike, somewhat greater than had been anticipated earlier. The projections still suggested that the pace of expansion would moderate considerably in the second quarter and that the average rate of growth in real GNP over the three quarters ending in mid-1971 would be

relatively low. It was noted that the projections made no allowance for any unusual accumulation of steel inventories as a precaution against a possible steel strike when current wage contracts expired on July 31.

The surplus on U.S. foreign trade declined slightly further in October; in September and October together it was smaller than in any other 2-month period in 1970. With respect to the over-all balance of payments, the deficit on the liquidity basis in October and November remained at about the third-quarter rate despite the shrinkage in the trade surplus. The official settlements deficit, on the other hand, continued very large as a result of further repayments of Euro-dollar borrowings by U.S. banks.

On November 30 the Board of Governors announced certain measures to moderate the pace of repayments of such Euro-dollar borrowings, including an increase from 10 to 20 per cent in the reserves required from member banks against Euro-dollar borrowings in excess of the amounts allowed as a "reserve-free" base. The higher requirement was intended to give banks an added inducement to preserve their reserve-free bases against possible future need. At the same time the Board announced that discount rates at five Federal Reserve Banks had been lowered to $5\frac{1}{2}$ per cent from the level of $5\frac{3}{4}$ per cent to which they had been reduced earlier in the month.

Since late November Euro-dollar interest rates had risen considerably and the dollar had strengthened against most major European currencies. These developments appeared to reflect the combined influence of year-end adjustments in the Euro-dollar market and the response of U.S. banks to the Board's actions to moderate Euro-dollar repayments. In addition, the strength of the dollar reflected declines in domestic interest rates in some European financial markets. Discount rates were reduced by the German Federal Bank, from $6\frac{1}{2}$ to 6 per cent, on December 3; and by the National Bank of Belgium, from 7 to $6\frac{1}{2}$ per cent, on December 10. In each country similar reductions of $\frac{1}{2}$ percentage point had been made only recently—on October 22 in Belgium and on November 17 in Germany.

System open market operations since the November 17 meeting of the Committee had been directed at fostering some easing of money market conditions, for the purposes of promoting easier conditions in credit markets generally and of achieving expansion in the money

stock at a moderate rate. A substantial volume of reserves was supplied during the interval, in part through purchases of intermediate- and long-term Treasury securities. The effective rate on Federal funds, which had been around $5\frac{3}{4}$ per cent shortly before the mid-November meeting, subsequently fluctuated for the most part in a range from $5\frac{1}{2}$ per cent down to about 5 per cent. Most recently, however, the funds rate had moved below that range on a number of days and had averaged about 5 per cent. In the 4 weeks ending December 9 member bank borrowings had averaged about \$375 million, approximately \$100 million below the average of the preceding 4 weeks.

Both short- and long-term market interest rates had declined substantially in recent weeks. With respect to short-term securities, the market rate on 3-month Treasury bills was 4.80 per cent on the day before this meeting, 50 basis points below its level 4 weeks earlier. In capital markets, where an extended rally had begun around the end of October, yields had fallen to their lowest levels in well over a year despite a continuing very heavy volume of new corporate and municipal offerings.

Contributing to these declines in interest rates were the cumulating evidence of weakness in economic activity, a growing belief that demands for funds in capital markets might moderate after the turn of the year, and widespread market expectations that an expansionary monetary policy would be pursued. A reduction on November 23 in the prime lending rate of commercial banks from $7\frac{1}{4}$ to 7 per cent—the third cut in the prime rate since the end of the summer—helped to sustain the rally, as did the recent reduction in Federal Reserve Bank discount rates.

Yields on residential mortgages declined further in November in secondary markets for federally insured loans, and the ceiling rate on such loans was lowered by administrative action from $8\frac{1}{2}$ to 8 per cent, effective December 1. This was the first reduction in the ceiling rate in nearly a decade. According to preliminary indications, both the inflows of savings funds to nonbank thrift institutions and the volume of new mortgage commitments by those institutions had continued large in November.

At commercial banks, business loans (adjusted to include loans that had been sold to affiliates) declined sharply in November for the third successive month. The recent weakness in loan demands re-

flected the effects of the automobile strike and the general sluggishness of economic activity, and also the use by corporations of some proceeds of capital market offerings to repay bank debt. Banks continued to acquire securities—particularly municipal issues—at a rapid rate, and they were less aggressive than earlier in seeking funds through issues of large-denomination CD's. Although the rate of growth in total time and savings deposits remained substantial, it was somewhat below that of October and only about half the exceptionally high rate of the summer.

According to preliminary estimates, both the bank credit proxy—daily-average member bank deposits—and the money stock increased somewhat more rapidly on the average in November than had been anticipated at the time of the previous meeting. After adjustment for a further reduction in bank reliance on funds from nondeposit sources, the proxy series expanded at an annual rate of about 8 per cent, compared with rates of about 1 per cent in October and 17 per cent over the third quarter.¹ Preliminary calculations for the money stock, based on the newly revised statistical series,² indicated that growth in November was at an annual rate of 4.5 per cent. While this was above the 1 per cent growth rate recorded in October, it was below the increases—at annual rates of about 6 per cent—now indicated for each of the first three quarters of the year.

It was noted that the outlook for the monetary aggregates was particularly uncertain at this time, both because of the difficulties of assessing the precise impact on financial markets of the surge in activity expected in the aftermath of the automobile strike and because of the churning in those markets that is typical of the period around the year-end. Staff analysis suggested that the money stock would tend to increase relatively rapidly in December and January, in part as a result of the expected bulge in economic activity. According to the analysis, if money market conditions were about the same as those

¹ Calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

² The revised series, published by the Board of Governors on November 27, 1970, incorporated the usual annual revisions of seasonal factors and benchmark adjustments for nonmember bank data. It also reflected the use of newly collected information to correct downward biases resulting from the accounting procedures employed in connection with certain types of international transactions.

most recently attained, over the fourth quarter the money stock and the adjusted bank credit proxy would expand at annual rates of about 5 and 9 per cent, respectively. For both aggregates somewhat faster growth was anticipated over the first quarter of 1971.

In light of the uncertainties affecting the weeks immediately ahead, a number of Committee members suggested that it would be appropriate, in making decisions on open market operations in this period, to give somewhat greater weight than previously to money market conditions relative to the weight given to reported statistics on the monetary aggregates. A few members expressed the view that such a shift in emphasis was desirable on more general grounds, apart from present uncertainties.

With respect to the monetary aggregates, some members drew attention to the significance of the behavior of aggregates other than the narrowly defined money stock—private demand deposits plus currency in circulation, the so-called “ M_1 .” Reference was made in this connection both to bank credit and to money on various definitions that are broader than M_1 .

There were some differences in the views expressed regarding the rates of expansion in money and bank credit that might be considered desirable or acceptable in the coming period. In the course of the discussion, and against the background of present expectations regarding growth rates in the fourth quarter, it was suggested that the monetary aggregates should expand in the weeks immediately ahead by at least the amounts that appeared to be consistent with the somewhat faster growth rates anticipated for the first quarter. The Committee agreed that money market conditions should be eased if it appeared that shortfalls from those growth paths were developing, but that otherwise operations should be directed at maintaining the conditions most recently attained.

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

The information reviewed at this meeting suggests that real output of goods and services has declined since the third quarter, largely as a consequence of the recent strike in the automobile industry, and that unemployment has increased. Resumption of higher automobile production is expected to result in a bulge in activity in early 1971.

Wage rates generally are continuing to rise at a rapid pace, but gains in productivity appear to be slowing the increase in unit labor costs. Movements in major price measures have been diverse; most recently, wholesale prices have shown little change while consumer prices have advanced substantially. Market interest rates declined considerably further in the past few weeks, and Federal Reserve discount rates were reduced by an additional one-quarter of a percentage point. Demands for funds in capital markets have continued heavy, but business loan demands at banks have been weak. Growth in the money supply was somewhat more rapid on average in November than in October, although it remained below the rate prevailing in the first three quarters of the year. Banks acquired a substantial volume of securities in November, and bank credit increased moderately after changing little in October. The foreign trade balance in September and October was smaller than in any other 2-month period this year. The over-all balance of payments deficit on the liquidity basis remained in October and November at about its third-quarter rate. The deficit on the official settlements basis was very large as banks continued to repay Euro-dollar liabilities. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, System open market operations shall be conducted with a view to maintaining the recently attained money market conditions until the next meeting of the Committee, provided that the expected rates of growth in money and bank credit will at least be achieved.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Daane, Heflin, Maisel, Mitchell, Robertson, Sherrill, Swan, and Mayo. Vote against this action: Mr. Francis. (Mr. Mayo voted as alternate for the late Mr. Hickman.)

Mr. Francis dissented from this action both because he favored increasing, rather than reducing, the emphasis on M_1 relative to that on money market conditions in making System operating decisions, and because he favored maintaining growth in the money stock at the recently prevailing annual rate of 5 per cent. In the latter connection,

he believed that continued growth in money at a 5 per cent rate was likely to assure steady progress toward moderating price increases, along with a gradually increasing pace of expansion in real output. In his judgment a faster growth rate for money would result in higher real output in 1971, but at a disproportionate cost in terms of prolonging inflation and perhaps intensifying it after 1971.

Federal Reserve Operations in Foreign Currencies

In 1970, as in earlier years, operations in foreign currencies by the Federal Reserve System contributed to the orderly functioning of the international monetary system. There was less occasion than in many other years for operations to deal with potentially disturbing balance of payments deficits of other countries, and before the end of the year all outstanding indebtedness to the Federal Reserve under swap drawings initiated by foreign central banks had been liquidated. Supplementing the use of monetary reserves by the United States to meet our very large adverse balance of payments, repeated drawings by the Federal Reserve were made on some of the swap lines with foreign central banks.¹

Drawings on the swap lines were made early in the year by the central banks of France (\$100 million) and Italy (\$800 million). These were entirely repaid by February and July, respectively. Strength in Britain's balance of payments enabled the Bank of England to make large repayments of official short-term debt, including a complete liquidation before the end of February of its drawings on the swap line with the Federal Reserve. In September, when unfavorable seasonal factors and temporary movements of private funds out of sterling put pressure on the pound, the Bank of England reactivated the swap line by drawing \$400 million. This drawing was repaid over the following 2 months.²

Drawings were made by the Federal Reserve in 1970 on the swap lines with the central banks of Switzerland, the Netherlands, and Belgium. At the beginning of the year outstanding balances on earlier drawings totaled \$330 million. Liquidations of this indebtedness and of some subsequent drawings on the swap lines were facilitated by U.S. drawings on the International Monetary Fund and sales of gold and

¹ See pp. 16 and 17 and 53-58 for a discussion of the balance of payments.

² A full discussion of these and other developments is given in articles by Charles A. Coombs, the Special Manager, System Open Market Account, published in the Federal Reserve *Bulletin* for March and September 1970 and March 1971.

Special Drawing Rights (SDR's) by the U.S. Treasury. However, additional drawings were found necessary in the course of the year, and at the end of 1970 outstanding balances on these swap lines totaled \$810 million.

The aggregate increase in net official reserves of foreign countries during 1970 was extremely large, exceeding \$20 billion according to tentative estimates. Apart from the allocation of SDR's at the beginning of the year (\$2.5 billion to other countries, besides \$0.9 billion to the United States), the sum of other countries' monetary holdings of gold and SDR's, of their official foreign exchange assets less their liabilities to reserve holders, and of their net reserve or credit positions in the IMF apparently increased by about \$18 billion.

Though a full explanation of this large figure cannot be given, it is evident that \$10.7 billion was the counterpart of the U.S. official settlements deficit, while \$0.3 billion resulted from net monetization of gold (over three-fourths of the year's new gold production having gone into private uses). A major additional source of reserve gains was the increase in deposit claims on commercial banks in Europe acquired by some central banks, either directly or indirectly through the Bank for International Settlements. Such placements with commercial banks, ordinarily by using U.S. dollars, facilitated additional lending of dollars outside the United States. Such lending added to official reserve gains in the countries to which the funds moved, while no corresponding reduction occurred in the total dollar assets of the central banks from which the funds came. □

Foreign Credit Restraint Program

The Voluntary Foreign Credit Restraint (VFCR) Program, initiated in early 1965 as part of an over-all U.S. Government effort to restrain capital outflows, was continued through 1970 with only minor changes in the degree of restraint requested of banks and nonbank financial institutions in their foreign lending and investments abroad. In accordance with revisions announced December 17, 1969, and described in the ANNUAL REPORT for 1969, banks were expected to observe a General Ceiling and an Export-Term-Loan Ceiling, aggregating approximately \$11.4 billion, and nonbank financial institutions, a single ceiling, aggregating \$2.0 billion.

The bank section of the Foreign Credit Restraint Guidelines was amended three times during the year; the nonbank section was not amended. On March 17, 1970, language was restored that, until the December 1969 revision, had exempted any export loans of over-1-year maturity from a special restraint against making new term loans to residents of the developed countries of continental Western Europe. Between the time of the December revision and the March amendment, export term loans of less than \$250,000 each to residents of those countries were subject to the special restraint. On May 13 "Delaware subsidiaries" or other domestically chartered subsidiaries of Edge Act (or agreement) corporations of banks were given the opportunity to deduct from foreign assets subject to ceilings the amount of outstanding borrowings from foreigners having an original maturity of 3 years or more. On September 16 export term loans were redefined so that banks could count against their Export-Term-Loan Ceiling any term export loan rather than only those amounting to \$250,000 or more.

During 1970, assets subject to the bank ceilings increased \$123 million to a total of \$9,537 million. Export term loans accounted for all of the increase; loans and investments subject to the General Ceiling declined over that period.

At the end of 1970, banks were utilizing only 13 per cent of the aggregate Export-Term-Loan Ceiling. Utilization was brought up to that level as the result of an increase over the year of \$171 million in

foreign assets under this ceiling. However, because there were repayments in 1970 of \$130 million in export term loans granted before December 1969 (which would have been subject to the General Ceiling), the level of outstanding export term loans subject to VFCR ceilings increased during 1970 by only \$40 million.

Increased use was made of the Guideline exemptions. Credits exempted because they were related to certain financing programs of the Export-Import Bank or the Department of Defense or because they were extended to residents of Canada (Canada having been excluded from the restraints since early 1968) increased by \$371 million.

Toward the end of the year, the Board of Governors undertook a survey of the possible effect in 1970 of the Guidelines on export financing and on exports. The survey was developed with the cooperation of the Department of Commerce and was conducted with the assistance of the Federal Reserve Banks. Commercial banks subject to the restraints and selected U.S. exporters were queried. The results of the survey indicated that the Guidelines had no significant, limiting effect on exports during the year.

Another study was undertaken late in the year to determine the share of export credits among total foreign loans made by U.S. banks. This survey showed that in late 1970 about 17 per cent of the outstand-

FOREIGN ASSETS OF U.S. BANKS

Item	End of year				1970			
	1966	1967	1968	1969	Mar. 31	June 30	Sept. 30	Dec. 31
Number of reporting banks.....	148	151	161	169	172	172	167	173
	Millions of dollars							
General Ceiling								
Aggregate ceiling.....	10,407	11,069	9,729	10,092	10,049	10,000	9,979	9,956
Assets under ceiling.....	9,496	9,865	9,253	9,398	9,055	9,042	8,701	9,350
Change from previous date.....	-156	+369	-612	+145	-343	-13	-341	+649
Apparent leeway.....	911	1,204	476	694	994	958	1,278	606
Export-Term-Loan (ETL) Ceiling								
Aggregate ceiling.....				1,264	1,297	1,345	1,372	1,423
Assets under ceiling.....				16	59	105	139	187
Change from previous date.....					+43	+46	+34	+48
Apparent leeway.....				1,248	1,238	1,240	1,232	1,236
Total General and ETL Ceilings								
Aggregate ceiling.....	10,407	11,069	9,729	11,356	11,346	11,345	11,351	11,379
Assets under ceiling.....	9,496	9,865	9,253	9,414	9,114	9,147	8,840	9,537
Change from previous date.....	-156	+369	-612	+161	-300	+33	-307	+697
Apparent leeway.....	911	1,204	476	1,942	2,232	2,198	2,511	1,842

**FOREIGN ASSETS OF U.S. NONBANK FINANCIAL INSTITUTIONS AND
NONPROFIT ORGANIZATIONS**

Amounts shown in millions of dollars

Item	Amount Dec. 31, 1970	Change from Dec. 31, 1969	
		Amount	Per cent
ASSETS SUBJECT TO GUIDELINE			
Deposits and money market instruments, foreign countries except Canada	35	+10	+41.4
Short and intermediate credits, foreign countries except Canada ¹	181	-23	-11.3
Long-term investments, developed countries except Canada:			
Investment in financial businesses ²	143	+6	+4.3
Investment in nonfinancial businesses ²	7	-6	-46.1
Long-term bonds and credits	610	-71	-10.4
Stocks ³	538	-131	-19.6
TOTAL holdings of assets subject to guideline	1,513	-214	-12.4
Adjusted base-date holdings ⁴	1,916	-108	-5.4
ASSETS NOT SUBJECT TO GUIDELINE			
Investments in Canada:			
Deposits and money market instruments	153	-51	-25.2
Short- and intermediate-term credits ¹	156	+5	+3.2
Investment in financial businesses ²	555	-10	-1.7
Investment in nonfinancial businesses ²	49	+4	+10.0
Long-term bonds and credits	8,670	+400	+4.8
Stocks	1,388	+63	+4.7
Bonds of international institutions, all maturities	1,041	+38	+3.9
Long-term investments in the developing countries:			
Investment in financial businesses ²	32	+6	+21.3
Investment in nonfinancial businesses ²	9	-(8)	-4.3
Long-term bonds and credits	774	+114	+17.2
Stocks	108	-29	-21.0
Stocks, developed countries except Canada ⁵	815	+123	+17.7
TOTAL holdings of assets not subject to guideline	13,749	+662	+5.1
MEMO: Total holdings of all foreign assets	15,262	+448	+3.0

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

² Net investment in foreign branches, subsidiaries, or affiliates in which the U.S. institution has an ownership interest of 10 per cent or more.

³ Except those acquired after Sept. 30, 1965, in U.S. markets from U.S. equities.

⁴ Base-date holdings of assets subject to Guideline, less carrying value of equities included therein but since sold, plus proceeds of such sales to foreigners.

⁵ Less than \$500,000.

⁶ If acquired after Sept. 30, 1965, in U.S. markets from U.S. investors.

ing loans to foreigners under the VFCR Ceilings financed U.S. exports. (Revised Guidelines were issued on January 7, 1971, and the results of the two surveys were released in January and March, 1971.)

Nonbank financial institutions continued throughout 1970 to reduce their total holdings of foreign assets subject to their Guideline ceilings. For the year as a whole, the reductions totaled \$214 million. Holdings of covered assets amounted to \$1.5 billion on December 31, 1970, compared with aggregate Guideline ceilings of \$1.9 billion. Foreign assets not subject to the ceiling, primarily investments in Canada, were increased by \$662 million in 1970 to a total of \$13.7 billion at the year-end. □

Legislation Enacted

Direct purchases by Federal Reserve Banks of Government obligations. An Act of Congress approved July 31, 1970 (Public Law 91-360), extended through June 30, 1971, the authority of the Federal Reserve Banks, under Section 14(b) of the Federal Reserve Act, to purchase and sell direct or fully guaranteed obligations of the United States directly from or to the United States.

Real estate and commercial building construction loans by national banks. The Emergency Home Finance Act of 1970, approved July 24, 1970 (Public Law 91-351), and the Housing and Urban Development Act of 1970, approved December 31, 1970 (Public Law 91-609), among other things, amended various laws relating to housing and urban development. A provision of the Act of July 24, 1970, amended Section 24 of the Federal Reserve Act relating to the powers of national banks (a) to modify the authority of such banks with respect to first mortgage real estate loans (1) to increase the permissible amount of such loans from 80 per cent to 90 per cent of the appraised value of the real estate offered as security and (2) to extend the permissible term of such loans from 25 years to 30 years; and (b) to extend from 36 months to 60 months the permissible maturity of loans by such banks to finance commercial building construction.

The Act of December 31, 1970, expanded the powers of national banks by amending Section 24 of the Federal Reserve Act to authorize such banks to make loans or purchase obligations for land development under the portion of the Act described as Part B of the Urban Growth and New Community Development Act of 1970.

Defense production. The Defense Production Act of 1950 (Section 301 of which is the basis for guarantees of loans for defense production), which would have expired June 30, 1970, was amended (1) by Joint Resolutions approved by Congress (a) June 30, 1970 (Public Law 91-300), so as to continue in force through July 30, 1970, and (b) August 1, 1970 (Public Law 91-371), so as to continue in force through August 15, 1970; and (2) by Act of Congress approved August 15, 1970 (Public Law 91-379), so as to continue in force through June 30, 1972.

Public Law 91-379, among other things, amended Section 301 of the Defense Production Act by setting a limit of \$20 million on the guaranteeing agencies with respect to loan guarantees.

Margin requirements; credit cards. An Act of Congress approved October 26, 1970 (Public Law 91-508), extended the applicability of Federal Reserve margin requirements to certain foreign transactions involving extensions of credit to purchase or carry securities, and amended the Truth in Lending Act to authorize the Board to establish regulations governing the issuance of credit cards and liabilities for their unauthorized use. In addition, the Act established rules regarding (1) retention of records by insured banks and other financial institutions, (2) reports by those institutions of foreign and domestic currency transactions and exports and imports of monetary instruments, and (3) fair credit reporting.

Bank Holding Company Act Amendments of 1970. An Act of Congress approved December 31, 1970 (Public Law 91-607), expanded the coverage of the Bank Holding Company Act of 1956 to include a company that controls only one bank. Other major provisions of the 1970 legislation include (1) a revision of Section 4(c)(8) of the Holding Company Act, under which bank holding companies may acquire interests in nonbanking activities subject to certain restrictions and upon certain conditions, (2) an expansion of the Board's authority to determine that a company controls a bank, (3) a revision of the rules and expansion of the Board's authority with respect to foreign activities of domestic-based holding companies and domestic activities of foreign-based holding companies, and (4) a prohibition against any bank extending services to a customer upon certain conditions, commonly described as tie-in arrangements.

"Tender offers" with respect to securities of member State banks. An Act of Congress approved December 22, 1970 (Public Law 91-567), among other things, amended the Securities Exchange Act of 1934 to require disclosure of certain information concerning acquisitions of more than 5 per cent of a class of equity securities registered pursuant to the 1934 Act (rather than 10 per cent, as formerly). The provisions of the Act are applicable with respect to securities of member State banks registered under the Board's Regulation F, "Securities of Member State Banks."

Securities Investor Protection Corporation. An Act of Congress approved December 30, 1970 (Public Law 91-598), established the Securities Investor Protection Corporation to protect customers of a broker-dealer in the event of his insolvency. The Corporation will have a seven-man Board of Directors, one of whom is appointed by the Board of Governors of the Federal Reserve System from among its officers and employees.

Financial Institutions Supervisory Act. An Act of Congress approved December 31, 1970 (Public Law 91-609), among other things, made permanent the provisions of Titles I and II of the Act of October 16, 1966 (Public Law 89-695), known as the Financial Institutions Supervisory Act of 1966. Titles I and II, which were originally made effective only through June 30, 1972, strengthened the authority of the Federal agencies that supervise and regulate banks and savings and loan associations by authorizing such agencies to institute "cease and desist" proceedings and proceedings directed at the removal from office, in prescribed circumstances, of directors or officers of institutions under their supervision.

Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970. By Act of Congress approved January 2, 1971 (Public Law 91-646), Congress provided for uniform and equitable policies regarding land acquisition and treatment of persons displaced from their homes, businesses, or farms by Federal agencies or by federally assisted programs. For the purposes of the Act, "Federal agency" includes the Federal Reserve Banks and branches thereof.

Legislative Recommendations

Lending authority of Federal Reserve Banks. Under present law, when a member bank borrows from its Reserve Bank on collateral other than obligations that are eligible for purchase by Reserve Banks (mainly U.S. Government obligations) or short-term promissory notes of the member bank's customers that meet certain "eligibility" requirements, it must pay interest at a rate not less than $\frac{1}{2}$ of 1 percentage point higher than the Reserve Bank's basic discount rate. For several years the Board of Governors has urged legislation that would permit a member bank, subject only to regulations by the Board, to borrow on any security satisfactory to its Reserve Bank without the necessity of paying a higher rate of interest simply because the security is not of a specified type.

The need for enactment of such legislation has increased as member banks have reduced their holdings of U.S. Government securities and broadened the scope of their lending in order to meet the expanding credit demands of their customers. Many of these loans cannot qualify as security for Federal Reserve advances except at the "penalty" rate of interest, although their quality may be equal to that of presently "eligible" paper.

To enable the Federal Reserve System always to be in a position to carry out promptly and efficiently one of its principal responsibilities—the extension of credit assistance to enable the banking system to meet the legitimate needs of the economy—and to avoid penalizing those uses of credit that generate sound paper that is not "eligible" under existing law, the Board again urges legislation that would authorize the Reserve Banks to extend credit on any sound collateral at a uniform rate of interest.

"Par clearance." Most banks pay the face amount of all checks presented to them for payment; this practice is frequently described as "par clearance." In a few areas of the country, however, many small banks deduct a so-called "exchange charge" from the face amount of checks presented by mail and remit only the balance. In such circumstances the drawee bank shifts all or a portion of the expense incurred by it in connection with the collection process to the payee of the check or to an indorsee. In the Board's view there is no justification

for the increased costs, delays, and inefficiencies that result when banks do not pay all checks at their face amount.

The trend of State legislation has been toward requiring banks to pay the face amount of checks drawn on them. After July 1, 1971, the only States in which nonpar banks will be located are Alabama, Arkansas, Louisiana, North and South Carolina, and Texas. Despite this progress at the State level, the Board favors enactment by the Congress of a requirement that all federally insured banks pay at par all checks drawn on them.

Reserve requirements. For several years the Board has recommended legislation that would make Federal Reserve reserve requirements applicable to all federally insured banks, rather than to member banks only. The reasons for that change in the structure of reserve requirements have become stronger with the passage of time, and the Board now believes that those requirements should apply to demand deposits in all institutions that accept deposits subject to withdrawal by check (demand deposits).

Because demand deposits held by any institution are part of the country's money supply just as are those in member banks, applying the same demand-deposit reserve requirements to all such institutions would facilitate the effective implementation of monetary policy. The most rational and equitable system of reserve requirements for this purpose would be based on the amount of an institution's deposits, without regard to the location of the institution.

Also as a matter of rational and equitable application of the law, the Board believes that any institution that is subject to Federal Reserve reserve requirements should be granted access to Federal Reserve credit on the same terms as member banks.

Accordingly, the Board recommends that legislation be enacted (1) to authorize a more flexible system of graduated reserve requirements, (2) to apply such requirements to the demand deposits of all depository institutions that accept deposits subject to withdrawal by check, and (3) to authorize the Reserve Banks to extend credit to such institutions on the same basis as they extend credit to member banks.

Loans to bank examiners. Title 18 of the U.S. Code, "Crimes and Criminal Procedure," prohibits loans to a bank examiner by any bank that the examiner is authorized to examine. For several years the

Board has favored modification of this prohibition to permit a federally insured bank to make a home mortgage loan to a bank examiner under appropriate statutory safeguards. The Board again recommends that modification.

Purchase of obligations of foreign governments by Federal Reserve Banks. Under present law, balances that the Reserve Banks acquire in foreign central banks in connection with the System's foreign currency operations may be invested in prescribed kinds of bills of exchange and acceptances. On occasion these investment media have not been conveniently available. To facilitate economic use of such balances, for several years the Board has favored enactment of legislation that would permit Reserve Banks, subject to regulation of the Board, to invest in obligations of foreign governments or monetary authorities that will mature within 12 months and are payable in a convertible currency. The Board again recommends such legislation.

Interlocking bank relationships. Section 8 of the Clayton Act generally prohibits interlocking relationships between a member bank and any other bank located in the same or an adjacent community. During 1970 the Federal Reserve System made an extensive review of interlocking bank relationships and concluded that Section 8 should be amended in several respects to protect the public against situations arising in which the risk of abuse of an interlocking relationship outweighs the likelihood of benefit. The major extension favored by the Board would apply the prohibition to interlocks between any depository institutions in the same or an adjacent community, with an appropriate delay to permit a gradual phasing out of prohibited relationships.

In one respect the Board considers that the present law is unnecessarily restrictive. The law presently prohibits interlocking service as a "director, officer, or employee". The Board believes that the purpose of the law would be better served by limiting the applicability of the prohibition to service as a "director or an officer or an employee with management functions".

Loan guarantees to business. The performance of financial markets in the United States in 1970 demonstrated their ability to withstand severe strains. Nevertheless, at midyear there was widespread concern that the Nation might find itself in the grip of a liquidity crisis—a situation in which creditworthy borrowers could not

raise funds in the money and capital markets to meet legitimate needs for credit. Fortunately, no such breakdown occurred; the markets proved equal to the challenge. Nonetheless the Board urges that action be taken now to permit assistance in the event of a possible future emergency.

The Board favors enactment of standby authority, within prescribed limits, for Government guarantees of private loans to basically sound firms when such assistance appears to be the only practical way of avoiding a national financial crisis or of enabling such firms to continue activities essential in the national interest. The authority should be vested in a Loan Guarantee Board composed of the Secretary of the Treasury, as chairman, the Secretary of Commerce, and the Chairman of the Board of Governors. Since the authority is needed only to cope with emergency situations, it could be administered with a small staff assigned temporarily for that purpose if the need arose. In each instance, the Congress should be informed before a guarantee is issued.

Federal Reserve Bank branch buildings. Under Section 10 of the Federal Reserve Act, the aggregate of costs incurred by the Reserve Banks for the construction of branch buildings after July 30, 1947, is limited to \$60 million. This amount has been almost fully utilized, and the remaining amount is insufficient to permit construction of facilities necessary to continue to provide services that are necessary to keep the Federal Reserve responsive to the needs of the public. The Board believes that the dollar limitation on the cost for construction of Federal Reserve Bank branch buildings is unnecessary and recommends that it be repealed.

The Reserve Banks would still need the Board's approval of their branch-building programs, under the third paragraph of Section 3 of the Federal Reserve Act. The Board would continue to consider each proposed construction or improvement in the light of the needs of the branch, the type of proposed construction, the reasonableness of the costs, and whether the proposal is generally in keeping with the prevailing economic situation.

Bank investments for community development. As leading institutions in their communities, banks are expected to participate in programs for the improvement of the community. In some cases this responsibility can be fulfilled by contributing funds or services. In

others, the appropriate form of participation is an investment in stock of a corporation established for a particular purpose, such as to promote the economic rehabilitation and development of low-income areas. In the Board's judgment, limited investments in such corporations are in the public interest and should be encouraged by appropriate legislation.

Accordingly, as a method of encouragement, the Board recommends legislation expressly to authorize national banks to invest in community corporations established by them or by other local organizations. Such legislation would not itself authorize State member banks to invest in such corporations, because the corporate powers of a State-chartered bank are a matter of State law. Nonetheless, it would encourage investments by banks in those States that do not prohibit banks from making such investments. It should also encourage States that do prohibit such investments to re-examine their position.

To assure that the investments do not have an adverse effect on the soundness of our Nation's banks, the Comptroller of the Currency and the Board of Governors should be authorized to impose limitations on the nature and scope of those investments by national banks and State member banks under their respective jurisdictions. □

Litigation

Bank holding companies. During 1970 the U.S. Department of Justice acted to prevent the consummation of four bank acquisitions by registered bank holding companies. In each case the complaint alleges that the effect of the proposed acquisition 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). Three of the four cases involve banks in Colorado. The caption of each case and certain other identifying details are as follows:

United States v. United Virginia Bankshares Incorporated, et al., filed February 1970, U.S.D.C. Eastern District of Virginia, relating to the acquisition of 80 per cent or more of the voting shares of Manassas Bank, N.A., Manassas, Virginia, a proposed new bank into which would be merged The Peoples National Bank of Manassas under the charter of the former and the title of United Virginia Bank/Peoples National; Order and Statement by the Board approving the acquisition are set forth in the Federal Reserve *Bulletin*, February 1970, page 166.

United States v. First National Bancorporation, Inc., et al., filed July 1970, U.S.D.C. Colorado, relating to the acquisition of 80 per cent or more of the voting shares of The First National Bank of Greeley, Greeley, Colorado; Order and Statement by the Board approving the acquisition are set forth in the Federal Reserve *Bulletin*, June 1970, page 539.

United States v. United Banks of Colorado, Inc., et al., filed November 1970, U.S.D.C. Colorado, relating to the acquisition of at least 80 per cent of the voting shares of The Colorado Springs National Bank, Colorado Springs, Colorado; Order and Statement by the Board approving the acquisition are set forth in the Federal Reserve *Bulletin*, November 1970, page 845.

United States v. First National Bancorporation, Inc., et al., filed December 1970, U.S.D.C. Colorado, relating to the acquisition of 80 per cent or more of the voting shares of The Security State Bank of Sterling, Sterling, Colorado; Order and Statement by the Board approving the acquisition are set forth in the Federal Reserve *Bulletin*, November 1970, page 855.

One case brought by the U.S. Department of Justice under Section 7 of the Clayton Act (15 U.S.C. 18) was settled by consent decree. In *United States v. First at Orlando Corporation, et al.* (see ANNUAL REPORT for 1969, page 307) by Order entered August 27, 1970, First at Orlando Corporation is permitted to consummate its acquisition of the three banks involved, but is prohibited further acquisitions for a period of 8 years in a four-county area of central Florida.

One civil action raising questions under the Bank Holding Company Act was commenced. In *The Commercial National Bank of Little Rock, et al. v. Board of Governors*, filed October 1970, U.S.C.A. Eighth Circuit, plaintiff asked the court to review and set aside an Order by the Board granting the application of First Arkansas Bankstock Corporation to become Arkansas' first registered bank holding company through the acquisition of 80 per cent or more of the voting shares of Arkansas First National Bank of Hot Springs. The Corporation already owned 99 per cent of the voting shares of Worthen Bank and Trust Company, Little Rock. The Board's Order and Statement approving the acquisition are set forth in the Federal Reserve *Bulletin* of October 1970, page 778.

Margin requirements on securities credit transactions. In *Gordon & Co., Inc., et al. v. Board of Governors*, filed May 1970, U.S.D.C. Massachusetts, plaintiff alleges that the Board's interpretation, "Deep in the money put and call options as extensions of credit" (12 CFR § 220.122) exceeds the Board's authority to promulgate rules under the Securities Exchange Act of 1934 (15 U.S.C. 78(g)) and the Board's Regulations G and T issued pursuant thereto (12 CFR Parts 207 and 220). The complaint further alleges that the Board's action is arbitrary and vague and was taken without complying with the notice provisions of the law of administrative procedure (5 U.S.C. 553). On September 29, 1970, the court denied cross motions for summary judgment (317 F. Supp. 1045).

Truth in Lending. Three actions were commenced against the Board raising issues involving the Board's Regulation Z, "Truth in Lending".

Two of the actions contain identical allegations. In *N. C. Freed Company, Inc., et al. v. Board of Governors, et al.*, filed February 1970, U.S.D.C. Western District of New York, and in *Gardner and North*

Roofing and Siding Corp. v. Board of Governors, et al., filed February 1970, U.S.D.C. District of Columbia, plaintiffs allege that they are home improvement contractors that take no consensual liens on their customers' property. The complaints state that by virtue of Sections 226.9 and 226.2(z) of Regulation Z (12 CFR Part 226), plaintiffs are required to give a customer notice of a right to rescind his contract within 3 days merely because mechanics' and materialmen's liens might arise. Plaintiffs contend that the Truth in Lending Act authorizes such a regulatory requirement and rescission right only with respect to consensual liens and, therefore, the Board's regulation is invalid to the extent it exceeds that authority. Plaintiffs ask for declaratory judgment and an injunction against enforcement of the regulation in this respect by the responsible governmental agencies. On January 6, 1971, summary judgment, without opinion, was granted in favor of the Board in the *Gardner and North Roofing* case.

In the other action, *Continental Oil Company v. Board of Governors, et al.*, filed June 1970, U.S.D.C. Delaware, plaintiff alleges that the Board's "late charge" interpretation under Regulation Z (12 CFR § 226.401) is actually a legislative rule as to which the Board failed to give notice and opportunity for public comment in accordance with the requirements of the law of administrative procedure (5 U.S.C. 553). Plaintiff asked for declaratory judgment and an injunction against enforcement of the rule by the responsible governmental agencies. On September 15, 1970, summary judgment was granted in favor of the Board. The court concluded that the interpretation was in fact an interpretative rule and as such was lawfully promulgated without publication for comment (317 F. Supp. 194). □

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 17 of the 1,147 State member banks were examined during 1970.

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. In 1970, 33 such changes in ownership

LOANS TO EXECUTIVE OFFICERS

Period covered (condition report dates)	Total loans to executive officers		Ranges of interest rate charged (per cent)
	Number	Amount (dollars)	
Oct. 22, 1969— Dec. 31, 1969...	6,943	16,572,130	0-18
Jan. 1, 1970— Apr. 30, 1970...	9,103	22,021,729	1-18
May 1, 1970— June 30, 1970...	7,100	17,874,723	1-18
July 1, 1970— Oct. 28, 1970...	8,871	27,290,712	½-19.39
Oct. 29, 1970— Dec. 31, 1970	(1)	(1)	(1)

¹ Compilation of data for condition report of Dec. 31, 1970, has not been completed.

of the outstanding voting stock of State member banks were reported to the Reserve Banks as changes in control of these member banks. 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. 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 1969 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, 1970, member banks accounted for 42 per cent of the number of all commercial banks in the United States and for 75 per cent of all commercial banking offices, and they held approximately 80 per cent of the total deposits in such banks; these figures compare with 43 per cent, 62 per cent, and 81 per cent, respectively, at the end of 1969. State member banks accounted for 13 per cent of the number of all State commercial banks and 40 per cent of the banking offices, and they held 51 per cent of total deposits in State commercial banks.

Of the 5,767 banks that were members of the Federal Reserve System at the end of 1970, there were 4,620 national banks and 1,147 State banks. During the year there were net declines of 48 national and 55 State member banks. The decline in the number of national banks reflected 53 conversions to branches incident to mergers and absorptions and 39 conversions to nonmember banks. The decline was offset in part by the organization of 40 new national banks and the conversion of 5 nonmember banks to national banks. The decrease in State member banks reflected mainly 38 withdrawals from membership and 15 conversions to branches incident to mergers and absorptions.

At the end of 1970 member banks were operating 16,191 branches, 987 more than at the close of 1969; this included 937 *de novo* establishments.

Detailed figures on changes in the banking structure during 1970 are shown in Table 18, pages 238 and 239.

Bank mergers. Under Section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828 (c)), the prior written consent of the Board of Governors of the Federal Reserve System must be obtained before a bank may merge, consolidate, or acquire the assets and assume the liabilities of another bank if the acquiring, assuming, or resulting bank is to be a State member bank.

In deciding whether to approve an application, the Board is required by Section 18(c) to consider the impact of the proposed transaction on competition, the financial and managerial resources and prospects of the existing and proposed institution, and the convenience and needs of the community to be served. The Board is precluded from approving "any proposed merger transaction which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States." A proposed transaction "whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade," may be approved only if the Board 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 1970 the Board disapproved two and approved 29 of these applications, and it submitted 96 reports on competitive factors to the Comptroller of the Currency and 76 to the Federal Deposit Insurance Corporation. As required by Section 18(c) of the Federal Deposit Insurance Act, a description of each of the 29 applications approved by the Board, together with other pertinent information, is shown in Table 21, pages 242-85.

Statements and/or 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/or orders set forth the factors considered, the conclusions reached, and the vote of each Board member present.

Bank holding companies. During 1970, pursuant to Section 3(a) (1) of the Bank Holding Company Act of 1956, the Board approved 31 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 113 applications by bank holding companies, and denied 9 applications. To provide necessary current information, annual reports for 1969 were obtained from all registered bank holding companies pursuant to the provisions of Section 5(c) of the Act. At the end of 1970, there were 121 multibank holding companies in operation.

Statements and/or 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/or orders set forth the factors considered, the conclusions reached, and the vote of each Board member present.

On December 31, 1970, the Bank Holding Company Act of 1956 was amended by Public Law 91-607 (84 Stat. 1760). This legislation, which subjects approximately 1,200 one-bank holding companies to the requirements of the Act, is known as the "Bank Holding Company Act Amendments of 1970."

Foreign branches of member banks. At the end of 1970, 79 member banks had in active operation a total of 532 branches in 66 foreign countries and overseas areas of the United States; 56 national banks were operating 492 of these branches, and 23 State member banks were operating 40 such branches. The number and location of these foreign branches were as shown in the tabulation on page 200.

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 1970 approved 81 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 77 branches overseas.

Acceptance powers of member banks. During the year the Board approved the application of one member bank, pursuant to the provisions of Section 13 of the Federal Reserve Act, for increased

[Tabulation referred to on preceding page.]

Abu Dhabi	1	Luxembourg	1
Argentina	38	Malaysia	5
Austria	1	Mariana Islands	1
Bahamas	60	Marshall Islands	1
Bahrain	1	Mexico	5
Barbados	3	Netherlands	7
Belgium	10	Netherlands Antilles	2
Bolivia	5	Nicaragua	3
Brazil	16	Okinawa	2
Canal Zone	2	Pakistan	4
Chile	17	Panama	29
Colombia	26	Paraguay	6
Dominican Republic	12	Peru	8
Dubai	2	Philippines	4
Ecuador	12	Puerto Rico	19
El Salvador	1	Qatar	1
Fiji Islands	1	Saudi Arabia	2
France	12	Singapore	11
Germany	21	Switzerland	7
Greece	9	Taiwan	2
Guam	3	Thailand	2
Guatemala	3	Trinidad and Tobago	6
Guyana	1	Trucial State of Sharjah	1
Honduras	3	Truk Islands	1
Hong Kong	13	United Kingdom	41
India	11	Uruguay	4
Indonesia	6	Venezuela	4
Ireland	3	Vietnam	2
Israel	1	Virgin Islands (U.S.)	16
Italy	4	Virgin Islands (British)	3
Jamaica	6		
Japan	13	Other (West Indies)	7
Korea	3		
Lebanon	3		
Liberia	2	Total	532

acceptance powers; it granted the bank 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 1970 there were five corporations operating under agreements with the Board pursuant to Section 25 of the Federal Reserve Act relating to investment by member banks in the stock of corporations engaged principally in international or foreign banking. Three of these "agreement" corporations have head offices in New York, and one has its head office in Miami, Florida. The four corporations were examined during the year by examiners for the Board of Governors. The fifth agreement corporation is a national bank in the Virgin Islands and is owned by a State member bank in Philadelphia.

During 1970, 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 70 corporations in active operation under Section 25(a); 36 have home offices in New York City; five in Philadelphia; four each in San Francisco and Los Angeles; three each in Boston, Chicago, and Detroit; two each in Dallas and Seattle; and one each in Pittsburgh, Norfolk, Richmond, Winston-Salem, Atlanta, Miami, St. Louis, and Portland, Oregon. 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; one New York corporation and one Detroit corporation operate branches in Nassau; and one New York corporation operates a branch in Luxembourg. Examiners for the Board of Governors examined 60 of these corporations during 1970.

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 authority granted in (1) above, the Reserve Banks approved 197

branch applications, 52 investments in bank premises, and 25 waivers of notice of intention to withdraw from membership in the Federal Reserve System. Under authority granted in (2) above, the Reserve Banks approved 163 applications.

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 13 branches and 67 applications of other kinds were approved. In addition, the Director or Acting Director of the Division of Supervision and Regulation is authorized under Section 18(c)(4) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)(4)), to furnish to the Comptroller of the Currency and the Federal Deposit Insurance Corporation reports on competitive factors involved in a bank merger required to be approved by one of those agencies if each of the appropriate departments or divisions of the appropriate Federal Reserve Bank and the Board of Governors is of the view that the proposed merger either would have no adverse competitive effects or would have only slightly adverse competitive effects, and if no member of the Board has indicated an objection prior to the forwarding of the report to the appropriate agency. Under this authority 89 competitive factor reports were approved.

Bank Examination Schools. In 1970 the Bank Examination School conducted three sessions of the School for Examiners, four sessions of the School for Assistant Examiners, and one session of the School for Trust Examiners. The Bank Examination School was established in 1952 by the three Federal bank supervisory agencies, and since 1962 it has been conducted jointly by the Federal Reserve System and the Federal Deposit Insurance Corporation.

Since the establishment of this program, 4,450 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, Nevada, 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 1970* was submitted separately, pursuant to the Truth in Lending Act (Title I of the Consumer Protection Act (Public Law 90-321)).

Bank Protection Act of 1968. A joint report of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board was submitted to the Congress on July 7, 1970, pursuant to Section 4 of the Bank Protection Act of 1968 (Public Law 90-389). The report contained the results of consultations of the Federal supervisory agencies with insurers and State insurance regulators to determine the feasibility and desirability of premium rate differentials based on the installation, maintenance, and operation of security devices and procedures by banks. □

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 1970 and 1969.

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1970 AND 1969

In thousands of dollars

Item	1970	1969
Current earnings.....	3,877,218	3,373,360
Current expenses.....	321,373	274,973
Current net earnings.....	3,555,845	3,098,387
Net addition to or deduction from (-) current net earnings.....	11,442	-557
Net earnings before payments to U.S. Treasury....	3,567,287	3,097,830
Dividends paid.....	41,136	39,237
Payments to U.S. Treasury (interest on F.R. notes)...	3,493,571	3,019,161
Transferred to surplus.....	32,580	39,432

Current earnings of \$3,877 million in 1970 were 15 per cent higher than in 1969. The principal changes in earnings were as follows: on

U.S. Government securities, an increase of \$591 million; on foreign currencies, a decrease of \$73 million; and on discounts and advances, a decrease of \$15 million.

Current expenses were \$46 million more than in 1969, or 17 per cent. Statutory dividends to member banks amounted to \$41 million, an increase of \$2 million from 1969. This rise in dividends reflected an increase in 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 \$3,493 million for the year, compared with \$3,019 million in 1969. This amount consists of all net earnings after dividends and the amount necessary to bring surplus to the level of paid-in capital.

Expenses of the Federal Reserve Banks also included costs of \$290.19 for six regional meetings incident to the Treasury Department savings bond program.

A detailed statement of earnings and expenses of each Federal Reserve Bank during 1970 is shown in Table 7 on pages 224 and 225, and a condensed historical statement in Table 8 on pages 226 and 227.

Holdings of loans and securities. The table on page 206 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 1970 amounted to \$59,072 million—an increase of \$3,874 million over 1969. Holdings of U.S. Government securities increased by \$4,152 million, whereas there were decreases of \$276 million in discounts and advances and \$2 million in acceptances.

The average rates of interest on holdings were up from 5.93 per cent to 6.13 per cent on discounts and advances, from 7.01 per cent to 7.23 per cent on acceptances, and from 5.89 per cent to 6.48 per cent on U.S. Government securities.

Volume of operations. Table 9 on page 228 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1967–70.

Discounts and advances declined in both number and dollar amount, as the number of banks borrowing dropped from 1,714 to 1,416.

The number and amount of food stamps redeemed rose sharply,

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1968-70

Item and year	Total	Discounts and advances	Acceptances	U.S. Govt. securities ¹
In millions of dollars				
Average daily holdings: ²				
1968.....	51,935	569	73	51,293
1969.....	55,198	1,102	67	54,029
1970.....	59,072	826	65	58,181
Earnings:				
1968.....	2,687.4	29.7	4.2	2,653.5
1969.....	3,250.8	65.3	4.7	3,180.8
1970.....	3,827.1	50.6	4.7	3,771.8
In per cent				
Average rate of interest:				
1968.....	5.17	5.22	5.75	5.17
1969.....	5.89	5.93	7.01	5.89
1970.....	6.48	6.13	7.23	6.48

¹ Includes Federal agency obligations.
² Based on holdings at opening of business.

reflecting a marked expansion of the program. On the other hand, the number of transactions in U.S. Government securities decreased slightly, while the amount increased significantly. Volume was again higher in most of the other operations, particularly in transfers of funds and checks handled. Of the total checks handled, 169,684,000 items, or 2.4 per cent, were processed by the Washington/Baltimore Regional Clearing Center, which began operations at the beginning of the year.

Loan guarantees for defense production. Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force, the Defense Supply Agency of the Department of Defense, the Departments of Commerce, Interior, and Agriculture, the General Services Administration, the National Aeronautics and Space Administration, and the Atomic Energy Commission are authorized to guarantee loans for defense production made by commercial banks and other private financing institutions. The Federal Reserve Banks act

as fiscal agents of the guaranteeing agencies under the Board's Regulation V.

During 1970 the guaranteeing agencies did not authorize the issuance of any new guarantee agreements. Loan authorizations outstanding on December 31, 1970, totaled \$65 million, of which \$60 million represented outstanding loans and \$5 million additional credit available to borrowers. Of total loans outstanding, 20 per cent on the average was guaranteed. During the year approximately \$11 million was disbursed on guaranteed loans, most of which are revolving credits.

Authority for the V-loan program, unless extended, will terminate on June 30, 1972.

Table 11 on page 229 shows guarantee fees and maximum interest rates applicable to Regulation V loans.

Foreign and international accounts. Assets held for account of foreign countries at the Federal Reserve Banks increased \$9,073 million in 1970. At the end of the year they amounted to \$28,290 million: \$10,032 million of earmarked gold; \$16,226 million of U.S. Government securities (including securities payable in foreign currencies); \$148 million in dollar deposits; \$250 million of bankers' acceptances purchased through Federal Reserve Banks; and \$1,634 million of miscellaneous assets. The latter item consists mainly of dollar bonds issued by foreign countries and international organizations. Assets held for international and regional organizations, including IMF gold deposits, increased \$2,865 million to \$10,022 million.

In 1970 new accounts were opened in the names of The Bank of Korea and Muscat Currency Authority.

New gold collateral loan arrangements amounted to \$140 million in 1970. All drawings during the year under these loan arrangements were repaid by the end of the year. Loans on gold are made to foreign monetary authorities to help them meet dollar requirements of a temporary nature.

The Federal Reserve Bank of New York continued to act as depository and fiscal agent for international and regional organizations. As fiscal agent of the United States, the Bank continued to operate the Exchange Stabilization Fund pursuant to authorization and instructions of the Secretary of the Treasury. Also on behalf of the Treasury Department, it administered foreign assets control regulations pertaining

to assets in the United States of North Vietnam, Cuba, Communist China, and North Korea, and their nationals, and to transactions with those countries and their nationals.

Bank premises. With the approval of the Board, sites were obtained for new buildings for the Boston, Philadelphia, and Richmond Banks, and properties adjacent to the Charlotte and Helena Branches were acquired for future expansion.

Table 6 on page 223 shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks and of real estate acquired for banking-house purposes. □

Board of Governors

Building annex. Ending a postponement announced in April 1969, the Board of Governors in December 1970 invited competitive bids for construction of an annex to its present building. Plans for the annex, authorized by the Board in 1967, were approved by the Fine Arts Commission in 1967 and the National Capital Planning Commission in 1968. Construction is scheduled for completion during 1973.

Income and expenses. The accounts of the Board for the year 1970 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, 1970, 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, 1970 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 5, 1971

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEET
DECEMBER 31, 1970

ASSETS

OPERATING FUND:

Cash	\$ 2,442,916
Miscellaneous receivables and advances	157,596
Stockroom and cafeteria inventories at first-in, first-out cost	31,265
	2,631,777

PROPERTY FUND:

Land and improvements	792,852
Building	4,277,275
Furniture and equipment	1,359,157
Construction in progress	2,438,822
	8,868,106
	\$11,499,883

LIABILITIES AND FUND BALANCES

OPERATING FUND:

Current liabilities:	
Accounts payable and accrued expenses	\$1,052,184
Income taxes withheld	224,193
Accrued payroll	234,854
	\$ 1,511,231
Fund balance:	
Balance, January 1, 1970	(218,285)
Excess of assessments over expenses for the year ended December 31, 1970	1,338,831
	1,120,546
	2,631,777

PROPERTY FUND:

Fund balance:	
Balance, January 1, 1970	8,082,750
Additions	888,477
Property adjustments and disposals	(103,121)
	8,868,106
	\$11,499,883

The accompanying notes are an integral part of the financial statements.
[See page 212 for notes.]

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF ASSESSMENTS AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1970

ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS:	
For Board expenses and additions to property	\$21,227,800
For expenditures made on behalf of the Federal Reserve Banks . .	21,918,699
Total assessments	<u>43,146,499</u>
EXPENSES:	
Expenditures for printing, issue and redemption of Federal Reserve Notes, paid on behalf of the Federal Reserve Banks	21,918,699
For the Board:	
Salaries	\$12,329,766
Retirement and insurance contributions	2,001,388
Travel expenses	615,951
Legal, consultant and audit fees	364,394
Contractual services	522,872
Printing and binding—net	505,113
Equipment and other rentals	1,626,396
Telephone and telegraph	213,469
Postage and expressage	197,342
Stationery, office and other supplies	158,520
Heat, light and power	73,389
Operation of cafeteria—net	110,582
Repairs, maintenance and alterations	211,483
Books and subscriptions	48,243
System membership, Center for Latin American Monetary Studies	27,000
Miscellaneous—net	97,705
	<u>19,103,613</u>
For property additions	785,356
Total expenses	<u>41,807,668</u>
EXCESS OF ASSESSMENTS OVER EXPENSES	<u>\$ 1,338,831</u>

The accompanying notes are an integral part of the financial statements.

[See page 212 for notes.]

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

NOTES TO FINANCIAL STATEMENTS

ACCOUNTING METHODS

The Board has consistently followed the practice of not providing for depreciation on fixed assets. Acquisitions are charged to expense and proceeds from sales of fixed assets are recorded as income. The property accounts are increased or reduced at full cost, with corresponding increases or decreases in the property fund balance when property is acquired or sold.

Assessments and expenditures made on behalf of the Federal Reserve Banks for the printing, issuance and redemption of Federal Reserve Notes are recorded on the cash basis and produce results which are not materially different from those which would have been produced on the accrual basis of accounting.

LONG-TERM LEASES

The Board leases outside office space at an annual rental of \$398,978 under leases expiring in 1972. These leases may be terminated with six months notice.

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.

Additionally, employees of the Board have been authorized to participate in the Federal Reserve System's Thrift Plan. Under this plan, the Board adds a fixed percentage to allowable employee savings.

Total Board contributions to these plans in 1970 totaled \$1,916,162 including \$25,921 required to fund cost of living allowances to annuitants under the Federal Reserve Plan. There are no unfunded prior service costs under either plan.

CONSTRUCTION

After postponement since April, 1969, the Board in December, 1970 invited competitive bids for construction of the Martin Building and North Garage. Estimated cost is \$39,400,000, a portion of which will be recovered from the Department of Interior under an agreement whereby the Board will build the North Garage (including the above ground park). The garage will be for the use of both Federal Reserve and Department of Interior employees.

Statistical Tables

1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS
COMBINED, DECEMBER 31, 1970

(In thousands of dollars)

ASSETS		
Gold certificates on hand		1,278
Gold certificates due from U.S. Treasury:		
Interdistrict settlement fund	7,126,114	
F.R. Agents' fund	3,330,000	
Total gold certificate account		10,457,392
Special Drawing Rights certificate account		400,000
F.R. notes of other F.R. Banks		1,064,790
Other cash:		
United States notes	351	
Silver certificates	33	
National bank notes and F.R. Bank notes	98	
Coin	220,411	
Total other cash		220,893
Discounts and advances secured by U.S. Govt. obligations:		
Discounted for member banks	22,760	
Discounted for others		22,760
Other discounts and advances:		
Discounted for member banks	312,375	
Foreign loans on gold		312,375
Total discounts and advances		335,135
Acceptances:		
Bought outright		57,446
Held under repurchase agreement		
Federal agency obligations:		
Held under repurchase agreement		
U.S. Govt. securities:		
Bought outright:		
Bills	25,964,854	
Certificates		
Notes	33,210,667	
Bonds	2,966,007	
Total bought outright		62,141,528
Held under repurchase agreement		
Total U.S. Govt. securities		62,141,528
Total loans and securities		62,534,109
Cash items in process of collection:		
Transit items	13,437,314	
Exchanges for clearing house	268,743	
Other cash items	542,007	
Total cash items in process of collection		14,248,064
Bank premises:		
Land		34,589
Buildings (including vaults)	114,125	
Fixed machinery and equipment	71,700	
Construction account	26,830	
Total buildings	212,655	
Less depreciation allowances	119,041	
Total bank premises		128,203
Other assets:		
Claims account closed banks		
Denominated in foreign currencies	257,276	
Gold due from U.S. Treasury for account International Monetary Fund	165,900	
Reimbursable expenses and other items receivable	4,337	
Interest accrued	515,601	
Premium on securities	14,587	
Deferred charges	3,225	
Real estate acquired for banking-house purposes	15,436	
Suspense account	12,779	
All other	3,843	
Total other assets		992,984
Total assets		90,046,435

LIABILITIES

F.R. notes:		
Outstanding (issued to F.R. Banks).....		53,744,743
Less: Held by issuing F.R. Banks.....	2,342,784	
Forwarded for redemption.....	15,598	2,358,382
		<u>51,386,361</u>
F.R. notes, net (includes notes held by U.S. Treasury and by F.R. Banks other than issuing Bank).....		
		51,386,361
Deposits:		
Member bank reserves.....		24,040,481
U.S. Treasurer—General account.....		1,156,171
Foreign.....		148,232
Other deposits:		
Nonmember bank—Clearing accounts.....	40,937	
Officers' and certified checks.....	9,338	
Reserves of corporations doing foreign banking or financing.....	76,276	
International organizations.....	275,358	
Secretary of Treasury special account.....	264,860	
All other.....	565,828	
		<u>1,232,597</u>
Total other deposits.....		1,232,597
Total deposits.....		26,577,481
Deferred availability cash items.....		10,097,970
Other liabilities:		
Accrued dividends unpaid.....		
Unearned discount.....		549
Discount on securities.....	565,197	
Sundry items payable.....	9,492	
Suspense accounts.....	5,811	
All other.....	12	
		<u>581,061</u>
Total other liabilities.....		581,061
Total liabilities.....		88,642,873

CAPITAL ACCOUNTS

Capital paid in.....		701,781
Surplus.....		701,781
Other capital accounts ¹		
		<u>90,046,435</u>
Total liabilities and capital accounts.....		90,046,435
Contingent liability on acceptances purchased for foreign correspondents.....		250,067

¹ During the year this item includes the net of earnings, expenses, profit and loss items, and accrued dividends, which are closed out on Dec. 31; see Table 7, pp. 224 and 225.

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, 1970 AND 1969

(In millions of dollars)

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1970	1969	1970	1969	1970	1969	1970	1969	1970	1969	1970	1969
ASSETS												
Gold certificate account.....	10,457	10,036	591	570	1,942	2,325	721	526	1,095	862	1,044	927
F.R. notes of other F.R. Banks.....	1,063	771	131	76	187	159	60	35	67	68	83	68
Other cash.....	221	110	10	5	20	8	10	5	25	10	13	6
Special Drawing Rights certif. acct.....	400		23		93		23		33		36	
Discounts and advances:												
Secured by U.S. Govt. securities.....	22	130		2	16	47		1		4		11
Other.....	312	53			88	5						1
Acceptances:												
Bought outright.....	57	64			57	64						
Held under repurchase agreements.....												
Federal agency obligations held under repurchase agreements.....												
U.S. Govt. securities:												
Bought outright.....	162,142	57,154	3,040	2,899	15,844	13,921	3,261	3,072	4,848	4,431	4,626	4,273
Held under repurchase agreements.....												
Total loans and securities.....	62,533	57,401	3,040	2,901	16,005	14,037	3,261	3,073	4,848	4,435	4,626	4,285
Cash items in process of collection.....	14,249	12,883	780	786	2,810	2,494	694	730	912	870	996	1,070
Bank premises.....	128	116	2	2	8	9	3	2	12	6	11	11
Other assets:												
Denominated in foreign currencies.....	257	1,967	12	94	68	500	13	102	23	175	13	102
IMF gold deposited ²	166	219			166	219						
All other.....	572	441	42	28	145	109	30	22	43	35	45	36
Total assets.....	90,046	83,944	4,631	4,462	21,444	19,860	4,815	4,495	7,058	6,461	6,867	6,505

LIABILITIES												
F.R. notes	51,386	48,244	2,919	2,755	12,196	11,264	2,934	2,757	4,198	3,953	4,604	4,327
Deposits:												
Member bank reserves	24,039	21,979	875	834	6,162	5,826	1,163	986	1,813	1,551	1,307	1,090
U.S. Treasurer—General account	1,156	1,312	52	65	337	303	64	71	76	94	39	131
Foreign	148	134	6	6	56	37	6	7	11	12	7	7
Other:												
IMF gold deposits ²	166	219			166	219						
All other	1,067	588	15	16	571	320	17	18	24	24	29	29
Total deposits	26,576	24,232	948	921	7,292	6,705	1,250	1,082	1,924	1,681	1,382	1,257
Deferred availability cash items	10,098	9,549	669	693	1,439	1,398	529	557	764	663	767	809
Other liabilities	582	581	29	29	147	139	30	31	46	44	42	44
Total liabilities	88,642	82,606	4,565	4,398	21,074	19,506	4,743	4,427	6,932	6,341	6,795	6,437
CAPITAL ACCOUNTS												
Capital paid in	702	669	33	32	185	177	36	34	63	60	36	34
Surplus	702	669	33	32	185	177	36	34	63	60	36	34
Other capital accounts												
Total liabilities and capital accounts	90,046	83,944	4,631	4,462	21,444	19,860	4,815	4,495	7,058	6,461	6,867	6,505
Contingent liability on acceptances purchased for foreign correspondents	250	146	12	7	66	37	13	8	22	13	13	8
F.R. NOTE STATEMENT												
F.R. notes:												
Issued to F.R. Bank by F.R. Agent and outstanding	53,745	50,412	3,055	2,875	12,811	11,793	3,003	2,829	4,368	4,200	4,741	4,456
Less held by issuing Bank, and forwarded for redemption	2,359	2,168	136	120	615	529	69	72	170	247	137	129
F.R. notes, net ³	51,386	48,244	2,919	2,755	12,196	11,264	2,934	2,757	4,198	3,953	4,604	4,327
Collateral held by F.R. Agent for notes issued to Bank:												
Gold certificate account	3,330	3,222	250	180	500	500	300	300	510	510	610	545
U.S. Govt. securities	51,415	48,152	2,840	2,717	12,400	11,400	2,800	2,620	3,900	3,750	4,160	3,955
Total collateral	54,745	51,374	3,090	2,897	12,900	11,900	3,100	2,920	4,410	4,260	4,770	4,500

For notes see end of table.

2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1970 AND 1969—Continued

(In millions of dollars)

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1970	1969	1970	1969	1970	1969	1970	1969	1970	1969	1970	1969	1970	1969
ASSETS														
Gold certificate account.....	555	494	2,210	1,468	469	345	161	131	424	424	199	324	1,046	1,640
F.R. notes of other F.R. Banks.....	222	91	60	49	32	29	31	21	37	44	40	29	113	102
Other cash.....	30	15	32	14	12	10	6	3	17	7	14	8	32	19
Special Drawing Rights certif. acct.....	22	.....	70	.....	15	.....	7	.....	15	.....	14	.....	49	.....
Discounts and advances:														
Secured by U.S. Govt. securities.....		6	3	19	*	5	*	3	3	17		14		1
Other.....		33	224	.....	.....	10	.....	.....	.....	1	.....	3	.....	.....
Acceptances:														
Bought outright.....														
Held under repurchase agreements.....														
Federal agency obligations held under repurchase agreements.....														
U.S. Govt. securities:														
Bought outright.....	3,229	3,188	9,786	9,499	2,279	2,106	1,219	1,150	2,427	2,231	2,814	2,458	8,769	7,926
Held under repurchase agreements.....														
Total loans and securities.....	3,229	3,227	10,013	9,518	2,279	2,121	1,219	1,153	2,430	2,249	2,814	2,475	8,769	7,927
Cash items in process of collection.....	1,456	1,119	2,327	2,187	671	622	467	432	929	882	874	714	1,333	977
Bank premises.....	17	18	17	17	12	10	12	6	18	18	8	8	8	9
Other assets:														
Denominated in foreign currencies.....	17	126	38	291	9	69	6	45	11	85	14	112	33	266
IMF gold deposited ²														
All other.....	28	23	86	70	20	15	10	10	21	16	25	19	77	58
Total assets.....	5,576	5,113	14,853	13,614	3,519	3,221	1,919	1,801	3,902	3,725	4,002	3,689	11,460	10,998

LIABILITIES														
F.R. notes.....	2,645	2,642	9,003	8,458	1,951	1,797	875	819	1,878	1,775	1,946	1,747	6,237	5,950
Deposits:														
Member bank reserves.....	1,606	1,322	3,430	2,950	885	824	623	538	1,104	1,056	1,257	1,222	3,814	3,780
U.S. Treasurer—General account.....	79	96	103	108	74	68	49	49	96	128	57	81	130	118
Foreign.....	8	8	19	19	4	4	3	3	5	6	7	7	16	18
Other:														
IMF gold deposits ²														
All other.....	15	18	282	51	11	12	5	6	12	15	15	13	71	66
Total deposits.....	1,708	1,444	3,834	3,128	974	908	680	596	1,217	1,205	1,336	1,323	4,031	3,982
Deferred availability cash items.....	1,100	909	1,714	1,734	525	449	320	344	724	666	617	520	930	807
Other liabilities.....	29	32	92	96	21	21	12	12	23	23	25	25	86	85
Total liabilities.....	5,482	5,027	14,643	13,416	3,471	3,175	1,887	1,771	3,842	3,669	3,924	3,615	11,284	10,824
CAPITAL ACCOUNTS														
Capital paid in.....	47	43	105	99	24	23	16	15	30	28	39	37	88	87
Surplus.....	47	43	105	99	24	23	16	15	30	28	39	37	88	87
Other capital accounts.....														
Total liabilities and capital accounts.....	5,576	5,113	14,853	13,614	3,519	3,221	1,919	1,801	3,902	3,725	4,002	3,689	11,460	10,998
Contingent liability on acceptances purchased for foreign correspondents.....	16	9	37	22	8	5	5	3	11	6	14	8	33	20
F.R. NOTE STATEMENT														
F.R. notes:														
Issued to F.R. Bank by F.R. Agent and outstanding.....	2,857	2,798	9,340	8,793	2,037	1,876	911	844	1,956	1,841	2,061	1,863	6,605	6,244
Less held by issuing Bank, and forwarded for redemption.....	212	156	337	335	86	79	36	25	78	66	115	116	368	294
F.R. notes, net ³	2,645	2,642	9,003	8,458	1,951	1,797	875	819	1,878	1,775	1,946	1,747	6,237	5,950
Collateral held by F.R. Agent for notes issued to Bank:														
Gold certificate account.....			1,000	1,000	155	155		27			5	5		
U.S. Govt. securities.....	2,900	2,850	8,450	7,950	1,930	1,780	930	825	1,975	1,875	2,130	1,930	7,000	6,500
Total collateral.....	2,900	2,850	9,450	8,950	2,085	1,935	930	852	1,975	1,875	2,135	1,935	7,000	6,500

* Less than \$500,000.

¹ Includes securities loaned—fully secured by U.S. Govt. securities pledged with Federal Reserve Banks.

² Gold deposited by the IMF to mitigate the impact on the U.S. gold stock of pur-

chases by foreign countries for gold subscriptions on increased IMF quotas. The United States has a corresponding gold liability to the IMF.

³ 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, 1968-70

(In thousands of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (-) during—	
		1970	1969	1968	1970	1969
Treasury bonds:						
1964-69 June.....	2½			307,840		-307,840
1964-69 Dec.....	2½			358,199		-358,199
1965-70.....	2½		573,540	573,540	-573,540	
1966-71.....	2½	155,007	154,007	145,007	1,000	9,000
1967-72 June.....	2½	58,066	55,566	54,566	2,500	1,000
1967-72 Sept.....	2½	88,652	47,552	46,552	41,100	1,000
1967-72 Dec.....	2½	125,358	99,858	95,858	25,500	4,000
1969 Feb.....	4			1,140,500		-1,140,500
1969 Oct.....	4			310,750		-310,750
1970 Feb.....	4		107,850	102,850	-107,850	5,000
1970 Aug.....	4		169,750	150,400	-169,750	19,350
1971 Aug.....	4	188,400	184,400	181,900	4,000	2,500
1971 Nov.....	3¾	259,650	255,900	249,900	3,750	6,000
1972 Feb.....	4	196,650	165,650	158,650	31,000	7,000
1972 Aug.....	4	125,950	120,050	117,150	5,900	2,900
1973 Aug.....	4	199,150	179,150	176,250	20,000	2,900
1973 Nov.....	4½	312,400	295,350	292,450	17,050	2,900
1974 Feb.....	4½	140,900	123,650	116,150	17,250	7,500
1974 May.....	4½	254,450	239,650	238,450	14,800	1,200
1974 Nov.....	3¾	52,700	46,700	46,700	6,000	
1975-85.....	4¼	98,740	90,340	82,340	8,400	8,000
1978-83.....	3¼	18,750	6,250	6,250	12,500	
1980 Feb.....	4	73,200	66,200	53,550	7,000	12,650
1980 Nov.....	3½	40,950	33,850	32,850	7,100	1,000
1985 May.....	3¼	31,300	27,800	27,800	3,500	
1987-92.....	4¼	337,900	285,200	246,900	52,700	38,300
1988-93.....	4	23,500	23,500	23,500		
1989-94.....	4½	45,350	42,350	37,350	3,000	5,000
1990 Feb.....	3½	80,450	74,450	72,450	6,000	2,000
1995 Feb.....	3	2,100	2,100	2,100		
1998 Nov.....	3½	30,750	25,750	25,750	5,000	
Total.....		2,940,323	3,496,413	5,474,502	-556,090	-1,978,089
Treasury notes:						
Feb. 15, 1969—A.....	5¾			7,441,343		-7,441,343
May 15, 1969—B.....	5¾			148,050		-148,050
Aug. 15, 1969—C.....	6			40,500		-40,500
May 15, 1970—B.....	5¾		5,297,750	5,293,450	-5,297,750	4,300
May 15, 1970—C.....	6¾		6,123,543		-6,123,543	6,123,543
Aug. 15, 1970—D.....	6¾		305,590		-305,590	305,590
Nov. 15, 1970—A.....	5		1,179,250	1,128,150	-1,179,250	51,100
Feb. 15, 1971—C.....	5¾	73,590	70,590	64,590	3,000	6,000
Feb. 15, 1971—D.....	7¾	63,400	46,400		17,000	46,400
May 15, 1971—A.....	5¼	1,577,650	1,571,850	1,557,350	5,800	14,500
May 15, 1971—E.....	8	455,799	435,599		20,200	435,599
Aug. 15, 1971—F.....	8¼	285,890			285,890	
Nov. 15, 1971—B.....	5¾	80,650	79,650	62,650	1,000	17,000
Nov. 15, 1971—G.....	7¾	7,232,950			7,232,950	
Feb. 15, 1972—A.....	4¾	137,300	119,300	94,850	18,000	24,450
Feb. 15, 1972—C.....	7½	224,990			224,990	
Apr. 1, 1972—EA.....	1½	1,800	1,800	1,800		
May 15, 1972—B.....	4¾	2,370,610	2,357,660	2,331,810	12,950	25,850
May 15, 1972—D.....	6¾	111,500			111,500	
May 15, 1973—A.....	7¾	2,607,793	130,500		2,477,293	130,500
Aug. 15, 1973—B.....	8½	201,500			201,500	
Feb. 15, 1974—C.....	7¾	180,750			180,750	
May 15, 1974—D.....	7¼	888,250			888,250	
Aug. 15, 1974—B.....	5¾	5,005,282	4,938,382	4,864,882	66,900	73,500
Nov. 15, 1974—A.....	5¾	1,103,150	1,092,050	1,053,250	11,100	38,800
Feb. 15, 1975—A.....	5¾	994,550	954,650	934,150	39,900	20,500
May 15, 1975—B.....	6	3,707,297	3,692,297	3,689,297	15,000	3,000
Feb. 15, 1976—A.....	6¼	2,506,000	2,506,000			2,506,000
May 15, 1976—B.....	6¾	307,600	292,100		15,500	292,100
Aug. 15, 1976—C.....	7½	608,700	196,900		411,800	196,900
Feb. 15, 1977—A.....	8	2,292,350			2,292,350	
Aug. 15, 1977—B.....	7¾	217,000			217,000	
Total.....		33,236,351	31,391,861	28,706,122	1,844,490	2,685,739

3. —CONTINUED

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (-) during—	
		1970	1969	1968	1970	1969
Treasury bills:						
Tax anticipation.....		751,250	606,500	453,400	144,750	153,100
Other due—						
Within 3 mos.....		14,128,084	12,522,479	10,890,298	1,605,605	1,632,181
3-6 mos.....		7,740,070	6,679,301	5,379,095	1,060,769	1,300,206
After 6 mos.....		3,345,450	2,456,956	2,033,412	888,494	423,544
Total.....		25,964,854	22,265,236	18,756,205	3,699,618	3,509,031
Repurchase agreements.....						
Total holdings.....		62,141,528	57,153,510	52,936,829	4,988,018	4,216,681
Maturing—						
Within 90 days.....		14,670,481	13,315,369	19,584,141	1,355,112	-6,268,772
91 days to 1 year.....		21,667,359	22,707,140	8,919,246	-1,039,781	13,787,894
Over 1 year to 5 years.....		19,089,048	12,811,264	12,879,723	6,277,784	-68,459
Over 5 years to 10 yrs.....		6,045,800	7,641,947	10,942,879	-1,596,147	-3,300,932
Over 10 years.....		668,840	677,790	610,840	-8,950	66,950

4. FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1954-70

(In millions of dollars)

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1954		1959	none	1968		1969	
Jan. 14	22	1960		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		1970	none
16	190			Apr. 8	151		
1955	none	1967		9	519		
1956		Mar. 10	149	10	490		
1957		11	149	11	976		
		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. Bank 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 1970

(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.....	3,133	4,154	615	3,133	4,154	615			
February.....	801	395	100	801	395	100			-564
March.....	2,657	2,577	119	2,657	2,577	119			154
April.....	1,124	747		1,124	747				
May.....	2,225	835	244	2,017	835	244	17		-9,414
June.....	2,659	1,612	641	2,449	1,612	641	23		
July.....	1,626	744		1,626	744				
August.....	1,127	106		1,127	106				-21
September.....	2,657	2,367	308	2,474	2,367	308	17		
October.....	245	183	134	245	183	134			
November.....	2,871	1,391		2,715	1,391		37		6,362
December.....	3,414	2,280		2,883	2,280		5		
Total...	24,539	17,391	2,160	23,251	17,391	2,160	99		-3,483

	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.....			1,319			-688			-66
March.....			-154						
April.....									
May.....	167		11,106	16		-1,692	9		
June.....	146			37			4		
July.....									
August.....			-129			150			
September.....	90			61			16		
October.....									
November.....	80		-6,712	23		386	16		-36
December.....	365			113			48		
Total...	848		5,430	249		-1,845	93		-102

	Repurchase agreements (U.S. Govt. securities)		Net change in U.S. Govt. securities	Federal agency obligations (net repurchase agreements)	Bankers' acceptances		Net change ¹
	Gross purchases	Gross sales			Net outright	Net repurchases	
January.....	1,201	1,009	-1,444	30	-7	26	-1,395
February.....	4,407	4,599	114	-30	-1	-26	57
March.....	1,176	1,176	-38		-4		-43
April.....	3,685	3,338	723	34	6	49	811
May.....	953	1,299	799	-34	-15	-49	702
June.....	905	905	407		-10		397
July.....	2,008	2,008	882		5		887
August.....	3,181	2,852	1,351	31	-4	30	1,407
September.....	3,906	3,861	28	50	3	21	101
October.....	3,465	3,353	40	8		-14	34
November.....	3,863	4,125	1,218	-27	1	13	1,204
December.....	5,109	5,334	908	-61	21	-50	819
Total...	33,859	33,859	4,988		-6		4,982

¹ Net change in U.S. Govt. securities, Federal agency obligations, and bankers' acceptances.

NOTE.—Sales, redemptions, and negative figures reduce System holdings; all other figures increase such holdings.

6. BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES,
DECEMBER 31, 1970

(In dollars)

F.R. Bank or branch	Cost				Net book value
	Land	Buildings (including vaults) ¹	Fixed machi- nery and equipment	Total	
Boston	1,628,132	5,929,169	2,943,179	10,500,480	2,328,023
New York	5,215,656	12,831,433	7,605,129	25,652,218	5,107,999
Annex	592,679	1,491,116	716,472	2,800,267	490,763
Buffalo	673,076	2,562,224	1,565,400	4,800,700	2,588,778
Philadelphia	1,884,357	5,169,131	2,154,452	9,207,940	2,533,186
Cleveland	1,295,490	6,625,960	3,571,958	11,493,408	1,006,582
Cincinnati	1,332,541	7,994,797	1,587,495	10,914,833	8,115,416
Pittsburgh	1,667,994	3,041,685	2,525,243	7,234,922	3,111,353
Richmond	513,524	4,207,163	2,497,936	7,218,623	1,529,409
Annex 1	146,875	256,000	2,313	405,188	251,408
Annex 2	102,760	6,609,270	.....	6,712,030	6,712,030
Baltimore	801,779	2,009,381	1,097,455	3,908,615	1,826,974
Charlotte	347,071	1,069,026	625,121	2,041,218	1,098,118
Atlanta	1,304,755	5,804,778	3,558,580	10,668,113	7,012,468
Birmingham	410,775	2,000,619	1,019,618	3,431,012	1,801,539
Jacksonville	164,004	1,706,794	778,871	2,649,669	1,320,296
Annex	107,925	76,236	15,842	200,003	179,536
Nashville	592,342	1,474,678	1,098,924	3,165,944	1,713,098
New Orleans	1,557,663	2,754,271	1,448,181	5,760,115	4,843,890
Chicago	6,275,490	17,763,934	10,211,489	34,250,913	14,223,047
Detroit	1,147,734	3,036,377	1,580,801	5,764,912	2,664,397
St. Louis	1,675,780	3,171,719	2,589,232	7,436,731	1,413,592
Little Rock	800,104	1,963,152	965,202	3,728,458	3,275,674
Louisville	700,075	2,859,819	1,056,659	4,616,553	2,847,291
Memphis	731,122	4,122,832	218,883	5,072,837	4,588,352
Minneapolis	958,535	13,225,500	2,688,921	16,872,956	11,453,667
Helena	15,709	126,401	62,977	205,087	49,771
Kansas City	1,340,561	7,231,967	2,986,528	11,559,056	5,951,952
Denver	2,900,049	3,300,633	2,233,403	8,434,085	7,896,679
Oklahoma City	647,685	1,511,600	853,051	3,012,336	1,986,268
Omaha	996,489	1,551,742	731,925	3,280,156	2,070,024
Dallas	713,302	4,826,831	3,570,804	9,110,937	3,842,121
El Paso	262,477	787,728	393,301	1,443,506	845,396
Houston	695,615	1,426,017	714,187	2,835,819	1,762,446
San Antonio	448,596	1,406,420	570,847	2,425,863	1,462,907
San Francisco	684,339	3,783,530	1,801,463	6,269,332	799,239
Annex	247,201	124,000	30,000	401,201	341,441
Los Angeles	777,614	4,103,844	1,608,576	6,490,034	2,610,075
Portland	207,380	1,678,512	649,432	2,535,324	1,225,678
Salt Lake City	480,222	1,878,238	707,575	3,066,035	1,907,683
Seattle	274,772	1,890,966	1,049,264	5,215,002	1,414,460
Total	43,320,249	155,385,493	72,086,689	270,792,431	128,203,026

OTHER REAL ESTATE ACQUIRED FOR BANKING-HOUSE PURPOSES

Boston	10,998,360	.....	.....	10,998,360	10,998,360
Philadelphia	1,369,997	.....	.....	1,369,997	1,369,997
Cleveland	395,875	381,000	.....	776,875	522,875
Richmond	2,088,202	.....	.....	2,088,202	2,088,202
Charlotte	193,000	.....	.....	193,000	193,000
Helena	18,322	.....	.....	18,322	18,322
Los Angeles	245,082	.....	.....	245,082	245,082
Total	15,308,838	381,000	.....	15,689,838	15,435,838

¹ Includes expenditures for construction at some offices pending allocation to appropriate accounts.

7. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1970

(In dollars)

Item	Total	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
CURRENT EARNINGS													
Discounts and advances	50,737,919	3,497,819	12,883,134	1,548,387	2,508,266	2,086,333	2,173,989	14,933,619	831,685	1,387,356	1,986,813	2,263,363	4,637,155
Acceptances	4,730,465		4,730,465										
U.S. Govt. securities	3,771,788,164	189,039,121	956,260,942	194,105,935	293,561,717	281,255,061	200,162,777	614,380,420	136,206,294	74,457,250	144,432,674	163,444,145	524,481,828
Foreign currencies	48,786,279	2,338,626	12,821,481	2,488,871	4,336,184	2,488,231	3,162,786	7,276,478	1,660,614	1,075,946	2,050,380	2,732,476	6,354,206
All other	1,175,617	43,001	445,823	27,121	80,731	37,585	74,812	171,248	39,754	51,762	65,269	57,764	80,747
Total	3,877,218,444	194,918,567	987,141,845	198,170,314	300,486,898	285,867,210	205,574,364	636,761,765	138,738,347	76,972,314	148,535,136	168,497,748	535,553,936
CURRENT EXPENSES													
Salaries:													
Officers	13,009,400	803,572	2,596,519	904,056	810,370	1,103,389	977,281	1,213,267	1,082,857	744,432	948,896	762,423	1,062,338
Employees	154,724,505	9,893,700	39,448,320	7,066,332	9,877,373	11,704,549	10,929,387	21,327,018	8,564,546	5,882,671	9,143,097	6,971,946	13,915,566
Retirement and other benefits	33,823,807	2,227,758	8,068,623	1,611,024	2,201,306	2,594,180	2,407,748	4,418,317	1,979,365	1,323,741	2,105,024	1,595,420	3,291,301
Fees—Directors and others	2,937,394	103,181	1,186,798	96,413	118,488	96,004	349,020	225,201	102,000	208,014	101,528	200,010	150,737
Traveling expenses	3,918,261	238,580	581,185	132,215	257,656	326,036	405,430	495,806	252,592	306,166	281,974	252,303	388,318
Postage and expressage	34,511,561	2,220,733	3,957,278	1,340,498	3,049,454	4,251,169	3,293,859	4,267,837	2,281,350	1,427,962	2,361,627	2,092,135	3,967,659
Telephone and telegraph	5,245,778	248,987	1,246,080	215,582	364,184	401,623	526,278	676,841	277,216	191,915	311,223	308,345	477,464
Printing and supplies	13,353,491	884,976	2,519,922	681,914	876,219	1,245,691	1,113,604	1,869,911	925,408	496,480	988,793	598,160	1,152,413
Insurance	526,355	38,243	97,763	20,175	46,634	37,551	48,619	46,551	38,102	20,075	42,338	27,284	63,020
Taxes on real estate	7,119,718	844,436	1,265,606	179,904	464,149	288,926	445,481	1,291,428	281,885	430,818	547,439	355,203	724,443
Depreciation (buildings)	5,231,410	131,093	909,285	76,596	229,348	160,473	780,811	549,982	508,957	75,145	849,765	522,252	437,703
Light, heat, power, and water	2,881,022	167,135	461,405	112,295	298,610	270,106	248,055	379,609	203,201	115,353	302,822	151,764	170,667
Repairs and alterations	1,569,529	73,085	276,491	53,497	103,780	142,543	87,283	240,266	102,021	64,894	143,438	151,735	130,496
Rent	690,482	206,907	349,159	12,519	38,069	6,861	4,850	59,633	4,119	1,721	3,834	1,199	1,611
Furniture and equipment:													
Purchases	5,840,669	278,408	1,688,877	192,881	555,467	464,264	651,384	602,673	371,589	204,007	233,676	225,995	371,448
Rentals	14,802,581	879,386	1,555,029	820,513	649,923	1,631,500	1,111,279	2,523,251	1,075,055	735,109	1,769,173	894,162	1,158,201
All other	5,576,872	306,174	1,290,386	360,239	483,106	246,891	338,865	1,029,624	244,422	250,565	392,570	397,075	236,755
Inter-Bank expenses	105,058		-1,387,427	107,623	189,167	-100,568	145,849	316,049	77,692	50,328	95,231	123,108	276,591
Subtotal	305,761,536	19,651,412	66,111,299	13,984,276	20,613,303	24,871,188	23,865,083	41,533,264	18,372,577	12,529,396	20,622,488	15,630,519	27,976,731
F.R. currency	23,573,710	1,390,809	4,159,961	1,195,804	1,462,454	2,815,300	2,050,161	3,955,139	869,245	415,133	1,163,297	1,165,582	2,930,825
Assessment for expenses of Board of Governors	21,227,800	1,009,500	5,614,400	1,078,100	1,896,900	1,084,700	1,377,500	3,137,100	724,700	476,800	897,900	1,186,300	2,743,900
Total	350,563,046	22,051,721	75,885,660	16,258,180	23,972,657	28,771,188	27,292,744	48,625,503	19,966,522	13,421,329	22,683,685	17,982,401	33,651,456

Less reimbursement for certain fiscal agency and other expenses.....	29,189,660	1,491,906	6,037,914	1,353,140	2,741,252	1,581,759	2,170,279	5,319,490	1,718,143	863,575	1,941,235	1,024,944	2,946,023
Net expenses.....	321,373,386	20,559,815	69,847,746	14,905,040	21,231,405	27,189,429	25,122,465	43,306,013	18,248,379	12,557,754	20,742,450	16,957,457	30,705,433

PROFIT AND LOSS

Current net earnings.....	3,555,845,058	174,358,752	917,294,099	183,265,274	279,255,493	258,677,781	180,451,899	593,455,752	120,489,968	64,414,560	127,792,686	151,540,291	504,848,503
Additions to current net earnings:													
Profits on sales of U.S. Govt. securities.....	8,260,326	414,588	2,072,992	424,448	649,168	616,332	434,020	1,347,366	299,178	165,029	318,647	363,538	1,155,020
Profits on foreign exchange transactions.....	3,474,814	166,791	917,351	177,215	309,258	177,216	225,863	514,272	118,144	76,446	145,942	194,590	451,726
All other.....	274,680	34,089	20,283	11,467	18,920	73,937	592	17,728	5,772	8,297	47,230	18,843	17,522
Total additions.....	12,009,821	615,468	3,010,626	613,130	977,346	867,485	660,475	1,879,367	423,094	249,772	511,819	576,971	1,624,268
Deductions from current net earnings.....	567,990	53,619	93,655	14,591	121,109	58,110	25,644	27,211	7,065	3,971	12,231	27,495	123,289
Net addition to current net earnings.....	11,441,829	561,849	2,916,971	598,539	856,237	809,375	634,831	1,852,156	416,029	245,801	499,588	549,475	1,500,978
Net earnings before payments to U.S. Treasury.....	3,567,286,887	174,920,601	920,211,071	183,863,812	280,111,730	259,487,156	181,086,729	595,307,909	120,905,996	64,660,361	128,292,274	152,089,766	506,349,481
Dividends paid.....	41,136,551	1,938,260	10,953,058	2,082,392	3,666,823	2,100,487	2,706,936	6,065,780	1,406,095	929,243	1,741,861	2,304,631	5,240,985
Payments to U.S. Treasury (interest on F.R. notes).....	3,493,570,636	172,129,591	901,017,113	179,826,771	273,227,057	255,889,469	174,728,793	582,782,779	118,297,901	62,925,367	125,073,163	147,989,985	499,682,646
Transferred to surplus.....	32,579,700	852,750	8,240,900	1,954,650	3,217,850	1,497,200	3,651,000	6,459,350	1,202,000	805,750	1,477,250	1,795,150	1,425,850
Surplus, January 1.....	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	86,957,200
Surplus, December 31.....	701,780,800	32,777,350	184,789,650	35,971,650	63,109,650	35,700,550	46,865,800	105,455,600	24,042,500	15,798,000	29,742,150	39,144,850	88,383,050

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

8. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, 1914-70

(In dollars)

Period or Bank	Current earnings	Current expenses	Net earnings before payments to U.S. Treasury ¹	Dividends paid	Payments to U.S. Treasury			Transferred to surplus (Sec. 13b)	Transferred to surplus (Sec. 7)
					Franchise tax	Under Sec. 13b	Interest on F.R. notes		
All F.R. Banks, by years:									
1914-15.....	2,173,252	2,320,586	-141,459	217,463					
1916.....	5,217,998	2,273,999	2,750,998	1,742,774					
1917.....	16,128,339	5,159,727	9,582,067	6,804,186	1,134,234			1,134,234	
1918.....	67,584,417	10,959,533	52,716,310	5,540,684				48,334,341	
1919.....	102,380,583	19,339,633	78,367,504	5,011,832	2,703,894			70,651,778	
1920.....	181,296,711	28,258,030	149,294,774	5,654,018	60,724,742			82,916,014	
1921.....	122,865,866	34,463,845	82,087,225	6,119,673	59,974,466			15,993,086	
1922.....	50,498,699	29,559,049	16,497,736	6,307,035	10,850,605			-659,904	
1923.....	50,708,566	29,764,173	12,711,286	6,552,717	3,613,056			2,545,513	
1924.....	38,340,449	28,431,126	3,718,180	6,682,496	113,646			-3,077,962	
1925.....	41,800,706	27,528,163	9,449,066	6,915,958	59,300			2,473,808	
1926.....	47,599,595	27,350,182	16,611,745	7,329,169	818,150			8,464,426	
1927.....	43,024,484	27,518,443	13,048,249	7,754,539	249,591			5,044,119	
1928.....	64,052,860	26,904,810	32,122,021	8,458,463	2,584,659			21,078,899	
1929.....	70,955,496	29,691,113	36,402,741	9,583,911	4,283,231			22,535,597	
1930.....	36,424,044	28,342,726	7,988,182	10,268,598	17,308			-2,297,724	
1931.....	29,701,279	27,040,664	2,972,066	10,029,760				-7,057,694	
1932.....	50,018,817	26,291,381	22,314,244	9,282,244	2,011,418			11,020,582	
1933.....	49,487,318	29,222,837	7,957,407	8,874,262				-916,855	
1934.....	48,902,813	29,241,396	15,231,409	8,781,661				-60,323	6,510,071
1935.....	42,751,959	31,577,443	9,437,758	8,504,974		297,667		27,695	607,422
1936.....	37,900,639	29,874,023	8,512,433	7,829,581		227,448		102,880	352,524
1937.....	41,233,135	28,800,614	10,801,247	7,940,966		176,625		67,304	2,616,352
1938.....	36,261,428	28,911,600	9,581,954	8,019,137		119,524		-419,140	1,862,433
1939.....	38,500,665	28,646,855	12,243,365	8,110,462		24,579		-425,653	4,533,977
1940.....	43,537,805	29,165,477	25,860,025	8,214,971		82,152		-54,456	17,617,358
1941.....	41,380,095	32,963,150	9,137,581	8,429,936		141,465		-4,333	81,467,013
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		18,522,518
1949.....	316,536,930	77,477,676	226,936,980	12,329,373			166,690,356		21,461,770
							193,145,837		

1950	275,838,994	80,571,771	231,561,340	13,082,992			196,628,858		21,849,490
1951	394,656,072	95,469,086	297,059,097	13,864,750			254,873,588		28,320,759
1952	456,060,260	104,694,091	352,950,157	14,681,788			291,934,634		46,333,735
1953	513,037,237	113,515,020	398,463,224	15,558,377			342,567,985		40,336,862
1954	438,486,040	109,732,931	328,619,468	16,442,236			276,289,457		35,887,775
1955	412,487,931	110,060,023	302,162,452	17,711,937			251,740,721		32,709,794
1956	595,649,092	121,182,496	474,443,160	18,904,897			401,555,581		53,982,682
1957	763,347,530	131,814,003	624,392,613	20,080,527			542,708,405		61,603,682
1958	742,068,150	137,721,655	604,470,700	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
1970	3,877,218,444	321,373,386	3,567,286,887	41,136,551			3,493,570,636		32,579,700
Total 1914-70	29,438,715,327	4,628,414,578	24,893,584,699	808,237,207	149,138,300	2,188,893	23,103,570,956	-3,657	830,452,999
Aggregate for each F.R. Bank, 1914-70:									
Boston	1,595,816,568	311,715,742	1,290,523,596	45,358,243	7,111,395	280,843	1,194,765,528	135,411	42,872,175
New York	7,456,320,012	995,163,248	6,487,028,034	242,656,784	68,006,262	369,116	5,954,383,061	-433,413	222,046,221
Philadelphia	1,643,129,411	268,580,765	1,383,469,708	55,513,293	5,558,901	722,406	1,370,979,575	290,661	50,301,872
Cleveland	2,425,004,978	391,716,588	2,038,778,097	76,683,613	4,842,447	82,930	1,880,835,572	-9,906	76,343,443
Richmond	1,986,323,646	330,713,470	1,660,966,321	37,231,080	6,200,189	172,493	1,575,853,714	-71,517	41,580,358
Atlanta	1,579,002,641	304,804,161	1,277,212,349	39,253,406	8,950,561	79,264	1,176,791,286	5,491	52,132,340
Chicago	4,821,820,270	652,946,363	4,177,116,541	106,974,556	25,313,526	151,045	3,923,881,379	11,682	120,784,354
St. Louis	1,149,331,273	255,569,866	895,404,230	27,784,274	2,755,629	7,464	835,721,251	-26,515	29,162,128
Minneapolis	656,993,287	163,720,502	496,291,227	18,834,783	5,202,900	55,615	452,457,846	64,874	19,675,213
Kansas City	1,220,161,255	259,387,469	963,571,776	31,577,162	6,939,100	64,213	891,117,876	-8,674	33,882,100
Dallas	1,214,798,001	225,836,891	992,511,318	38,685,602	560,049	102,083	909,685,916	55,337	43,422,328
San Francisco	3,690,013,985	468,259,513	3,230,711,502	87,681,411	7,697,341	101,421	3,036,997,952	-17,089	98,250,467
Total	29,438,715,327	4,628,414,578	24,893,584,699	808,237,207	149,138,300	2,188,893	23,103,570,956	-3,657	830,452,999

¹ Current earnings less current expenses, plus or minus adjustment for profit and loss items.

² The \$830,452,999 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 \$701,780,800 on Dec. 31, 1970.

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

9. VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL RESERVE BANKS, 1967-70

(Number in thousands; amounts in thousands of dollars)

Operation	1970	1969	1968	1967
NUMBER OF PIECES HANDLED ¹				
Discounts and advances.....	13	23	11	6
Currency received and counted....	6,030,685	r 5,720,499	5,561,500	5,338,781
Coin received and counted.....	13,387,665	r 12,873,277	10,957,259	10,958,606
Checks handled:				
U.S. Govt. checks.....	622,144	575,118	554,813	540,065
Postal money orders.....	183,574	187,123	195,871	205,343
All other ²	7,158,276	r 6,503,449	5,904,929	5,419,583
Collection items handled:				
U.S. Govt. coupons paid.....	14,184	r 13,118	13,255	14,355
All other.....	27,355	r 27,895	26,299	25,203
Issues, redemptions, and exchanges of U.S. Govt. securities.....	276,098	r 283,175	267,826	246,289
Transfers of funds.....	7,363	r 6,662	5,894	5,444
Food stamps redeemed.....	1,258,474	r 519,595	384,763	273,983
AMOUNTS HANDLED				
Discounts and advances.....	129,578,588	154,305,388	84,525,110	30,968,332
Currency received and counted....	45,718,990	r 43,273,577	40,585,320	38,410,969
Coin received and counted.....	1,533,972	r 1,432,623	1,173,761	1,184,616
Checks handled:				
U.S. Govt. checks.....	208,858,062	208,155,031	190,653,523	175,068,179
Postal money orders.....	4,736,564	4,603,938	4,640,992	4,860,925
All other ²	3,331,733,021	r 2,774,422,163	2,350,761,951	2,043,772,112
Collection items handled:				
U.S. Govt. coupons paid.....	5,702,894	6,849,373	6,765,295	6,693,383
All other.....	21,022,409	19,782,240	19,865,950	15,299,519
Issues, redemptions, and exchanges of U.S. Govt. securities.....	1,432,972,919	r 1,151,579,538	1,055,426,914	820,283,379
Transfers of funds.....	12,332,001,386	9,800,324,538	7,727,430,821	6,565,594,328
Food stamps redeemed.....	1,798,416	694,394	513,618	368,569

^r Revised.

¹ Packaged items handled as a single item are counted as one piece.

² Exclusive of checks drawn on the F.R. Banks.

10. NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS, DECEMBER 31, 1970

Federal Reserve Bank (including branches)	President	Other officers		Employees ¹		Total	
	Annual salary	Num-ber	Annual salaries	Num-ber	Annual salaries	Num-ber	Annual salaries
Boston.....	\$ 50,000	33	\$ 744,000	1,399	\$ 10,293,980	1,433	\$ 11,087,980
New York.....	85,000	93	2,676,500	4,694	40,561,845	4,788	43,323,345
Philadelphia.....	45,000	39	859,900	1,011	7,278,726	1,051	8,183,626
Cleveland.....	(2)	33	750,400	1,328	9,841,662	1,361	10,592,062
Richmond.....	45,000	49	1,061,900	1,823	11,988,005	1,873	13,094,905
Atlanta.....	45,000	47	949,000	1,720	11,172,071	1,768	12,166,071
Chicago.....	60,000	51	1,140,000	3,002	21,023,433	3,054	22,223,433
St. Louis.....	50,000	47	1,046,500	1,348	8,942,962	1,396	10,039,462
Minneapolis.....	50,000	30	683,000	780	5,897,600	811	6,630,600
Kansas City.....	50,000	42	857,800	1,363	9,003,382	1,406	9,911,182
Dallas.....	48,000	34	714,400	1,088	7,343,983	1,123	8,106,383
San Francisco.....	60,000	49	1,016,100	1,965	13,853,560	2,015	14,929,660
Total.....	\$588,000	547	\$12,499,500	21,521	\$157,201,209	22,079	\$170,288,709

¹ Includes 1,173 part-time employees.

² Presidency vacant on Dec. 31, 1970.

11. FEES AND RATES UNDER REGULATION V ON LOANS
 GUARANTEED PURSUANT TO DEFENSE PRODUCTION ACT OF 1950,
 DECEMBER 31, 1970

Fees Payable to Guaranteeing Agency by Financing Institution on Guaranteed Portion of Loan

Percentage of loan guaranteed	Guarantee fee (percentage of interest payable by borrower)	Percentage of any commitment fee charged borrower
70 or less.....	10	10
75.....	15	15
80.....	20	20
85.....	25	25
90.....	30	30
95.....	35	35
Over 95.....	40-50	40-50

Maximum Rates Financing Institution May Charge Borrower

Interest rate.....	7½ per cent per annum ¹
Commitment rate.....	½ per cent per annum

¹ Except that the agency guaranteeing a particular loan may from time to time prescribe a higher rate if it determines the loan to be necessary in financing any contract or other operation deemed by such agency to be essential to the national defense.

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. MARGIN REQUIREMENTS

(Per cent of market value)

Period		For credit extended under Regulations T (brokers and dealers), U (banks), and G (others than brokers, dealers, or banks)						
Beginning date	Ending date	On margin stocks			On convertible bonds			On short sales (T)
		T	U	G	T	U	G	
1937—Nov. 1	1945—Feb. 4	40						50
1945—Feb. 5	July 4	50						50
July 5	1946—Jan. 20	75						75
1946—Jan. 21	1947—Jan. 31	100						100
1947—Feb. 1	1949—Mar. 29	75						75
1949—Mar. 30	1951—Jan. 16	50						50
1951—Jan. 17	1953—Feb. 19	75						75
1953—Feb. 20	1955—Jan. 3	50						50
1955—Jan. 4	Apr. 22	60						60
Apr. 23	1958—Jan. 15	70						70
1958—Jan. 16	Aug. 4	50						50
Aug. 5	Oct. 15	70						70
Oct. 16	1960—July 27	90						90
1960—July 28	1962—July 9	70						70
1962—July 10	1963—Nov. 5	50						50
1963—Nov. 6	1968—Mar. 10	70						70
1968—Mar. 11	June 7	70						70
June 8	1970—May 5	80						80
Effective May 6, 1970.....		65						65

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.

13. MEMBER BANK RESERVE REQUIREMENTS

(Per cent of deposits)

Through July 13, 1966

Effective date ¹	Net demand deposits ²			Time deposits (all classes of banks)
	Central reserve city banks	Reserve city banks	Country banks	
1917—June 21.....	13	10	7	3
1936—Aug. 16.....	19½	15	10½	4½
1937—Mar. 1.....	22¾	17½	12¾	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			
Nov. 24.....			12	
Dec. 1.....	16½			
1962—July 28.....	(³)			
Oct. 25, Nov. 1.....				4

Beginning July 14, 1966

Effective date ¹	Net demand deposits ^{2,4}				Time deposits ^{4,5} (all classes of banks)		
	Reserve city banks		Country banks		Sav- ings depos- its	Other time deposits	
	Under \$5 mil- lion	Over \$5 mil- lion	Under \$5 mil- lion	Over \$5 mil- lion		Under \$5 mil- lion	Over \$5 mil- lion
1966—July 14, 21.....	6 16½		6 12		6 4	6 4	5 6
Sept. 8, 15.....							
1967—Mar. 2.....					3½	3½	
Mar. 16.....					3	3	
1968—Jan. 11, 18.....	16½	17	12	12½			
1969—Apr. 17.....	17	17½	12½	13			
1970—Oct. 1.....							5
In effect Dec. 31, 1970.....	17	17½	12½	13	3	3	5
Legal requirements—Dec. 31, 1970:							
Minimum.....	10		7		3	3	3
Maximum.....	22		14		10	10	10

For notes see opposite page.

14. FEDERAL RESERVE BANK DISCOUNT RATES, DECEMBER 31, 1970

(Per cent per annum)

Federal Reserve Bank	Discounts for and advances to member banks		Advances to all others under last par. Sec. 13 ³
	Advances and discounts under Secs. 13 and 13a ¹	Advances under Sec. 10(b) ²	
Boston.....	5½	6	7
New York.....	5½	6	7½
Philadelphia.....	5½	6	7
Cleveland.....	5½	6	7
Richmond.....	5½	6	7¼
Atlanta.....	5½	6	7½
Chicago.....	5½	6	7½
St. Louis.....	5½	6	7
Minneapolis.....	5½	6	7
Kansas City.....	5½	6	7
Dallas.....	5½	6	7
San Francisco.....	5½	6	7

¹ Discounts of eligible paper and advances secured by such paper or by U.S. Govt. obligations or any other obligations eligible for Federal Reserve Bank purchase. 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.

² Advances secured to the satisfaction of the F.R. Bank. Maximum maturity: 4 months.

³ Advances to individuals, partnerships, or corporations other than member banks secured by direct obligations of, or obligations fully guaranteed as to principal and interest by, the U.S. Govt. or any agency thereof. Maximum maturity: 90 days.

Notes to Table 13 on opposite page.

¹ When two dates are shown, the first applies to the change at central reserve or reserve city banks and the second to the change at country banks.

² Demand deposits subject to reserve requirements, which beginning with Aug. 23, 1935, have been total demand deposits minus cash items in process of collection and demand balances due from domestic banks (also minus war loan and Series E bond accounts during the period Apr. 13, 1943—June 30, 1947).

³ Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

⁴ Since Oct. 16, 1969, member banks have been required under Regulation M to maintain reserves against balances above a specified base due from domestic offices to their foreign branches. Until Jan. 7, 1971, the applicable reserve percentage was 10 per cent; effective that date it became 20 per cent. Regulation D imposes a similar reserve requirement on borrowings above a specified base from foreign banks by domestic offices of a member bank. For details concerning these requirements, see amendments to Regulations D and M as described in "Record of Policy Actions of the Board of Governors," ANNUAL REPORTS for 1969, p. 85, and for 1970, p. 81.

⁵ Effective Jan. 5, 1967, time deposits such as Christmas and vacation club accounts became subject to same requirements as savings deposits.

⁶ 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.

15. 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	Jan. 21, 1970
Saving deposits:									Savings deposits.....	4	4	4	4½
12 months or more.....	3	2½	2½	3	4 3½	4 3½	4	4	Other time deposits: ²				
Less than 12 months.....									Multiple maturity: ³				
Postal savings deposits: ¹									30-89 days.....	4	4	4	4½
12 months or more.....	3	2½	2½	3	4 3½	4 3½	4	4	90 days-1 year.....	5	5	5	5
Less than 12 months.....									1 year to 2 years.....				5½	5¾
Other time deposits: ²									2 years and over.....				
12 months or more.....	3	2½	2½	3	4 3½	4 3½	4	4	Single maturity:				
6 months to 12 months.....									Less than \$100,000:				
90 days to 6 months.....	3	2½	2	2½	2½	1	4	5½	30 days to 1 year.....	5½	5	5	5
Less than 90 days.....	3	2½	1	1	1				1 year to 2 years.....				5½
(30-89 days)									2 years and over.....				
									\$100,000 and over:				
									30-59 days.....				
									60-89 days.....				
									90-179 days.....				
									180 days to 1 year.....				
									1 year or more.....				

¹ Closing date for the Postal Savings System was Mar. 28, 1966.

² For exceptions with respect to foreign time deposits, see ANNUAL REPORTS for 1962, p. 129; 1965, p. 233; and 1968, p. 69.

³ Multiple-maturity time deposits include deposits that are automatically renewable at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.

⁴ The rates in effect beginning Jan. 21 through June 23, 1970, were 6¼ per cent on maturities of 30-59 days and 6½ per cent on maturities of 60-89 days. Effective June 24, 1970, maximum interest rates on these maturities were suspended until further notice.

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.

16. PRINCIPAL ASSETS AND LIABILITIES, AND NUMBER OF COMMERCIAL AND MUTUAL SAVINGS BANKS, BY CLASS OF BANK,
DECEMBER 31, 1970, AND DECEMBER 31, 1969

(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, 1970 ¹											
Loans and investments, total.....	540,929	465,119	367,578	n.a.	n.a.	97,541	n.a.	n.a.	75,810	n.a.	n.a.
Loans.....	377,196	317,296	256,301	:	:	60,995	:	:	59,900	:	:
Investments.....	163,732	147,822	111,277	:	:	36,546	:	:	15,910	:	:
U.S. Treasury securities.....	64,310	61,100	45,054	:	:	16,046	:	:	3,210	:	:
Other securities.....	99,422	86,722	66,223	:	:	20,500	:	:	12,700	:	:
Cash assets.....	88,347	87,177	76,993	:	:	10,184	:	:	1,170	:	:
Deposits, total.....	543,528	472,708	377,543	:	:	95,165	:	:	70,820	:	:
Interbank.....	29,504	29,504	28,047	:	:	1,457	:	:	90	:	:
Other demand.....	212,689	212,599	171,167	:	:	41,432	:	:	70,730	:	:
Other time.....	301,335	230,605	178,329	:	:	52,276	:	:	5,730	:	:
Total capital accounts.....	48,229	42,499	33,806	n.a.	n.a.	8,693	n.a.	n.a.	n.a.	n.a.	n.a.
Number of banks.....	14,181	13,688	5,767	4,620	1,147	7,921	7,736	185	493	328	165
December 31, 1969											
Loans and investments, total.....	495,114	422,728	337,613	247,526	90,088	85,115	82,133	2,982	72,385	62,873	9,512
Loans.....	354,754	296,679	242,995	177,435	65,560	53,683	51,643	2,041	58,075	50,947	7,129
Investments.....	140,360	126,049	94,618	70,091	24,528	31,431	30,490	942	14,309	11,927	2,383
U.S. Treasury securities.....	56,685	53,441	38,589	28,806	9,783	14,852	14,542	310	3,243	2,459	785
Other securities.....	83,675	72,608	56,029	41,285	14,745	16,579	15,948	632	11,066	9,468	1,598
Cash assets.....	90,875	89,984	79,034	54,721	24,313	10,950	10,056	895	891	780	111
Deposits, total.....	504,245	436,708	350,759	256,314	94,445	85,949	83,380	2,570	67,537	58,864	8,673
Interbank.....	26,726	26,724	25,443	16,267	9,176	1,281	1,062	220	2	2	2
Other demand.....	215,609	215,051	174,841	125,146	49,694	40,211	38,525	1,686	558	534	24
Other time.....	261,911	194,933	150,475	114,901	35,575	44,457	43,793	664	66,978	58,329	8,649
Total capital accounts.....	45,499	39,978	32,047	23,248	8,800	7,931	7,403	528	5,521	4,697	824
Number of banks.....	14,157	13,661	5,869	4,668	1,201	7,792	7,595	197	496	330	166

n.a. Not available.
¹ Estimated.

NOTE.—All banks in the United States.

17. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918-70 AND END OF MONTH 1970

(In millions of dollars)

Period	Factors supplying reserve funds										SDR certif. acct.	Treasury currency outstanding ⁶
	F.R. Bank credit outstanding							Gold stock ⁵				
	U.S. Govt. securities ¹			Dis-counts and ad-vances	Float ²	All other ³	Other F.R. assets ⁴		Total			
	Total	Bought out-right	Held under re-pur-chase agree-ments									
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	70	.....	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
1969.....	57,154	57,154	.....	183	3,440	64	2,743	63,584	10,367	.....	6,852
1970.....	62,142	62,142	.....	335	4,261	57	1,123	67,918	10,732	400	7,149

For notes see last two pages of table.

Factors absorbing reserve funds

Cur- rency in cir- cu- la- tion	Treas- ury cash hold- ings ⁷	Deposits, other than member bank reserves, with F.R. Banks			Other F.R. ac- counts ⁴	Other F.R. lia- bil- ities and capital ⁴	Member bank reserves			
		Treas- ury	For- eign	Other ⁴			With F.R. Banks	Cur- rency and coin ⁸	Re- quired ⁹	Ex- cess ⁹
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	15	298	.....	1,781	.....	.....	.....
4,403	214	96	12	18	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	310	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
53,950	596	1,312	134	807	.....	1,919	22,085	5,187	28,173	-901
57,093	431	1,156	148	1,233	.....	1,986	24,150	5,423	30,033	-460

For notes see last two pages of table.

17. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918-70 AND END OF MONTH 1970—CONTINUED

(In millions of dollars)

Period	Factors supplying reserve funds										
	F.R. Bank credit outstanding							Gold stock ⁵	SDR certif. acct.	Treasury currency outstanding ⁶	
	U.S. Govt. securities ¹			Discounts and advances	Float ²	All other ³	Other F.R. assets ⁴				Total
	Total	Bought outright	Held under repurchase agreements								
1970—											
Jan.....	55,739	155,517	222	1,565	2,544	83	1,929	61,860	11,367	200	6,859
Feb.....	55,823	55,823	.....	1,148	2,568	56	1,977	61,572	11,367	300	6,881
Mar.....	55,785	105,785	.....	684	2,827	52	2,139	61,487	11,367	400	6,911
Apr.....	56,542	105,612	380	545	3,536	106	2,239	62,968	11,367	400	6,944
May.....	57,307	57,307	.....	1,451	2,883	42	1,184	62,867	11,367	400	6,970
June.....	57,714	105,714	.....	420	2,562	32	1,556	62,284	11,367	400	6,986
July.....	58,597	58,597	.....	1,292	2,485	37	1,343	63,754	11,367	400	7,011
Aug.....	59,978	105,618	360	538	1,510	63	1,124	63,213	11,367	400	7,045
Sept.....	60,055	105,600	455	852	2,313	87	1,678	64,985	11,117	400	7,074
Oct.....	60,103	105,528	575	428	2,956	73	1,591	65,151	11,117	400	7,104
Nov.....	61,294	106,008	286	300	1,987	87	928	64,596	11,117	400	7,126
Dec.....	62,142	106,142	.....	335	4,261	57	1,123	67,918	10,732	400	7,149

¹ U.S. Govt. securities include Federal agency obligations.

² Beginning with 1960 reflects a minor change in concept; see Feb. 1961 Federal Reserve Bulletin, p. 164.

³ Principally acceptances and industrial loans; authority for industrial loans expired Aug. 21, 1959.

⁴ 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."

⁵ Before Jan. 30, 1934, included gold held by F.R. Banks and in circulation.

⁶ 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.

⁷ 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

Factors absorbing reserve funds

Cur- rency in cir- cu- la- tion	Treas- ury cash hold- ings ⁷	Deposits, other than member bank reserves, with F.R. Banks			Other F.R. ac- counts ⁴	Other F.R. li- a- bil- ities and capital ⁴	Member bank reserves			
		Treas- ury	For- eign	Other ⁴			With F.R. Banks	Cur- rency and coin ⁸	Re- quired ⁹	Ex- cess ⁹
51,901	617	1,127	152	692	.....	2,163	23,637	5,055	28,203	489
52,032	580	915	313	776	.....	2,156	23,344	4,824	27,266	902
52,701	566	1,192	200	839	.....	2,172	22,495	4,706	27,469	-268
53,034	546	1,784	204	825	.....	2,204	23,082	4,901	28,242	-259
53,665	512	1,198	128	788	.....	2,271	23,041	4,898	27,432	507
54,351	439	1,005	168	806	.....	2,275	21,991	4,999	27,554	-564
54,473	462	1,200	199	782	.....	2,343	23,072	5,081	27,956	197
54,669	468	1,056	173	750	.....	2,352	22,557	5,017	28,181	-607
54,792	447	1,238	136	725	.....	2,301	23,938	5,333	28,762	509
55,021	462	920	142	739	.....	2,277	24,206	5,182	28,338	1,050
56,381	453	587	136	692	.....	2,302	22,689	5,220	28,462	-553
57,093	431	1,156	148	1,233	.....	1,986	24,150	5,423	30,033	-460

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.

⁸ 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.

⁹ These figures are estimated through 1958. Before 1929 available only on call dates (in 1920 and 1922, the call dates were Dec. 29). Beginning Sept. 12, 1968, amount is based on close-of-business figures for reserve period 2 weeks previous to report date.

¹⁰ Includes securities loaned—fully secured by U.S. Govt. securities pledged with F.R. Banks.

¹¹ Includes securities sold, and scheduled to be bought back, under matched sale/purchase transactions.

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.

18. CHANGES IN NUMBER OF BANKING OFFICES IN THE UNITED STATES DURING 1970¹

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 ¹	State	In-sured	Non-in-sured		
Number of banks, Dec. 31, 1969	14,158	13,662	5,871	4,669	1,202	7,595	196	330	166
Changes during 1970									
New banks ²	186	185	48	40	8	130	7	1	.....
Suspensions.....	-1	-1	-1	-1	.....	.....	.....	.....	.....
Consolidations and absorptions:									
Banks converted into branches.....	-129	-127	-68	-53	-15	-58	-1	-2	.....
Other.....	-25	-23	-10	-7	-3	-11	-2	-1	-1
Voluntary liquidations ³	-8	-8	.....	.....	.....	-4	-4	.....	.....
Interclass changes:									
Nonmember to national.....	.....	.....	5	5	.....	-5	.....	.....	.....
State member to—									
National.....	.....	.....	.....	7	-7	.....	.....	.....	.....
Nonmember.....	.....	.....	-38	.....	.....	38	.....	.....	.....
National to Nonmember.....	.....	.....	-39	-39	.....	39	.....	.....	.....
Noninsured to insured.....	.....	.....	.....	.....	.....	11	-11	.....	.....
Net change.....	23	26	-103	-48	-55	140	-11	-2	-1
Number of banks Dec. 31, 1970	14,181	13,688	5,768	4,621	1,147	7,735	185	328	165
Number of branches and additional offices, Dec. 31, 1969⁴	21,196	20,208	15,204	11,727	3,477	4,957	47	810	178
Changes during 1970									
<i>De novo</i>	1,493	1,395	937	735	202	455	3	85	13
Banks converted.....	129	127	99	79	20	27	1	2	.....
Discontinued ⁴	-80	-76	-56	-34	-22	-17	-3	-4	.....
Interclass changes:									
Nonmember to—									
National.....	.....	.....	50	50	.....	-50	.....	.....	.....
State member.....	.....	.....	12	.....	12	-12	.....	.....	.....
State member to—									
National.....	.....	.....	.....	38	-38	.....	.....	.....	.....
Nonmember.....	.....	.....	-14	.....	-14	14	.....	.....	.....
National to—									
State member.....	.....	.....	.....	-15	15	.....	.....	.....	.....
Nonmember.....	.....	.....	-46	-46	.....	46	.....	.....	.....
Other.....	-15	-15	1	-2	3	-16	.....	-2	2
Facilities reclassified as branches.....	4	4	4	4	.....	.....	.....	.....	.....
Net change.....	1,531	1,435	987	809	178	447	1	81	15
Number of branches and additional offices, Dec. 31, 1970⁴	22,727	21,643	16,191	12,536	3,655	5,404	48	891	193

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 ¹	State	In-sured	Non-in-sured		
Number of banking facilities Dec. 31, 1969 ⁵	223	223	189	177	12	34	.....	.....
Changes during 1970									
Established.....	3	3	3	3	.....	.....	.....	.....
Discontinued.....	-3	-3	-2	-2	.....	-1	.....	.....
Facilities reclassified as branches.....	-4	-4	-4	-4	.....	.....	.....	.....
Net change.....	-5	-4	-3	-3	.....	-1	.....	.....
Number of banking facilities, Dec. 31, 1970	219	219	186	174	12	33	.....	.....

¹ Includes a national bank (7 branches) in the Virgin Islands; other banks or branches located in the possessions are excluded.

² Exclusive of new banks organized to succeed operating banks.

³ Exclusive of liquidations incident to succession, conversion, and absorption of banks.

⁴ Excludes banking facilities.

⁵ 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, 1970

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
DISTRICT										
Boston.....	376	1,604	376	1,604	231	1,186	145	418		
New York.....	476	3,470	476	3,470	352	3,064	124	406		
Philadelphia...	456	1,564	456	1,564	321	1,127	135	437		
Cleveland.....	794	1,966	794	1,966	470	1,626	324	340		
Richmond.....	733	2,996	694	2,973	361	1,839	333	1,134	39	23
Atlanta.....	1,652	1,428	1,531	1,360	546	920	985	440	121	68
Chicago.....	2,563	2,326	2,563	2,326	943	1,528	1,620	798		
St. Louis.....	1,511	865	1,407	848	459	465	948	383	104	17
Minneapolis...	1,365	281	1,187	226	489	131	698	95	178	55
Kansas.....	1,952	284	1,952	284	807	181	1,145	103		
Dallas.....	1,333	248	1,274	233	635	128	639	105	59	15
San Francisco..	390	4,816	390	4,816	155	4,032	235	784		
Total.....	13,600	21,848	13,099	21,670	5,768	16,227	7,331	5,443	501	178

20. NUMBER OF PAR AND NONPAR BANKING OFFICES,
BY STATE AND OTHER AREA, DECEMBER 31, 1970

State, or other area	Total		Par						Nonpar (nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
STATE										
Alabama.....	272	272	211	258	109	206	102	52	61	14
Alaska.....	11	62	11	62	5	55	6	7		
Arizona.....	12	325	12	325	4	238	8	87		
Arkansas.....	249	164	181	154	81	102	100	52	68	10
California.....	144	3,034	144	3,034	69	2,696	75	338		
Colorado.....	227	18	227	18	139	15	88	3		
Connecticut...	58	436	58	436	30	339	28	97		
Delaware.....	18	86	18	86	7	42	11	44		
District of Columbia.....	14	105	14	105	12	98	2	7		
Florida.....	495	33	495	33	224	13	271	20		
Georgia.....	441	292	441	292	72	205	369	87		
Hawaii.....	7	142	7	142	1	9	6	133		
Idaho.....	24	156	24	156	13	137	11	19		
Illinois.....	1,106	98	1,106	98	492	67	614	31		
Indiana.....	406	633	406	633	185	403	221	230		
Iowa.....	665	319	665	319	149	82	516	237		
Kansas.....	601	69	601	69	203	41	398	28		
Kentucky.....	343	328	343	328	94	196	249	132		
Louisiana.....	231	394	137	326	59	219	78	107	94	68
Maine.....	39	226	39	226	25	167	14	59		

For notes see end of table.

State, or other area	Total		Par						Nonpar (nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
STATE— Cont.										
Maryland.....	115	525	115	525	49	328	66	197		
Massachusetts..	162	744	162	744	101	586	61	158		
Michigan.....	330	1,209	330	1,209	204	995	126	214		
Minnesota.....	728	11	728	11	223	6	505	5		
Mississippi.....	182	348	182	348	44	157	138	191		
Missouri.....	668	93	668	93	169	41	499	52		
Montana.....	139	5	139	5	90	4	49	1		
Nebraska.....	437	41	437	41	136	25	301	16		
Nevada.....	8	86	8	86	5	75	3	11		
New Hamp- shire.....	73	63	73	63	49	54	24	9		
New Jersey....	215	1,015	215	1,015	162	884	53	131		
New Mexico....	66	129	66	129	39	78	27	51		
New York.....	305	2,437	305	2,437	245	2,300	60	1137		
North Carolina.....	96	1,123	74	1,103	24	556	50	547	22	20
North Dakota.....	168	71	77	38	46	14	31	24	91	33
Ohio.....	516	1,300	516	1,300	337	1,090	179	210		
Oklahoma.....	433	59	433	59	222	45	211	14		
Oregon.....	49	336	49	336	10	251	39	85		
Pennsylvania..	467	1,726	467	1,726	322	1,289	145	437		
Rhode Island..	13	170	13	170	5	93	8	77		
South Carolina.....	102	415	85	412	25	244	60	168	17	3
South Dakota..	161	98	74	76	58	62	16	14	87	22
Tennessee.....	307	490	266	482	90	312	176	170	41	8
Texas.....	1,191	74	1,171	74	581	26	590	48	20	
Utah.....	48	139	48	139	16	106	32	33		
Vermont.....	42	86	42	86	26	49	16	37		
Virginia.....	233	824	233	824	143	611	90	213		
Washington....	90	556	90	556	33	484	57	72		
West Virginia..	200	5	200	5	120	2	80	3		
Wisconsin.....	605	271	605	271	167	85	438	186		
Wyoming.....	70	2	70	2	54	1	16	1		
OTHER AREA										
Puerto Rico ² ..	13	180	13	180		19	13	161		
Virgin Islands ²	6	25	6	25	1	25	5			

¹ Includes 14 New York City branches of 3 insured nonmember Puerto Rican banks.

² 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 8 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 219 banking facilities. Number of banks and branches differs from that in Table 19 because this table includes banks in Puerto Rico and the Virgin Islands but excludes banks and trust companies on which no checks are drawn.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970

CONTENTS

APPLICANT BANK	OTHER BANK	<i>Page</i>
American Bank and Trust Company, Lansing, Mich.	National Bank of Eaton Rapids, Eaton Rapids, Mich.	280
Bank of Delaware, Wilmington, Del.	Millsboro Trust Company, Millsboro, Del.	272
Bank of New Jersey, Camden, N.J.	{ Garden State Bank, Cinnaminson, N.J.	255
	{ Trademens Bank and Trust Company of Vineland, Vineland, N.J.	252
Bank of New Orleans and Trust Company, New Orleans, La.	Bank and Trust Company of Greater New Orleans, New Orleans, La.	262
Bankers Trust Company of Rochester, Rochester, N.Y.	Central Trust Company, Rochester, N.Y.	257
Bordentown Banking Company, Bordentown Township, N.J.	First National Bank in New Egypt, New Egypt, N.J.	271
Georgia Railroad Bank & Trust Company, Augusta, Ga.	{ Richmond County Bank, Augusta, Ga.	279
	{ Metropolitan State Bank, Augusta, Ga.	
Girard Trust Bank, Philadelphia, Pa.	City Bank of Philadelphia, Philadelphia, Pa.	270
Grace Street Bank, Richmond, Va.	Southern Bank and Trust Company, Richmond, Va.	260
Houston Bank & Trust Company, Houston, Tex.	Citizens Bank, Houston, Tex.	275
Isabella County State Bank, Mount Pleasant, Mich.	Weidman State Bank, Weidman, Mich.	266
Long Island Trust Company, Garden City, N.Y.	{ Bank of Westbury Trust Company, Westbury, N.Y.	277
	{ Seaside Bank, Westhampton Beach, N.Y.	282

CONTENTS—Continued

APPLICANT BANK	OTHER BANK	Page
Marine Midland Grace Trust Company of New York, New York, N.Y.	Community Bank, Lynbrook, N.Y.	268
Marine Midland Trust Company of Central New York, Syracuse, N.Y.	Marine Midland Trust of the Mohawk Valley, Utica, N.Y.	284
New Citizens Bank, Poquoson, Va.	Citizens Bank of Poquoson, Poquoson, Va.	283
Peoples-Liberty Bank and Trust Company, Covington, Ky.	Bank of Independence, Independence, Ky.	245
Peoples Trust of New Jersey, Hackensack, N.J.	{ Fort Lee Trust Company, Fort Lee, N.J.	248
	{ Peoples National Bank of Hackettstown, Hackettstown, N.J.	263
Savings & Trust Company of Indiana, Indiana, Pa.	Farmers' & Miners' Trust Company, Punxsutawney, Pa.	247
Seattle Trust and Savings Bank, Seattle, Wash.	Cle Elum State Bank, Cle Elum, Wash.	244
Security Trust Company of Rochester, Rochester, N.Y.	Cohocton State Bank, Cohocton, N.Y.	273
Seyern Bank and Trust Company, Annapolis, Md.	Annapolis Banking and Trust Company, Annapolis, Md.	267
Union Bank, Los Angeles, Calif.	Commonwealth National Bank, San Francisco, Calif.	260
Union Bank and Savings Company, Bellevue, Ohio	Farmers and Citizens Banking Company, Monroeville, Ohio	251
Union Bank and Trust Company, Ottumwa, Iowa	Union State Bank, Richland, Iowa	265
Union Trust Company of Maryland, Baltimore, Md.	Metropolitan National Bank of Maryland, Wheaton, Md.	274

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 1—Seattle Trust and Savings Bank, Seattle, Wash., to merge with Cle Elum State Bank, Cle Elum, Wash.	159.0	18	} 20
	5.0	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL (12-3-69)

The closest office of Seattle Trust, at Crossroads, is approximately 75 miles from Cle Elum. Therefore, the merger would not appear to eliminate any significant degree of existing competition between the 2 banks.

Washington law prevents any banks from establishing a *de novo* branch in any additional city or town where any other bank regularly transacts business (although it does permit statewide expansion by acquisition, merger, or branching into towns without banks). Accordingly, the only way in which Seattle Trust might enter Cle Elum or Roslyn is by means of a merger with an existing bank. However, Seattle Trust might be able to open an office in one of the smaller communities in the Cle Elum area which does not presently have a banking office and thus become a direct competitor of State Bank.

As of June 1968, State Bank was the smaller of 2 banks operating in Cle Elum, and the other bank is a branch of the largest bank in the State. State Bank is also the fourth largest of 5 banks in Kittitas County. Three statewide banks dominate the county.

Seattle Trust is the ninth largest commercial bank headquartered in the State of Washington. Therefore, although it is a likely potential entrant into the Cle Elum area, 7 larger banks, several many times its size, are also potential entrants into that area; and 5 larger banks are potential entrants into Kittitas County as a whole. Hence, the over-all competitive effect of this merger is not likely to be adverse.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-7-70)

Seattle Trust operates 18 offices, 15 of which are in the metropolitan Seattle area and 3 in the Olympia area, about 60 miles southwest of Seattle. State Bank operates its head office in Cle Elum and 1 branch in Roslyn, 4 miles from Cle Elum. Cle Elum is situated about 80 miles southeast of Seattle. The economy of Cle Elum (population 1,800) is dependent primarily on the lumber industry and recreation. Roslyn, the site of State Bank's only branch, has a population of 1,200.

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

The nearest offices of the 2 banks involved in this proposal are 75 miles apart, and there would appear to be no competition existing between them. Under Washington law, a bank could establish a *de novo* branch outside of the county in which it is headquartered only in incorporated but unbanked communities. There is only one incorporated but unbanked community in State Bank's service area, and this community has a population of about 400; thus, the possibility of Seattle Bank entering State Bank's service area through *de novo* branching seems remote.

The only other banking facility in State Bank's service area is the Cle Elum branch of Seattle First National Bank, the largest bank in the State. Other banking facilities are 25 or more miles from offices of State Bank.

Consummation of the proposed merger would enhance the convenience and needs of the Cle Elum area with no adverse competitive effects.

No. 2— The Peoples-Liberty Bank and Trust Company, Covington, Ky., <i>to merge with</i> Bank of Independence, Independence, Ky.	40.5	4	} 6
	5.8	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-26-69)

The closest offices of these 2 banks are only about 9 miles apart. However, Bank of Independence is located in a valley with few good access roads. The application states that each bank derives only a small percentage of its deposits and loans from the service area of the other. However, Peoples-Liberty has authority to establish a branch office only 2 miles from Independence. This branch would offer substantial competition to Bank of Independence.

On June 30, 1968, 8 banks operated 16 banking offices in Kenton County (1960 population 120,700). Peoples-Liberty had about 34 per cent of the total county commercial bank deposits; Bank of Independence had about 4.5 per cent of such deposits.

Thus, as a result of this merger Peoples-Liberty's share of the commercial banking deposits in Kenton County will be increased to 38.5 per cent. This represents a substantial increase in an already concentrated banking market.

Thus the proposed merger would have an adverse effect on competition.

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-13-70)

All of the offices of both of the banks are in Kenton County, Kentucky (population about 127,000), a part of the Cincinnati, Ohio, metropolitan area. Covington, the location of Peoples Bank's head office and 2 branches, has a population of about 60,000 and is situated directly across the Ohio River from Cincinnati. The bank's other branch is southwest of Covington, in Elsmere, near the boundary between Kenton and Boone Counties.

Independence, the location of the main office of Bank of Independence (hereinafter Independence Bank), has a population of about 500 and is situated about 12½ miles south of Covington. The bank's only branch is at Taylor Mill, a community 3 miles northeast of Independence.

Between the nearest offices of Peoples Bank and Independence Bank are offices of other banks, including 2 branches of The First National Bank of Covington, which is second in size to Peoples Bank in the 3-county area. There is little, if any, direct competition existing between Peoples Bank and Independence Bank. Under Kentucky law, a bank may establish *de novo* branches only within the county in which its head office is located, except that it may not establish a branch in a community where another bank has its main office.

In terms of deposits, Peoples Bank is the largest of the 23 banks located in the 3 northern Kentucky counties of Kenton, Boone, and Campbell. Consummation of the proposal would increase Peoples Bank's share of the total deposits of these banks from about 18 per cent to 21 per cent. The 3 northern Kentucky counties are within the Cincinnati metropolitan area. Cincinnati has been a predominating influence with respect to the 3 counties, due not only to its proximity but to its labor opportunities. Approximately 60 per cent of the employable work force in the northern Kentucky area is said to commute to Cincinnati. Definite interaction occurs between banks in Cincinnati and banks in the 3 northern Kentucky counties, and the Cincinnati banks provide important competition to the banks headquartered in the counties. If the 5 Cincinnati banks with deposits ranging from \$78 million to \$582 million were combined with the 23 banks located within the 3 northern Kentucky counties, the bank resulting from the proposed merger would have only about 2 per cent of the total deposits held by the 28 institutions.

The proposed merger would benefit the present and expected banking needs and convenience in the area served by Independence Bank. In the Board's judgment, these benefits would offset the slightly adverse effect of the proposal on banking competition.

For notes see p. 285.

21.—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 3—The Savings & Trust Company of Indiana, Indiana, Pa., to merge with Farmers' & Miners' Trust Company, Punxsutawney, Pa.	33.7	3	} 4
	22.2	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-26-69)

The main offices of the merging banks, which are their closest offices, are approximately 28 miles apart. Three competitive banks operate in Indiana and 1 competitive bank operates in Punxsutawney; 2 other small banks are located in the intervening area. The merging banks hold only minor amounts of deposits originating in each other's service area. The proposed merger would therefore not appear to eliminate any significant direct competition.

Pennsylvania law permits a bank to branch *de novo* in its home county and in contiguous counties. While there are other substantially larger potential entrants into Indiana County, Savings is one of the larger banks legally eligible to enter Jefferson County. The proposed merger would eliminate the possibility of potential competition between the banks should Savings follow this course.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-16-70)

Indiana Bank operates its main office and a suburban branch at Indiana (estimated population 14,000) and a branch at Saltsburg, 21 miles to the southwest. Punxsutawney Bank's sole office in Punxsutawney (estimated population 8,800) is 28 miles north of Indiana Bank's main office, which is the latter institution's nearest office to Punxsutawney. While there is no meaningful competition between the 2 banks, there is some potential for the development of increased competition between them. However, it does not appear likely that *de novo* offices would be established in the foreseeable future because of the present sufficiency of banking offices in the areas in relation to the number of industries and inhabitants of the respective communities. The proposed acquisition would not have significant adverse effects on banking competition in the area presently served by either bank. Broader banking services would be available at the Punxsutawney office of the resulting bank, and the merger would furnish needed depth to management, which would also benefit the community.

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 4—Peoples Trust of New Jersey, Hackensack, N.J., <i>to merge with</i> Fort Lee Trust Company, Fort Lee, N.J.	557.7	21	} 23
	33.9	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-20-69)

Peoples Trust, which operates 4 offices in Hackensack and an additional 15 branches throughout Bergen County, is by far the largest bank in Bergen County and is the fourth largest bank in the newly created First Banking District, covering Bergen, Essex, Sussex, Hudson, Morris, Passaic, and Warren Counties in northern New Jersey.

Fort Lee Trust is 1 of only 2 banks in Fort Lee. The closest branches of Peoples Trust to Fort Lee Trust are located in the adjacent communities of Englewood Cliffs and South Englewood, some 2.3 and 2.6 miles, respectively, from Fort Lee. Nine additional offices of Peoples Trust lie within 6 miles of Fort Lee (4 in Hackensack and 1 each in Englewood, Teaneck, South Hackensack, Hasbruck Heights, and Lodi). While several intervening banks lie between Peoples Trust's offices in Hackensack and Fort Lee Trust, only 1 other banking office separates the South Englewood and Englewood Cliffs offices of Peoples Trust from Fort Lee Trust. Both of these offices, plus several other offices of Peoples Trust, derive a substantial amount of deposit and loan business from the Fort Lee area. It is clear, therefore, that the proposed transaction will eliminate direct competition between the merging banks in an important and growing market.

As of June 30, 1968, the 5 largest of the 26 commercial banks operating in Bergen County controlled nearly 72 per cent of that county's IPC³ demand deposits and nearly 70 per cent of total county commercial bank deposits. Peoples Trust, with about 30 per cent of county IPC³ demand deposits and 27.5 per cent of county total deposits is by far the largest bank in Bergen County. Fort Lee Trust, as of the same date, held about 1.5 per cent of both county IPC³ demand deposits and total deposits, and no doubt had a higher proportion of deposits in Fort Lee and the immediately adjacent communities. The resulting bank would thus control about 31.5 per cent of county IPC³ demand deposits and 29 per cent of total deposits in Bergen County.

Hence, the proposed merger will have the serious effects of eliminating direct competition, increasing concentration in a highly concentrated market, and further entrenching the dominant position now held by Peoples Trust in Bergen County. For these reasons, we conclude that the proposed merger will have a significantly adverse effect on competition in Bergen County.

For notes see p. 285.

21. CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-19-70)

Except for 2 recently opened branches of Peoples Trust (in Essex and Morris Counties) all of Peoples Trust's 21 offices and both offices of Fort Lee Bank are in Bergen County. Peoples Trust has 1 branch within 2.3 miles of Fort Lee and 4 other branches within 4 miles. The only other banking office in Fort Lee is the single office of First National Bank, an institution with \$29 million in deposits. Application for a State charter for a new bank to be headquartered in Fort Lee is pending. The home-office-protection feature of State law precludes Peoples Trust from entering Fort Lee by *de novo* branching. However, the bank derives some business from the community, and the proposed merger would eliminate competition between the 2 banks. The success of Peoples Trust in generating business in Fort Lee must be attributed in no small part, however, to the lack of competitive effort by Fort Lee Bank and its failure to provide a reasonable range of banking services. For example, Fort Lee Bank has only three trust accounts, and its lending, particularly consumer lending, is confined generally to present depositors. Although located in an important residential area, nearly 15 per cent of loans consist of loans to brokers and only 2 per cent of portfolio is devoted to consumer instalment loans. It is noteworthy in assessing competitive effects of the proposal that about three-fourths of the working population of Fort Lee commutes to New York City and thus has many convenient banking options.

Peoples Trust is the largest of 25 commercial banks operating in Bergen County, holding 27.4 per cent of commercial bank deposits. The 5 largest banks in the county hold 69.8 per cent. Fort Lee Bank ranks 10th, with 1.7 per cent of county commercial bank deposits. The concentration of banking resources in the county is somewhat high, but the significance of this is reduced markedly, in the Board's judgment, by the recent changes in New Jersey law. These modified somewhat the home-office-protection features with respect to branching and removed the previous restriction upon branching across the county line, permitting instead *de novo* branching in the banking district in which a bank is headquartered, subject to certain home-office and branch-protection features.

Both subject banks are situated in the First Banking District, comprised of 7 counties, including Bergen and Passaic. There are 7 banks in Passaic County and over 50 banks in the other 5 counties which, together with Bergen County, make up the First Banking District. Many of these banks are large and aggressive enough to be likely potential entrants into Bergen County by *de novo* branching, and some such applications have been approved; others are pending.

In view of the economic nexus of Bergen and Passaic Counties and in the light of changes in branching law in New Jersey, the Board concludes these 2 counties form the most realistic market for gauging the competitive

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

effects of the proposal. Peoples Trust, with 16.6 per cent of deposits, is the largest of 32 commercial banks in the market; Fort Lee Bank holds about 1 per cent of deposits and ranks 16th. The 5 largest banks in the market hold 61 per cent of total commercial bank deposits. The effect of the merger would be adverse, but not substantially adverse.

Except for capital, banking factors at Peoples Trust are generally satisfactory; the bank is fully capable of increasing its capital and is expected to do so in the near future.

The banking factors at Fort Lee Bank are reasonably satisfactory except for the bank's serious management succession problem, the resolution of which is made exceedingly difficult by wrangling among stockholders. The bank has been plagued for several years by stockholder dissension, which has resulted in proxy fights and litigation. The attendant publicity has been harmful to the bank, particularly with respect to hiring and retaining able management personnel. The bank has had four chief executives since January 1964, and the incumbent president accepted the post temporarily in 1966; he has done a creditable job in trying circumstances but is 72 years old and will resign if the merger is not approved.

Both the Federal Reserve and the State banking authorities have endeavored to impress on the directors of Fort Lee Bank the need for resolving the bank's problems. The Board concludes that, because of the dissension surrounding Fort Lee Bank, it is extremely unlikely that a capable chief executive officer could be hired and retained; further, if the merger proposal were disapproved, stockholder dissension and revival of pending litigation would make meaningful merger negotiation with other banks virtually impossible. In the Board's judgment, the effect on competition would be adverse, but this effect would be offset by the effect of the transaction in resolving the management problem at Fort Lee Bank, a problem that the Board regards as serious and, in the light of the history of stockholder dissension, a problem that cannot readily be resolved except through merger. Although there are a number of banks in the First Banking District with which Fort Lee Bank might merge with little or no adverse effects on competition, the Board believes the prospects for agreement on such a merger in the near future are poor.

For notes see p. 285.

21.—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 5—The Union Bank and Savings Com- pany, Bellevue, Ohio, <i>to acquire the assets and assume the deposit liabilities of</i> The Farmers and Citizens Banking Company, Monroeville, Ohio	24.0	2	3
	6.3	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (12-15-69)

Union Bank is the largest of 2 banks in Bellevue. Farmers Bank, the only bank in Monroeville, is located 9 miles east of Union Bank. There are no banks in the area between Bellevue and Monroeville. The merger would therefore remove substantial direct competition between Union Bank and Farmers Bank.

Eight banks operate in Huron County—the 3 largest banks held 58 per cent of deposits in county banking offices on June 30, 1968. Union Bank, the third largest bank in Huron County, held 16.3 per cent of county deposits, and Farmers Bank, the smallest bank in Huron County, held 4.2 per cent of county deposits. The resulting bank would hold 20.5 per cent of county deposits and would rank second among banks in the county. This would be a substantial increase in concentration of banking in Huron County. We, therefore, conclude that the proposed merger would have an adverse effect upon competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-19-70)

The Union Bank and Savings Company (hereinafter Union Bank) proposes to acquire the assets and assume the liabilities of The Farmers and Citizens Banking Company (hereinafter Farmers Bank) and to operate its sole office as a branch. Union Bank is situated in Bellevue, Ohio, a town of about 9,400, located 65 miles west of Cleveland in the north-central part

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

of the State. Monroeville, site of Farmers Bank's only office, is located 9 miles east of Bellevue and is linked to the latter by a good highway. Monroeville has a population of about 1,400, which amount represents virtually no growth over the 1960 figure.

Union Bank and Farmers Bank draw the preponderance of their business from different areas, but there is some competition between them. Although Ohio law permits countywide *de novo* branching, the potential for greater competition between the 2 banks is limited by the small size of Farmers Bank and of the community it serves.

Six banks operate 12 offices in the combined service areas of Union Bank and Farmers Bank. Union Bank, with 21 per cent of the deposits, ranks second in size among these banks; Farmers Bank, with about 6 per cent of the deposits, is the smallest. The largest bank in the area holds about 30 per cent of the deposits. Union Bank, with 16 per cent of the deposits, ranks third in size among the 8 banks that operate in Huron County; Farmers Bank, with 4.4 per cent of the deposits, is the smallest bank in the county. Following the acquisition of Farmers Bank, Union Bank would be the second largest bank in the county in terms of deposits; the largest bank in the county holds 23.7 per cent of the deposits, and the bank presently ranking second holds 17.4 per cent of the deposits.

In the judgment of the Board, the proposed transaction would have only a slightly adverse effect on competition, which would be offset by the benefit to the banking convenience of the Monroeville community.

No. 6— The Bank of New Jersey, Camden, N.J., <i>to merge with</i> The Tradesmen Bank and Trust Company of Vineland, Vineland, N.J.	282.0	21	} 24
	36.0	3	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-26-69)

No significant competition presently exists between the banks proposing to merge, primarily because of the geographic distance between them.

Camden Trust's [The Bank of New Jersey] opportunities for *de novo* entry into Cumberland County appear somewhat limited, but it is also a source of potential competition through acquisition of one of the county's smaller banks.

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

Merger with one of the smaller banks in the county could increase the level of competition therein as well as afford Camden Trust the entry it seeks. We note that each of the 3 smallest county banks operates an office in one of the county's three large cities, the county's most desirable local banking markets. Camden Trust is clearly a powerful potential competitor in whatever market it seeks to enter; should it be permitted to acquire a substantial bank with a leading share of local deposits, such as Tradesmens Bank, there would be a likelihood of permanent entrenchment of its position as one of the area's dominant banks. This undesirable effect is more probable where State branch-banking law offers protection against *de novo* entry by outside banking institutions, thereby reducing still further the possibility that market forces will lead to deconcentration and increased competition for entrenched, leading banks in a market. Thus, it is particularly important that leading potential entrants such as Camden Trust enter by acquiring one of the smaller banks in the county, rather than the larger ones, and thereby offer potential new competition to the county's largest and ablest banks.

Acquisition of Tradesmens Bank by Camden Trust could also adversely affect potential competition in the Third Banking District generally. Under the new banking laws, with their greatly broadened sphere of permissible branching activity, the largest banks in the district are in a position to substantially increase their share of its banking markets. Camden Trust, the largest of some 74 commercial banks operating in the district, controls about 11 per cent of total deposits in district commercial banks. The 5 largest of these banks control about 42 per cent of such deposits. Major merger activity by the largest banks could significantly increase this percentage and possibly result in dominance of district commercial banking by a few very large institutions, whose development would preempt the growth of a larger number of able, districtwide competitors. Such an entrenched market structure, once achieved, would tend to be self-perpetuating, particularly in the context of continued home- and branch-office protection.

Acquisition of substantial independent banks with leading shares of their local markets would give undue impetus to the development of such a market structure (i) by eliminating banks most able to compete with the district's largest banks in these local markets; and (ii) by eliminating the possibility that these leading local banks might become primary components of new banking organizations capable of competing with the district's largest banks for both large and small customers, either through affiliation with one another or with bank holding companies controlling banks in other districts. Thus, Camden Trust's acquisition of Tradesmens Bank (the 12th largest bank in the Third District) would eliminate the latter as a possible

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

major participant in a banking institution capable of competing with Camden Trust and the other largest Third District banks in Vineland and Cumberland County, and other relevant local markets in the Third District. Such elimination is, as already noted, particularly undesirable in the context of continued home- and branch-office protection against *de novo* entry.

The proposed merger would eliminate Camden Trust, the leading commercial bank in the Third District, as one of the most probable potential entrants into Vineland and Cumberland County through acquisition of a smaller bank, thereby enabling it to challenge (rather than entrench) Trademens' leading position in these markets. In addition, Trademens Bank would be eliminated as a potential major element in a medium-sized bank competing generally in the Third District. For these reasons, we conclude that the proposed merger would have an adverse effect on potential competition in Vineland, Cumberland County, and the Third District generally.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (2-26-70)

Camden Bank operates 21 offices in Camden County and has received approval to establish 4 additional branches, 2 in Camden County and 2 in contiguous Gloucester County (all in the Philadelphia Standard Metropolitan Statistical Area). Vineland Bank operates its head office and 2 branches in Vineland (population 47,000), which is in Cumberland County and about 30 miles south of Camden. Vineland Bank has received approval to establish 2 additional branches, 1 in Vineland and 1 in Hammonton, about 15 miles northeast of Vineland. The nearest offices of the 2 banks are 25 miles apart, and once the branch office in Hammonton is established the banks' nearest offices would be about 13 miles apart.

While the influence of Camden Bank, one of the largest area banks, is felt throughout the Third Banking District (consisting of 8 counties in southern New Jersey), the 2 banks involved in this proposal essentially serve different market areas, and there is virtually no competition between them. Under New Jersey law, the 2 banks are precluded from establishing *de novo* branches in the head office community of the other, and *de novo* branching is otherwise limited because of branch-office protection in communities with populations under 7,500. While the movement of South Jersey National Bank, Camden, into Cumberland County (by merger with Millville National Bank) will offer a broader range of banking services to the area served by Vineland Bank, the convenience of added services in the area would be enhanced by subject proposal and at the same time increase competition in this area for South Jersey National Bank. The additional

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

resources gained by Camden Bank would not greatly affect the competitive picture in the Third Banking District. This is especially true when considering the proximity of Camden to Philadelphia. In the judgment of the Board, the effect of the merger on competition would not be adverse, and the transaction would result in benefits for the banking convenience and needs of the Vineland community and environs.

No. 7—The Bank of New Jersey, Camden, N.J., <i>to merge with</i> Garden State Bank, Cinnaminson, N.J.	282.0	21	} 25
	35.0	4	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-26-69)

All of the offices of State Bank are located in a northeasterly direction from, and within 8 miles of, downtown Camden. The closest offices of the merging banks are about 6 miles apart (Camden Trust's [The Bank of New Jersey] Cherry Hill Branch and State Bank's Colonial Square office in Cinnaminson). Several banks operate offices in the intervening area, including South Jersey National Bank (total deposits \$232 million) and the Burlington County Trust Company (total deposits \$67 million). Although Cinnaminson, Palmyra, and Riverton are among the closest Burlington County communities to Camden, Camden Trust apparently draws only a small amount of deposits from them. This existing competition would, of course, be eliminated [by] the proposed merger.

The proposed merger would increase Camden Trust's 27 per cent share of commercial bank deposits in the greater Camden area (within a 12-mile radius of the city of Camden) to over 30 per cent.

Under recently enacted New Jersey legislation, commercial banks may now operate branches anywhere in the newly created banking district in which they are located. Camden Trust is the largest bank in the Third District, which encompasses both Camden and Burlington Counties, as well as six other counties in southern New Jersey.

The proposal before the Board is essentially a market extension merger through which Camden Trust seeks entry into that part of Burlington County closest to Camden. State Bank serves much of this area. Its service area includes parts of the communities of Cherry Hill, Moorestown,

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

Willingboro, Riverside, and Delran, as well as the three communities in which its offices are physically located. Camden Trust's opportunities for *de novo* expansion into this area are somewhat limited by New Jersey law, which imparts complete home-office protection and branch-office protection to communities of less than 7,500 population. Palmyra and Delran, however, have recently grown to exceed 7,500 population (the latter by a 68 per cent growth since 1960), and would appear to represent existing opportunities for *de novo* expansion by Camden Trust. Should State Bank merge with another commercial bank, perhaps a distant but capable bank seeking entry into the greater Camden area, the fast growing town of Cinnaminson would also be open to Camden Trust. Cinnaminson (population 15,500; up 86 per cent since 1960) is presently served only by the 2 offices of State Bank and would be a most attractive area for new entry by Camden Trust.

In view of the leading position of Camden Trust in the greater Camden area, the opportunities for *de novo* expansion into the service area of State Bank, and the proximity of State Bank's service area to that part of the greater Camden area already served by Camden Trust, we conclude that the proposed merger would have an adverse effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (2-26-70)

Both Camden (population 126,000) and Cinnaminson (population 15,000) are in the Philadelphia Standard Metropolitan Statistical Area (1960 population 4,343,000). Camden Bank operates 21 offices in Camden County and has received approval to establish 4 additional branches, 2 in Camden County and 2 in contiguous Gloucester County. Cinnaminson Bank operates its head office and 1 branch in Cinnaminson, and 1 branch each in Riverton and Palmyra. All offices of Cinnaminson Bank are in Burlington County, which lies just north of Camden County. The nearest offices of the 2 banks are 6 miles apart, and there are 5 commercial banks operating a total of 11 offices within the area separating these 2 offices.

Consummation of the proposed merger would eliminate the modest amount of existing competition between the 2 banks and limited potential for increased competition. The effect of increased concentration in the area would be mitigated to a large extent by the proximity of both Camden Bank and Cinnaminson Bank to Philadelphia, where a considerable number of residents of both areas commute for employment. Consummation of the proposal would open the Cinnaminson area to *de novo* branching by the elimination of the home-office-protection feature under New Jersey law, and 2 banks, including 1 of the other large Third District banks, have al-

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

ready applied for branch sites in this area. This influx of banks into the Cinnaminson area would have the effect of increasing competition in this area. While both Philadelphia and Camden are convenient to the residents and businesses of the Cinnaminson area, it is felt that the convenience and needs aspects would be enhanced to some extent. In the judgment of the Board, the slightly adverse effect of the proposed merger on competition would be outweighed by the benefits for the banking convenience and needs of the Cinnaminson, Riverton, and Palmyra communities.

No. 8— Bankers Trust Company of Rochester, Rochester, N.Y., <i>to acquire most of the assets and all of the deposit liabilities of 4 branch offices of</i> Central Trust Company Rochester, N.Y., Rochester, N.Y.	4.5	(Newly organized bank; not in operation.)	
	39.1	4	4

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-13-70)

Pending before the Board of Governors of the Federal Reserve System is the amended application of Charter New York Corporation (hereinafter Charter) for prior approval of its acquisition of Central Trust Company (hereinafter Central), Rochester, New York.

Charter first attempted to acquire Central in 1966. On October 28, 1968, the Board denied that application.

In this amended application, Charter has stated that upon acquisition of Central, it would divest Central of a part of its assets to form a new bank (hereinafter New Bank) that would become a subsidiary of Bankers Trust New York Corporation (hereinafter BTNY), New York, New York. The proposed new subsidiary of BTNY formed by divestiture of present Central assets would be composed of 3 of Central's Rochester branches and its Williamson branch in Wayne County. As of June 30, 1969, these 4 branches had assets of \$39.1 million, deposits of \$38.4 million (including demand deposits of \$15.9 million), and net loans of \$16.4 million. The aggregate 1968 net earnings of these 4 offices were approximately \$375,000. Accord-

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

ing to the amended application, New Bank would be the fifth largest bank in both Rochester and in the Eighth Banking District.

The new proposal in Charter's amended application would not appear to eliminate the serious competitive considerations which caused the Board to reject the original application. Central remains the fourth largest bank in Rochester and the Eighth District, and would still be so after creation of the proposed New Bank. The dominance of the very large banking institutions in upstate New York's major banking markets would not be decreased but rather increased. While the proposed spin-off would add a new competitor in Rochester, this would not, in our opinion, outweigh the other adverse competitive effects of the acquisition. In view of BTNY's competitive strength and its own incentives to enter the Rochester area, it is one of the most likely potential entrants into Rochester in any event. Moreover, the entry of both Charter and BTNY on the scale contemplated by Charter's application would significantly increase barriers to entry into Rochester and the Eighth District by any other banking organization.

Since its original application to acquire Central, Charter has demonstrated the desire and ability to enter new retail banking markets. Its recent moves into the Third, Fourth, and Ninth Districts have been through acquisition of intermediate-sized competitors, rather than through the acquisition of the largest independent banks therein. It would not appear unreasonable to require Charter to enter the Eighth District in a similar manner.

In view of the developing pattern of holding company competition throughout New York, and particularly in the State's upstate areas, we consider it particularly important that the small number of remaining large independent banks not be incorporated into existing systems which hold leading shares in many important banking markets and are patently capable of effecting procompetitive entry into others. In taking this position, we support recent decisions of the Board which have sought to preserve the possibility of the development of new upstate-oriented holding companies, capable of competing with existing institutions on a regional and perhaps statewide basis, by preserving the independence of significant banks located in upstate New York.

Under Charter's proposal, Central would be eliminated as a potential participant in a new banking institution of substantial competitive ability. As a result, the objective sought to be served by the Board's recent decisions would be undermined.

We suggest that no evidence has been produced which would warrant a conclusion different from that reached by the Board with respect to the original application:

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

“ . . . affiliation of one of the few remaining large independent banks in upstate New York, and the only such bank in the highly concentrated Rochester area, with one of the largest bank holding companies presently in operation in the State, would tend toward that concentration of banking resources which is what Congress purposes to avoid.”

For the reasons above stated we conclude that the amended application, if approved, would have an adverse effect on potential competition in Rochester, the Eighth District, and in other areas of upstate New York.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-3-70)

Bankers Trust Company of Rochester, an organizing bank, proposes to acquire most of the assets and all of the deposit liabilities of 4 operating branch offices of Central Trust Company, Rochester, having aggregate deposits of approximately \$38.4 million.

The 4 offices are being acquired under an agreement between Bankers Trust Company New York Corporation, a registered bank holding company; Charter New York Corporation, a registered bank holding company; and Central Trust Company, whereby Charter New York would acquire Central Trust with the understanding that the 4 branches would be “spun off” to Bankers Rochester.

Bankers Rochester would be a wholly owned subsidiary of Bankers Trust New York Corporation and would represent this holding company's first entry into the Eighth Banking District, as well as into Rochester, long dominated by 3 large banks, which hold in the aggregate about 87 per cent of deposits in this district.

The subject proposal would result in 6 banks being located in Rochester, and would create a new competitor, which would be the fifth largest in the entire Eighth Banking District. The market share of the 3 largest banks would not immediately be affected; the share of area deposits held by the 4 largest, however, would be decreased from 95 per cent to 93 per cent. More important than this, however, the new bank, which would become the area's fifth largest, would likely possess a competitive capability much greater than that reflected by its \$38 million of deposits and 2 per cent market share.

Bankers Rochester would provide all of the services now offered by the 4 offices of Central Trust, and in addition, would have the potential for offering expanded services in competition not only with the 3 largest banks in Rochester, but also with Central Trust. Its establishment as an affiliate of Bankers Trust would create a new and competitive source of quality banking services in the Rochester area.

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 9— Grace Street Bank, Richmond, Va., <i>to merge with</i> Southern Bank and Trust Company, Richmond, Va.	0.2 107.5	(Newly organized bank; not in operation) 9	 9

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-11-70)

The proposed merger is part of a transaction which will result in Southern Bank and Trust Company becoming a wholly owned subsidiary of a one-bank holding company. Thus, this merger is merely part of a corporate reorganization and as such will have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-17-70)

The proposed merger is one step in a plan of corporate reorganization whereby Southern Bankshares, Inc. would become a one-bank holding company. Applicant is a wholly owned subsidiary of Southern Bankshares, Inc. Upon the merger of Southern Bank with applicant, stock of Southern Bankshares, Inc. would be exchanged for stock of Southern Bank. Use of a merger transaction in the plan to form a one-bank holding company would assure Southern Bankshares, Inc. that the resulting bank would be its wholly owned subsidiary. The proposed merger of Southern Bank and applicant—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 competition or on banking convenience and needs. The financial and managerial resources and prospects of Southern Bank are satisfactory, as they would be with respect to the resulting bank.

No. 10— Union Bank, Los Angeles, Calif., <i>to merge with</i> Commonwealth National Bank, San Francisco, Calif.	1,808.0 68.1	18 7	} 25
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SUMMARY REPORT BY THE ATTORNEY GENERAL (2-6-70)

Union Bank, which is based in southern California, operates 1 office in Oakland in northern California. The Oakland office is 12 miles from

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

Commonwealth's offices in San Francisco, and separated from those offices by San Francisco Bay. The merging banks are each minor factors in the San Francisco-Oakland area, and do not derive significant business from the area served by the other. Therefore, the proposed merger would not have an adverse effect upon existing competition.

Commonwealth is one of the smaller of 18 banks in San Francisco. As of June 30, 1968, it held less than 1 per cent of commercial bank deposits in the city of San Francisco.

Union Bank is the seventh largest bank in California, and the largest bank having no offices in San Francisco. Under California law Union Bank could establish *de novo* branches in San Francisco. Union Bank has expressed the desire to enter San Francisco in order to become a statewide bank, and it definitely has the resources to establish *de novo* offices there. San Francisco banking is presently highly concentrated.

The proposed merger would therefore eliminate potential for independent entry by Union Bank into San Francisco. However, given the relatively small market share of the bank to be acquired, the proposed merger is not likely to have an adverse effect upon competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-19-70)

Union Bank operates its head office in Los Angeles, 16 regional branch offices in southern California, and 1 northern California regional branch office in the city of Oakland, Alameda County. Union Bank ranks as the seventh largest bank in California and holds approximately 3.1 per cent of the State's total commercial bank deposits. Commonwealth Bank operates its main office and 3 branches in San Francisco, 2 branch offices in the San Francisco Bay Area in Pleasant Hill (Contra Costa County) and San Rafael (Marin County), and a seventh branch office in Santa Rosa (Sonoma County), 52 miles north of San Francisco. It holds 0.1 per cent of the total commercial bank deposits in California and ranks as the 33rd largest bank in the State. The resulting bank would control 3.2 per cent of the State's total deposits, would remain its seventh largest bank, and would operate 25 of the more than 2,900 banking offices in the State.

The principal effect of the merger would be felt in the city and county of San Francisco wherein Union Bank has no present representation. Commonwealth Bank holds approximately 0.6 per cent of the total deposits for this area and is the 12th largest of 19 banks.

The nearest office of Union Bank to Commonwealth Bank is its sole office in northern California, located in Oakland, 12 miles east of Commonwealth Bank's main office in San Francisco. The 2 offices, separated by San Francisco Bay, serve separate areas, and there is no significant competition between them. Union Bank holds only 4.0 per cent of the total deposits for

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—*CONTINUED*

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

the Oakland area, and Commonwealth Bank holds less than 0.1 per cent of such deposits.

Under California law, Union Bank, with supervisory approval, could establish a *de novo* branch in San Francisco or in any of the other areas served by Commonwealth. Likewise, Commonwealth Bank could establish a *de novo* branch in Los Angeles or in any of the other areas served by Union Bank. Consequently, there is some potential for direct competition between the banks through branching, which would be eliminated by consummation of this proposal.

The slightly adverse effect of this acquisition on competition would be offset by the assistance it would provide in alleviating the problems of Commonwealth Bank and by its benefit to the banking convenience and needs of the area served by Commonwealth Bank.

No. 11— The Bank of New Orleans and Trust Company, New Orleans, La., <i>to merge with</i> The Bank and Trust Company of Greater New Orleans, New Orleans, La.	189.7	8	8
	0.1	(Newly organized bank; not in operation)	

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-12-70)

The proposed merger is part of a transaction which will result in Bank of New Orleans and Trust Company becoming a wholly owned subsidiary of a one-bank holding company. Thus, this merger is merely part of a corporate reorganization and as such will have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-9-70)

The proposed merger is one step in a plan of corporate reorganization whereby New Orleans Bancshares, Inc., New Orleans, Louisiana, would become a one-bank holding company. New Orleans Bancshares, Inc. presently owns all of the stock of Greater New Orleans Bank; upon the merger of applicant with Greater New Orleans Bank, stock of New Orleans Bancshares, Inc. will be exchanged for stock of applicant.

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

The major purpose for the use of a merger transaction in applicant's plan to form a one-bank holding company is to assure that New Orleans Bancshares, Inc. will be able to acquire, except for directors' qualifying shares, all of the outstanding stock of the banking subsidiary.

From the record before the Board, it appears that the merger of applicant and the Greater New Orleans Bank—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 the relevant area. Further, it does not appear that the proposal would have any adverse consequences relative to the financial and managerial resources and prospects of the banks involved.

No. 12—Peoples Trust of New Jersey, Hackensack, N.J., <i>to merge with</i> The Peoples National Bank of Hackettstown, Hackettstown, N.J.	597.0	29	} 33
	23.7	4	

SUMMARY REPORT BY THE ATTORNEY GENERAL (4-8-70)

The nearest offices of Peoples Trust and Hackettstown Bank are 26 miles apart, with a number of banks in the intervening area. It would appear that the proposed merger would not eliminate any significant existing competition between the 2 banks.

Recent legislation in New Jersey broadens geographic areas for bank expansion beyond the former limits of county lines by dividing the State into three banking districts. Under this law, banks may branch within an entire district. However, the law retains communitywide home-office protection against *de novo* branching and provides branch-office protection in communities of less than 7,500 persons.

Hackettstown Bank serves primarily eastern Warren County, including the populous Hackettstown and Washington areas; western Morris County, and small sections of Sussex County to the north and Hunterdon County to the south. Warren, Sussex, and Morris Counties are in the First Banking District; accordingly, Peoples Trust could be permitted to open *de novo*

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

offices in those counties in communities that are not closed by home- or branch-office protection. Hackettstown itself is closed to *de novo* [branching] by commercial banks (if the proposed merger is approved, it will be open until such time as any new bank is chartered therein) as is Washington. Nearby areas of Warren County are comparatively low in population, and, according to the application, presently unattractive *de novo* branch sites. Washington and Mt. Olive Townships in Morris County, which border Hackettstown to the east, are also protected by branch offices of other commercial banks; these two townships, however, have experienced considerable growth in the last decade, and may exceed the 7,500 population figure in the not-too-far-distant future. At present, however, *de novo* opportunities for Peoples Trust in the area served by Hackettstown Bank are limited.

Hackettstown Bank is a significant local competitor. It is the third largest of 8 banks headquartered in Warren County. The county's largest bank, Warren County National (presently the only other bank in Hackettstown), has recently announced its proposed affiliation with a large bank in Newark through the medium of a registered bank holding company. The second largest bank in the county, Phillipsburg National, is presently party to an antitrust action before the Supreme Court, challenging its merger with another bank in Phillipsburg.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-21-70)

Peoples Trust is the fourth largest bank in New Jersey's First Banking District and in the State. The bank operates its head office and 23 branches in Bergen County; it also operates a branch in Essex County and in Morris County. It has received approval to establish 2 additional branches in Bergen County and a second branch in Morris County.

Hackettstown Bank operates its head office in Hackettstown, in north-eastern Warren County, and has received approval to establish an in-town branch; the bank operates 2 branches in the county, both of which are within 5 miles of its head offices. The nearest offices of Hackettstown Bank and Peoples Trust are 26 miles apart, and there are a number of offices of other banks in the intervening area. There is no meaningful competition existing between the merger proponents.

Hackettstown Bank is located in a market that is comprised of most of Warren County, plus the Townships of Mount Olive and Washington, which are located in adjoining Morris County. There are 21 banking offices in this area, 19 of which are operated in Warren County by 9 banks. Hackettstown Bank, with 12 per cent of area deposits, ranks third in this

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

respect. Warren County National Bank, largest of the 8 banks that are headquartered in Warren County, is a proposed bank holding company affiliate of New Jersey's largest bank; the State's second largest bank operates 3 branches in Warren County.

Hackettstown Bank, largely because of its size, does not appear to be a likely entrant into the area now served by Peoples Trust. Because of limited economic development in municipalities open to entry by *de novo* branching, it seems unlikely that Peoples Trust would find it economically feasible to branch into Warren County now or in the near future.

The replacement of Hackettstown Bank by an office of Peoples Trust would provide a convenient alternative source of full-banking services for the residents of the area now served by Hackettstown Bank and would remove home-office protection in the case of the Hackettstown community. A bank headquartered in Morris County has already filed an application to establish a *de novo* branch in Hackettstown.

In summary, the slightly adverse effect of the proposed merger on competition would be outweighed by the benefits for the banking convenience and needs of the Hackettstown community and environs.

No. 13—Union Bank and Trust Company, Ottumwa, Iowa, <i>to acquire the assets and assume the deposit liabilities of</i> Union State Bank, Richland, Iowa	46.8	3	} 4
	2.0	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (4-15-70)

The merger would not appear to eliminate any substantial direct competition between the merging banks. The closest offices of the banks are 32 miles apart; there are 2 competing banking offices in the intervening area.

State Bank, the seventh largest of 9 banks in Keokuk County, as of June 30, 1968, held 4.7 per cent of total county commercial bank deposits. The 3 largest banks in the county held 59.5 per cent of such deposits. Union Bank, the largest of 4 banks in Wapello County, as of June 30, 1968, held 55.3 per cent of total county deposits. It is also the largest bank operating in the area encompassing Keokuk County and all six surrounding counties. However, under Iowa law, Union Bank may not open a *de novo*

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

branch in Richland. It could, however, expand by organizing a holding company and chartering new banks; but even if it did, Richland is unlikely to be a community in which bank expansion would be feasible.

The merger would, therefore, not appear to eliminate any significant potential competition between the merging banks.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-21-70)

Richland Bank's sole office in Richland (population 500), Keokuk County, competes with 4 offices of 3 banks with deposits ranging from \$2 million to \$10 million. Ottumwa Bank has no office in Keokuk County; its closest office to Richland is at Agency, 32 miles to the southwest. There is no competition existing between the 2 banks, and due to State branching laws there is no potential for competition between them. The effect of the proposal on competition would not be adverse, and it would benefit the banking convenience and needs of the Richland community.

No. 14—Isabella County State Bank, Mount Pleasant, Mich., <i>to consolidate with</i> Weidman State Bank, Weidman, Mich.	24.9	2	} 3
	2.9	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (4-28-70)

The 2 banks are about 15 miles apart with no intervening banks. Weidman Bank and Isabella Bank obtain the same dollar amounts of IPC³ deposits from each other's service area (circa \$600,000). The merger will, therefore, eliminate direct competition between the 2 banks especially in the area around Beal City, between Weidman and Mount Pleasant.

The merger will combine the smallest and largest of the 5 banks now headquartered in Isabella County. In addition, 1 bank in neighboring Clare County maintains a small branch in Isabella County. The merger will raise the share of bank deposits in Isabella County held by the Isabella Bank from 41 per cent to 45 per cent.

Since the merger will eliminate competition, increase concentration, and enhance the dominant position of Isabella Bank in that county, we conclude it will probably have an adverse effect upon competition.

For notes see p. 285.

21.—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (5-26-70)

Both banks are located in Isabella County (population 39,000), in the central portion of the State, and they are 14 miles apart. While there is some present competition between the proponent banks, the potential for future competition between them is limited by the home-office-protection feature of Michigan law and by the small size and relatively ineffective competitive posture of Weidman Bank. The resulting bank would be the largest bank in the area by a slight margin, with approximately 31 per cent of area deposits. A number of banking alternatives would remain, and the over-all competitive effect of the proposed transaction would be no more than slightly adverse.

Weidman is in an area of productive farmland and is on the verge of developing into a resort area because of the six lakes within a radius of 6 miles. The resulting bank, with a higher legal lending limit, would benefit the convenience and needs of the Weidman community. In the judgment of the Board, the effect of the proposed consolidation on competition would be no more than slightly adverse and would be offset by the benefits to the banking convenience and needs of the Weidman area.

No. 15— Severn Bank and Trust Company, Annapolis, Md., <i>to merge with</i> The Annapolis Banking and Trust Company, Annapolis, Md.	0.2	(Newly organized bank; not in operation)	
	33.9	4	4

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-16-70)

The proposed merger is part of a plan under which Mercantile Bankshares Corporation, a proposed registered bank holding company, proposes to acquire all of the voting shares of Severn Bank and Trust Company, a nonoperating institution and as a contemporaneous transaction, to effect the merger of Severn Bank and Trust Company and Annapolis Banking and Trust Company. The effect of these transactions will be to transfer control of an existing bank to a registered bank holding company. In and of itself, however, the proposed merger would merely combine an existing bank with a nonoperating institution; as such, and without regard to acquisition of the surviving bank by Mercantile Bankshares Corporation, the proposed merger would have no effect on competition.

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (7-7-70)

The sole purpose of the proposed merger will be to facilitate the acquisition of The Annapolis Banking and Trust Company by Mercantile Bankshares Corporation, Baltimore, Maryland, which would own all of the capital stock of Annapolis Bank. Mercantile Bankshares is presently a one-bank holding company, owning over 95 per cent of the outstanding shares of Bel Air National Bank, Bowie, Maryland; however, there is presently before the Board a proposal for Mercantile Bankshares to become a registered bank holding company and to acquire the voting stock of the successor by merger to Mercantile-Safe Deposit and Trust Company, Baltimore, Maryland, and The Annapolis Banking and Trust Company. Severn Bank will conduct no operations except upon merger with Annapolis Bank.

The merger proposal, as such, would not have an effect on banking competition, and there would be no effect on the convenience and needs of the area. The banking factors are regarded as satisfactory.

No. 16— Marine Midland Grace Trust Company of New York, New York, N.Y., <i>to merge with</i> The Community Bank, Lynbrook, N.Y.	2,376.4	19	} 22
	25.9	3	

SUMMARY REPORT BY THE ATTORNEY GENERAL (6-14-70)

Marine Grace's closest offices to the service area of Community are its offices in Jericho and in central Queens County, which are 12 and 9 miles, respectively, from the nearest office of Community. Numerous banking alternatives intervene.

At present, Marine Grace does not draw substantial loans or deposits from Community's service area. It is unlikely that the proposed merger will eliminate a significant amount of direct competition.

New York banking law permits *de novo* entry into Nassau County by New York City-based commercial banks. New York's home-office protection precludes, however, a consideration of Marine Grace as a potential entrant into Lynbrook.

Marine Grace's new Carle Place office will be 5 miles from Community's West Hempstead branch but, however, still outside Community's service area. According to the application, this new branch is not expected to draw substantial business from Community's service area.

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

Community is among the smallest banks operating offices in Nassau County and more particularly in its service area. It operates 2 of the 69 commercial banking offices in its service area, and competes with 11 other banks, including most of the largest banks in the New York metropolitan area.

Although the proposed merger would add slightly to the position of one of the general area's most powerful banks, we do not believe that it would have a significantly adverse effect on potential competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (8-17-70)

Marine Grace, the largest of 12 bank subsidiaries of Marine Midland Banks, Inc., Buffalo, New York, a registered bank holding company, operates its head office and 16 branches in New York City; the bank also operates a branch in Jericho, Nassau County, and has received approval to open a branch in Carle Place, also in Nassau County. Marine Grace is the eighth largest bank in New York City. The 12 banks controlled by Marine Midland hold 6 per cent of the total bank deposits in the State, making the holding company the State's seventh largest banking organization. With the exception of Marine Grace and Marine Midland Tinker National Bank, East Setauket, Suffolk County, Marine Midland's bank subsidiaries are located in upstate New York.

Community Bank operates its head office and a drive-in branch in Lynbrook and a branch in West Hempstead; the bank derives the bulk of its business from these communities and from East Rockaway, Rockville Centre, Malverne, and Valley Stream, all of which are in southwestern Nassau County. Community Bank, with 7.5 per cent of the deposits, is the smallest of 9 banks that operate 19 offices in this area; 5 of the other banks are large New York City-based institutions.

The nearest offices of Marine Grace to Community Bank are its branches in central Queens County and in Jericho, which are, respectively, 12 and 9 miles distant; numerous banking alternatives intervene. The proposed Carle Place branch of Marine Grace will be 5 miles northeast of West Hempstead and separated from the latter by a congested residential and commercial region. The nearest office of Marine Tinker to an office of Community Bank is at Brentwood, 30 miles east of Lynbrook.

The proposed merger would not eliminate any meaningful existing competition. State law permits *de novo* entry into Nassau County by New York City-based banks, but the home-office-protection feature of State law precludes Marine Grace from establishing a new branch in Lynbrook. The proposed merger would open Lynbrook to *de novo* entry by other banks.

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

In the judgment of the Board, the effect of the proposed merger on competition would be no more than slightly adverse and would be offset by benefits to the banking convenience and needs of the area served by Community Bank.

No. 17—Girard Trust Bank, Philadelphia, Pa., <i>to acquire the assets and assume the deposit liabilities of City Bank of Philadelphia,</i> Philadelphia, Pa.	2,000.0	65	} 66
	11.9	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL

No report received. City Bank was closed for insolvency by Pennsylvania State banking authorities and requests for reports on the competitive factors were dispensed with as authorized by the Bank Merger Act to permit the Board to act immediately in order to safeguard depositors of City Bank.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-11-70)

City Bank's only banking office was closed for insolvency by Pennsylvania State banking authorities and is under receivership of the Secretary of Banking of the State of Pennsylvania. On the basis of information before it, including communications with the Secretary of Banking and the Federal Deposit Insurance Corporation, the Board finds that an emergency situation exists, which the present application is intended to remedy in order to safeguard depositors of City Bank.

The Board has considered all relevant material contained in the record in the light of the factors set forth in the Bank Merger Act, and concludes that 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. Any disposition of the application other than its approval on a basis that will not delay its consummation would be inconsistent with the best interests of depositors of City Bank.

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 18— Bordentown Banking Company , Bordentown Township, N.J., <i>to merge with</i> The First National Bank in New Egypt , New Egypt, N.J.	31.6	4	} 5
	8.2	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-14-70)

While not coextensive, the service areas of the merging banks overlap, primarily in the area between Bordentown Bank's Chesterfield branch and New Egypt Bank, a distance of some 8 miles. According to the application, Bordentown Bank's Chesterfield office derives about \$700,000 in deposits and \$300,000 in loans from the area served by New Egypt Bank, while New Egypt Bank draws about \$800,000 in deposits and \$500,000 in loans from Bordentown Bank's service area. Thus, some direct competition will be eliminated by the proposed merger. The home-office-protection provision of New Jersey law would prevent Bordentown Bank from opening a *de novo* office in New Egypt.

A number of other, larger commercial banks operate offices in the area served by New Egypt Bank, including the Central Jersey Bank and Trust Company (total deposits \$129 million) and The First National Bank of Toms River (total deposits \$125 million). Clearly the strongest position in the area is held by the Mechanics National Bank of Burlington County (total deposits \$57 million), which operates several offices near the populous military installations.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-14-70)

New Egypt Bank's sole office in New Egypt, Ocean County, competes with offices of 4 other banks, all of which have larger deposit totals than the resulting bank. Bordentown Bank has no office in Ocean County and its closest office, 7 miles from New Egypt, is the only one which competes to any extent with New Egypt Bank. Under New Jersey statutes, neither bank could branch *de novo* into the communities served by the other. The effect of the proposed merger on competition would be slightly adverse; this would be outweighed by the benefits for the banking convenience and needs of the area served by New Egypt Bank.

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 19— Bank of Delaware, Wilmington, Del., <i>to merge with</i> Millsboro Trust Company, Millsboro, Del.	268.5	17	} 18
	11.8	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-7-70)

Bank of Delaware is primarily located in northern Delaware. It does operate 2 branch offices in Seaford, some 20 miles from Millsboro. There does not appear to be a significant amount of competition between these offices and Millsboro. The two largest banks in the State (Farmers Bank of Delaware and Wilmington Trust) maintain between them 3 branches within a radius of 10 miles of Millsboro. It would appear that only a very limited amount of direct competition would be eliminated by the proposed merger.

Under Delaware law, Bank of Delaware could establish a *de novo* branch in Millsboro. Furthermore, because it is the third largest bank in the State, it would appear to be one of the most likely entrants into the Millsboro market. However, a statewide bank (Delaware Trust) and a countywide bank (Sussex Trust) have already applied for authority to open *de novo* offices within 1 mile of Millsboro. It would appear that the proposed merger would eliminate some potential competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-14-70)

Bank of Delaware (deposits \$232 million) is the third largest of 19 commercial banks in Delaware, and controls about 19 per cent of total deposits in the State. Millsboro Trust Company (deposits \$10 million) is the only bank in Millsboro (population 1,000), and the fifth largest of 6 banks competing in southeast Sussex County. The nearest office of Bank of Delaware is 20 miles from Millsboro Trust Company, and no significant competition exists between the 2 banks. While Bank of Delaware is permitted by State law to branch into the area served by Millsboro Trust Company, such *de novo* entry is considered unlikely because of the size of the community and the number of banks presently serving that market. The substitution of an aggressive full-service bank for a relatively small unit bank would likely increase competition in southeast Sussex County, without undue adverse effects on competing banks.

Based upon the foregoing, the Board concludes that consummation of the proposal would not have an adverse effect on competition in any relevant

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

area. Considerations relating to the financial and managerial resources and future prospects of both of the proponents are regarded as satisfactory. The merger would have no significant effect on customers presently served by Bank of Delaware, but will make possible expansion and improvement of banking and trust services offered by Millsboro Trust Company; the greater lending ability of the merged bank would assist in meeting the expanding credit needs of the area, which is now undergoing economic development. It is the Board's judgment that consummation of the proposal would be in the public interest.

No. 20— Security Trust Company of Rochester, Rochester, N.Y., to merge with The Cohocton State Bank, Cohocton, N.Y.	365.7	29	} 30
	3.2	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-16-70)

The closest office of Security to Cohocton Bank is located in Naples, some 10 miles northeast of the town of Cohocton. Security also operates branches at Dansville, 13 miles to the northwest, and at Bath, 16 miles to the south. However, 3 other commercial banks are located in the intervening areas. Security does only a limited amount of banking business in the general vicinity of Cohocton and very little in Cohocton itself. The proposed merger would not eliminate substantial direct competition.

In view of the small size of the city of Cohocton, its stable population, and its limited economic growth potential, it is unlikely that Security could branch *de novo* into this small town, even in the absence of home-office protection.

Because of these factors, and the small size of Cohocton Bank, we conclude that the proposed merger would be unlikely to have a significantly adverse effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-17-70)

Cohocton Bank's sole office in Cohocton, Steuben County, is the only banking office in the area it serves. Three other banks, 2 of which are larger

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

than Cohocton Bank, are located 5–8 miles from Cohocton. Security's nearest offices to Cohocton Bank are 10, 13, and 16 miles from Cohocton, with an office of another bank intervening in each instance. An insubstantial amount of competition exists between proponents, and there is little potential for increased competition between them. The effect of the merger on competition would be no more than slightly adverse; this would be outweighed by the benefits for the banking convenience and needs of Cohocton and environs.

No. 21— Union Trust Company of Maryland, Baltimore, Md., <i>to merge with</i> Metropolitan National Bank of Maryland, Wheaton, Md.	480.6	49	} 55
	14.7	6	

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-7-70)

The closest offices of the merging banks are about 20 miles apart. Neither does substantial banking business in the other's service area. Therefore, the proposed merger will not eliminate any significant existing competition.

Maryland law permits banks to branch anywhere in the State. As the largest Maryland bank not operating in the Maryland suburbs of Washington, D.C., Union Trust must be considered the most significant potential entrant into that area, including Montgomery County. However, considering the size and market position of Metropolitan National and the fact that Union Trust may be expected to compete actively to increase that market share, we conclude that the proposed merger is not likely to have a significantly adverse effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-17-70)

Union Trust, the fifth largest bank in Maryland, holds 8.5 per cent of commercial bank deposits in the State and operates 49 offices, 42 of which are in the Baltimore area. Metropolitan, with 0.3 per cent of commercial

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

bank deposits in the State, operates 5 banking offices in Montgomery County and 1 office in Prince George's County, all within the Washington, D.C. metropolitan area. The closest offices of Union Trust and Metropolitan are more than 20 miles apart, and there is no significant present competition between them. Maryland law permits statewide branching, but *de novo* entry by Metropolitan into the area served by Union Trust is considered unlikely because of Metropolitan's limited size and the distance from its present office. While *de novo* entry by Union Trust into the Washington area is perhaps more feasible, in view of the number of large banks in the area and the limited size of Metropolitan, the method of entry proposed does not appear anticompetitive.

Consummation of the merger would provide needed management depth to Metropolitan and a wider variety of lending and fiduciary service to Metropolitan's customers. It is the Board's judgment that consummation of the proposal would be in the public interest.

No. 22—Houston Bank & Trust Company, Houston, Tex., <i>to merge with</i> Citizens Bank, Houston, Tex.	132.0	1	} 1
	86.1	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-31-70)

The offices of both banks are located in downtown Houston. It is, therefore, evident that if the proposed merger is approved, a not insignificant amount of existing competition between the banks for both deposits and loans, especially commercial and industrial loans, will be eliminated.

Texas law prohibits branching. According to the application, the 4 largest banks in Houston and in Harris County controlled 59.6 per cent of total county deposits and 55.8 per cent of total county loans, as of December 31, 1969. This understates the level of concentration since most major banks have affiliates located in suburban areas. Houston Bank & Trust Company, the county's sixth largest bank, has 2.3 per cent of the county's commercial deposits. The merged bank would become the county's fifth largest bank, with less than 4 per cent of deposits in the county. Sixteen banks operate in downtown Houston. Houston Bank & Trust Company has 3 per cent of the deposits in such banks and Citizens has 2 per cent. The resulting banks would, therefore, have 5 per cent of such deposits.

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

A number of new banks, some of which are not affiliated with existing banks, have been organized in Houston and Harris County in the past two decades. These banks have contributed to some deconcentration of control over bank deposits. Approval of this merger could encourage similar mergers among other middle-sized banks, thereby lessening competition and increasing concentration.

Since the proposed merger would eliminate direct competition for loans and deposits between the banks and might encourage mergers between other medium-sized banks, thereby increasing concentration, we conclude that the proposed merger would have some adverse effect on banking competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-22-70)

Although Houston Bank and Citizens Bank are located only about 1 mile apart in the business section of downtown Houston, there are 15 other banks in the downtown area, 12 of which are situated in the intervening area. These 17 downtown banks are among 95 banks in Harris County, which encompasses Houston and portions of its suburban periphery. Houston Bank and Citizens Bank rank sixth and 12th, respectively, and the resulting institution would rank fifth in deposit size. The president of Houston Bank recently acquired a controlling interest in Citizens Bank; even in the absence of this relationship, it does not appear that the merger would reduce competition significantly, especially in view of the relative size of the merging banks and the large number of alternative sources of banking services in the relevant area.

The resulting bank's larger size would permit it to meet a greater portion of the credit needs of the area and to provide a more effective alternative to the 4 larger banks, which range in deposit size from \$266 million to \$1 billion. Because of the statutory prohibition against branching, Citizens Bank's single office would be closed; however, it does not appear that customers in its immediate area would be inconvenienced seriously because of the other readily accessible alternatives. Some support for approval of the merger is found in the banking factors, in that the combination would assure a permanent solution to the financial difficulties encountered by Citizens Bank prior to its recent change in ownership. In the judgment of the Board, consummation of the proposal would be in the public interest.

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 23— Long Island Trust Company, Garden City, N.Y., <i>to merge with</i> Bank of Westbury Trust Company, Westbury, N.Y.	280.5	20	} 24
	41.8	4	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-25-69)

Long Island Trust operates 13 offices in Nassau County; Bank of Westbury operates 4 offices in the county. The merging banks' main offices are about 3.5 miles apart; their closest offices are 1.1 miles apart. Five offices of Long Island Trust and all 4 offices of Westbury Bank are within a 6-mile diameter area in central Nassau County. The application indicates that each of the merging banks derives substantial deposit and loan accounts from the service area of the other. It would, therefore, appear that the proposed merger would eliminate substantial direct competition between these 2 banks.

As of June 30, 1968, there were 14 commercial banks, with 209 branch offices in Nassau County. Long Island Trust and Bank of Westbury held 7.4 per cent and 1.4 per cent, respectively, of total county commercial bank deposits. However, these figures substantially understate the anticompetitive effects of the proposed merger, as the elimination of competition will have its primary effect in a more limited geographic area. For example, in a central Nassau County market encompassing an area slightly larger than the combined self-designated service areas of the 2 banks' competing offices, Long Island Trust and Bank of Westbury held market shares of 23 per cent and 7 per cent, respectively. If this merger were consummated, the resulting bank would hold approximately 30 per cent of deposits in the market.

The proposed merger would eliminate an independent locally oriented bank through merger with a leading areawide institution. Although it would open Westbury to *de novo* branching, the merger would combine 2 banks which may be in substantial competition with one other. We conclude that the proposed merger may have a serious adverse effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-22-70)

Long Island Trust (total deposits \$235 million) and Westbury Bank (total deposits \$38 million) are both headquartered in Nassau County, which forms a part of the New York metropolitan area. Long Island Trust

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

operates its head office and 3 of its 12 Nassau County branches in Garden City (population 25,000). Its remaining 7 branches are located in Suffolk County. Westbury Bank operates a main office and 2 branches in Westbury Village (population 15,000), and 1 in Williston Park, approximately 4 miles west of its head office. The main offices of Long Island Trust and Westbury Bank are 3.5 miles apart; their nearest offices are approximately 1 mile apart; and the main office of Long Island Trust, 3 of its branch offices, and the 4 offices of Westbury Bank are all located within the central Nassau County area. The bulk of Westbury Bank's business is derived from that area, as is a significant portion of Long Island Trust's business.

Premised upon a survey of central Nassau County residents and businesses, it is established that banks located outside the central Nassau County area have a substantial impact on competition within that area, and constitute a convenient alternative source of banking services for customers, large and small, within the area. While immediate and direct competition between Long Island Trust and Westbury Bank occurs in central Nassau County, use of this market in measuring the total present and potential competitive consequences would ignore major market forces that bear on the question of the significance of the elimination of such competition. New York City banks are permitted to branch throughout the metropolitan New York area, and the Nassau and Westchester County banks may also branch into New York City. In major respects, Nassau County banks are significantly influenced in their service rates and terms by those set by the New York City banks. A large majority of the working population of central Nassau County responding to the survey work outside that area; of this group, a large proportion commute daily to New York City. These commuters tend to utilize banking services convenient to their places of business; even noncommuters tend to use to some extent either banks outside the area or banks within that have offices in New York City. A majority of the central Nassau County survey respondents depend on New York City banking offices for credit accommodations, particularly mortgage credit. It is clear that the metropolitan New York area is an appropriate market with respect to which the competitive consequences of this proposal should be determined.

Within the metropolitan New York area, 54 commercial banks hold aggregate total deposits of \$63 billion. Of those banks, Long Island Trust ranks 19th in total deposits; following consummation of the proposed merger, the resulting bank would rank 17th in size, holding less than 0.4 per cent of the area deposits.

While the proposed merger would eliminate present and potential competition between Long Island Trust and Westbury Bank, it would remove

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

home-office protection from the Village of Westbury and open that community to *de novo* branching. Considering the large number of banking alternatives available to the homeowners and to businesses in the central Nassau County area, the loss of one alternative through this merger is not viewed as a significantly adverse competitive consequence, and the over-all effect of the proposal upon competition would be no more than slightly adverse.

In the judgment of the Board, the proposed merger would have but slightly adverse competitive consequences, which would be offset by benefits to the banking convenience and needs of the Westbury area. Accordingly, the Board concludes that the application should be approved.

No. 24 and 25—Georgia Railroad Bank & Trust Company, Augusta, Ga., <i>to merge with</i> Richmond County Bank, Augusta, Ga., <i>and with</i> Metropolitan State Bank, Augusta, Ga.	162.3	6	} 9
	6.7	2	
	4.8	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (9-18-70)

Richmond County Bank (hereinafter Richmond Bank) was chartered in 1955. Georgia Railroad Bank & Trust Company (hereinafter Georgia Bank) was the moving force in chartering Richmond Bank and has provided it with officers, employees, and management assistance. With the exception of its Ft. Gordon facility, all of Georgia Bank's offices are located within 5 miles of both of Richmond Bank's offices. Richmond Bank has always been operated as an affiliate of Georgia Bank, however, and has never represented an independent competitive force in Richmond County. Thus, this proposed transaction will not have an adverse effect on competition.

Metropolitan State Bank (hereinafter Metropolitan Bank) was chartered in 1963. Georgia Railroad Bank & Trust Company (Georgia Bank) was the moving force in chartering Richmond Bank and has provided it with

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

officers, employees, and management assistance. With the exception of its Ft. Gordon facility, all of Georgia Bank's offices are located within 5 miles of Metropolitan Bank. Metropolitan Bank has always been operated as an affiliate of Georgia Bank, however, and has never represented an independent competitive force in Richmond County. Thus, this proposed transaction will not have an adverse effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (10-27-70)

Railroad Bank was instrumental in organizing Richmond County Bank (hereinafter RCB) and Metropolitan State Bank (hereinafter MSB) in 1955 and 1963, respectively, in communities immediately outside the city limits of Augusta (population 58,500) and has had a strong degree of influence over them since they opened for business. It seems clear that were it not for the restrictions placed on branching under Georgia statutes at the time RCB and MSB were organized, Railroad Bank would have established branches at such locations. Effective January 1, 1971, county-wide branching will be permitted in Georgia; Railroad Bank will operate branches at the present offices of RCB and MSB. There is no effective competition existing among proponents, and there is little likelihood of potential competition developing among them due to their longstanding close relationship. The banking and convenience and needs factors are consistent with approval.

No. 26— American Bank and Trust Company, Lansing, Mich., <i>to consolidate with</i> The National Bank of Eaton Rapids, Eaton Rapids, Mich.	171.0	11	} 13
	10.2	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-18-70)

The closest offices of the merging banks are approximately 6 miles apart, with 2 banks in the intervening area. National Bank's branch office at Dimondale is approximately 2 miles from the city of Lansing.

American Bank is the second largest bank in the city of Lansing and in Ingham County, with about 23 per cent of total county deposits. Although

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

American Bank has no branches in Eaton County and, under Michigan law, cannot establish *de novo* branches there, there appears to be some direct competition between the merging banks for those banking customers who reside in Eaton Rapids and work in Lansing. The application indicates that there is some overlap of deposit and loan accounts between the service areas of the 2 banks. Around 1.5 per cent of National Bank's demand deposit accounts originate in the American Bank service area. Approximately 3.4 per cent of National Bank's instalment loan accounts and 1.5 per cent of its commercial and industrial loan accounts originate in American Bank's service area.

The overlap of competition is confirmed by the fact that approximately 1.2 per cent of American Bank's IPC³ demand deposit accounts originate in the service area of National Bank. American Bank also gets approximately 2 per cent of its commercial and industrial loan accounts and 2.3 per cent of instalment loan accounts from National Bank's service area.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-9-70)

Both banks maintain all of their offices in the Lansing Standard Metropolitan Statistical Area (SMSA), consisting of Clinton, Eaton, and Ingham Counties. American Bank is the second largest of 16 banks in this area, holding about 19 per cent of commercial bank deposits. The largest area bank—The Michigan National Bank—has total deposits in excess of \$1 billion, \$297 million of which are derived from the Lansing SMSA; this represents 44 per cent of area deposits. Eaton Rapids Bank is the 11th largest bank in the Lansing SMSA, controlling about 1 per cent of area deposits. The main offices of the 2 banks are approximately 17 miles apart, and the nearest offices are 6½ miles apart. While some existing competition between the 2 banks would be eliminated by consummation of the proposed consolidation, in view of the number and size of other alternatives available, the anticompetitive effect of the elimination of such competition as presently exists between the 2 merging banks is regarded as minimal. The potential for increased future competition between the 2 institutions would seem to be somewhat limited by the size of Eaton Rapids Bank and by the office-protection features of Michigan branch-banking laws.

American Bank, the area's second largest bank, would offer a greater variety of services than Eaton Rapids Bank now provides. Although these services are already available from the larger Lansing banks, the addition of a convenient alternative source of full-banking services would benefit the convenience and needs of the Eaton Rapids area and Dimondale area (site of Eaton Rapids Bank's branch office). As previously indicated, American

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Cont.

Bank is precluded by restrictions of State law from branching *de novo* into these two areas.

In the judgment of the Board, any anticompetitive effects of the proposed consolidation would be slight and would be outweighed by the benefits to the banking convenience and needs of the Eaton Rapids and Dimondale communities.

No. 27—Long Island Trust Company, Garden City, N.Y., <i>to merge with</i> Seaside Bank, Westhampton Beach, N.Y.	322.3	21	} 22
	12.5	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-1-70)

The main offices of Long Island Trust and Seaside are 61 road miles apart. The nearest open branch office of Long Island Trust, located in Hauppauge, is approximately 31 miles from Seaside. There are numerous commercial banks operating in the intervening area. An approved but unopened branch of Long Island Trust, located in Bohemia, will be 26 miles from Seaside. There are also many commercial banks located in this intervening area. With 95 per cent of Seaside's deposits originating within a 5-mile radius of its place of business, there does not appear to be any significant direct competition between the merging banks.

As of June 30, 1968, Long Island Trust's Suffolk County deposits totaled \$40.8 million, representing 2.6 per cent of the county's total deposits. As of the same date, Seaside had \$10.1 million in total deposits, representing 0.7 per cent of Suffolk County's total deposits. A merger between these 2 institutions would not significantly increase concentration in Suffolk County.

New York State law prohibits *de novo* branching into a community wherein is located the home office of another bank. Accordingly, Long Island Trust could not open a new branch in Westhampton Beach. If the proposed merger is consummated, this community will be open to *de novo* branching by other banks; the application indicates that, in anticipation of the subject merger, two applications for the establishment of new branches have been filed by other banks.

We conclude that the proposed merger would be unlikely to have a significantly adverse effect on competition.

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-12-70)

Long Island Trust is the second largest of 11 banks headquartered in Nassau County, where it operates 13 branch offices; its remaining 7 operating offices (one branch has been approved but is unopened) are situated in Suffolk County. Seaside Bank operates its only office in Westhampton Beach, Suffolk County. In terms of deposits held, it ranks 15th of 16 banks located in the county. The closest offices of Long Island Trust and Seaside Bank are about 30 miles apart, and there is no significant competition existing between them. It appears that no substantial amount of potential competition would be foreclosed by the merger because of the size of Seaside Bank and due to the restrictions placed on branching by State laws. Consummation of the proposed transaction would not result in concentration levels being significantly increased on a local or statewide basis.

Consummation of the merger would provide customers of Seaside Bank with more convenient access to certain banking services, which are now made available to them by banks located several miles from Westhampton Beach; these considerations lend weight toward approval of the transaction. Considerations relating to the financial condition, management, and prospects of Long Island Trust, Seaside Bank, and the resulting bank are consistent with approval of the application. It is the Board's judgment that consummation of the proposal would be in the public interest, and that the action should be approved.

No. 28—New Citizens Bank, Poquoson, Va., <i>to merge with</i> Citizens Bank of Poquoson, Poquoson, Va.	0.2	(Newly organized bank; not in operation)	
	7.6	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-1-70)

The proposed merger is part of a plan under which First Virginia Bankshares Corporation, a registered bank holding company, proposes to acquire all of the voting shares of New Citizens Bank, a nonoperating institution, and as a contemporaneous transaction, to effect the merger of New Citizens Bank and Citizens Bank of Poquoson. The effect of these transactions will be to transfer control of an existing bank to a registered bank holding company. In and of itself, however, the proposed merger would merely combine

For notes see p. 285.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1970¹—CONTINUED

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Cont.

an existing bank with a nonoperating institution; as such, and without regard to acquisition of the surviving bank by First Virginia Bankshares Corporation, the proposed merger would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-24-70)

New Citizens Bank, Poquoson, Virginia, an organizing bank applying concurrently for membership in the Federal Reserve System, has requested prior written consent of the Board of Governors to merge with Citizens Bank of Poquoson, Poquoson, Virginia, under the charter of New Citizens Bank, and with the title Citizens Bank of Poquoson. Citizens Bank of Poquoson operates 1 office and has total deposits of about \$7 million.

The proposed merger is merely a transaction to facilitate the acquisition of Citizens Bank of Poquoson by First Virginia Bankshares Corporation, Arlington, Virginia, a registered bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking factors and the convenience and needs factors are consistent with approval of the application.

No. 29— Marine Midland Trust Company of Central New York, Syracuse, N.Y., <i>to merge with</i> Marine Midland Trust of the Mo- hawk Valley, Utica, N.Y.	307.6	21	} 36
	233.0	15	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-3-70)

The head offices of the merging banks are some 50 miles from each other, and their closest offices are about 35 miles apart, with many banks in the intervening area. Thus, it does not appear that the merging banks compete in the same banking market.

Moreover, the longstanding common ownership of the 2 banks by Marine Midland Banks, Inc. indicates that the proposed transaction is primarily an internal reorganization, which would have little or no adverse effects on actual or potential competition.

For notes see p. 285.

Name of bank, and type of transaction ² (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (12-10-70)

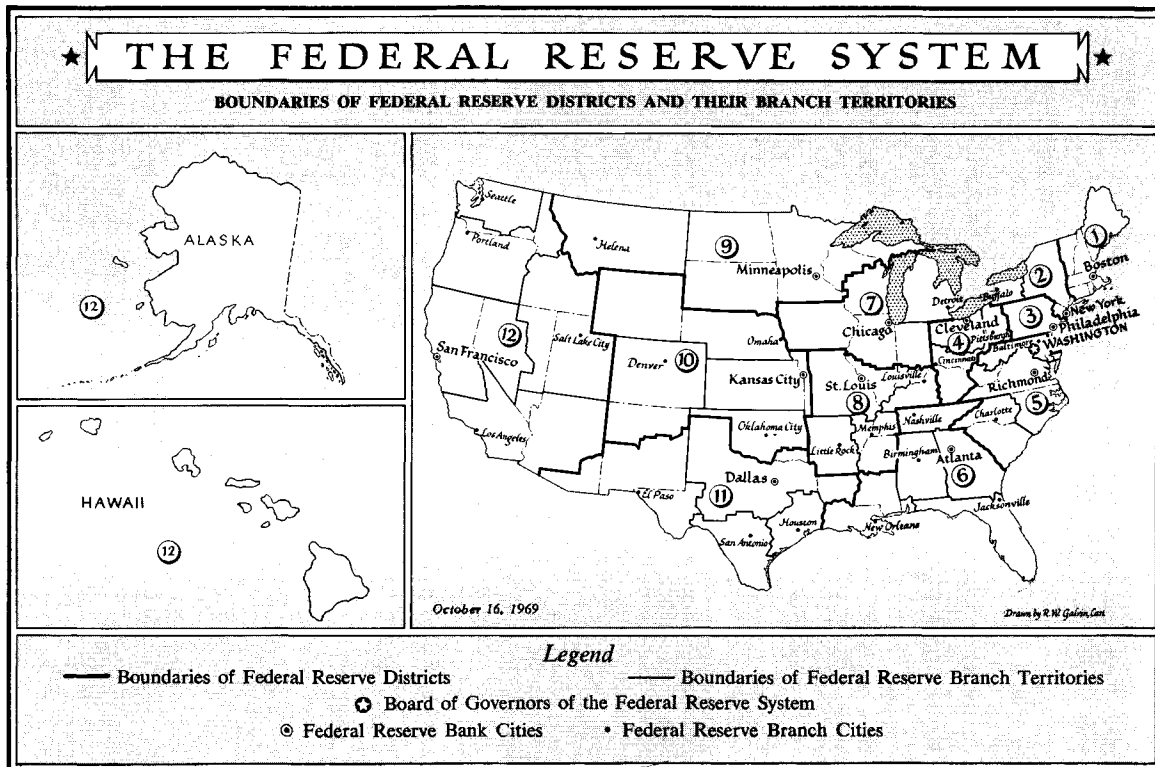
Marine Midland-Syracuse (deposits \$251 million) and Marine Midland-Utica (deposits \$196 million) are subsidiaries of Marine Midland Banks, Inc., Buffalo, New York, a registered bank holding company, which owns approximately 99 per cent of the outstanding stock of each bank. The holding company acquired control of Marine Midland-Syracuse in 1951 and of Marine Midland-Utica in 1954. The banks serve separate markets, their main offices are 50 miles apart, and their closest offices are situated approximately 35 miles from each other. The proposed merger represents an internal reorganization of the banks undertaken to effect economies in their operations and to alleviate personnel shortages.

The merger of Marine Midland-Syracuse and Marine Midland-Utica would not eliminate existing or potential competition. The financial and managerial resources and prospects of the merging banks and the resulting bank are satisfactory and consistent with approval of the application. Consummation of the proposed merger would enable the resulting bank to better serve customers in the Syracuse and Utica markets by making available to them increased lending limits and more convenient access to international banking services. Convenience and needs considerations are, therefore, consistent with approval of the application. It is the Board's judgment that consummation of the proposal would be in the public interest and that the application should be approved.

¹ During 1970 the Board disapproved 2 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.

² Each transaction was proposed to be effected under the charter of the first-named bank.

³ The abbreviation "IPC" designates deposits of individuals, partnerships, and corporations.



NOTE.—For a complete description of each Federal Reserve district see *Description of Federal Reserve Districts—Territorial Composition of Each Head Office and Branch, Including Population and Land Area*, a pamphlet published in April 1966. This pamphlet is available upon request from the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

*Federal Reserve
Directories and Meetings*

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(December 31, 1970)

Term expires

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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

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J. CHARLES PARTEE, *Adviser to the Board*

ROBERT SOLOMON, *Adviser to the Board*

HOWARD H. HACKLEY, *Assistant to the Board*

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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*
JOHN T. MCCLINTOCK, *Assistant Director*
THOMAS A. SIDMAN, *Assistant Director*
TYNAN SMITH, *Assistant Director*

DIVISION OF PERSONNEL ADMINISTRATION

EDWIN J. JOHNSON, *Director*
JOHN J. HART, *Assistant Director*

DIVISION OF ADMINISTRATIVE SERVICES

JOSEPH E. KELLEHER, *Director*
DONALD D. ANDERSON, *Assistant Director*
JOHN D. SMITH, *Assistant Director*

OFFICE OF THE CONTROLLER

JOHN KAKALEC, *Controller*
HARRY J. HALLEY, *Assistant Controller*

DIVISION OF DATA PROCESSING

JEROLD E. SLOCUM, *Director*
JOHN P. SINGLETON, *Associate Director*
GLENN L. CUMMINS, *Assistant Director*
JOE M. JACKSON, *Assistant Director*
HENRY W. MEETZE, *Assistant Director*
RICHARD S. WATT, *Assistant Director*

† On leave of absence.

†† Currently serving also as Program Director for Banking Structure in the Office of the Secretary.

FEDERAL OPEN MARKET COMMITTEE

(December 31, 1970)

MEMBERS

ARTHUR F. BURNS, *Chairman* (Board of Governors)
ALFRED HAYES, *Vice Chairman* (Elected by the Federal Reserve Bank of New York)
ANDREW F. BRIMMER (Board of Governors)
J. DEWEY DAANE (Board of Governors)
DARRYL R. FRANCIS (Elected by the Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
AUBREY N. HEFLIN (Elected by the Federal Reserve Banks of Boston, Philadelphia, and Richmond)
SHERMAN J. MAISEL (Board of Governors)
GEORGE W. MITCHELL (Board of Governors)
J. L. ROBERTSON (Board of Governors)
WILLIAM W. SHERRILL (Board of Governors)
ELIOT J. SWAN (Elected by the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)
Vacancy (Member to be elected by the Federal Reserve Banks of Cleveland and Chicago)

OFFICERS

ROBERT C. HOLLAND, *Secretary*

ARTHUR L. BROIDA,
Deputy Secretary
KENNETH A. KENYON,
Assistant Secretary
CHARLES MOLONY,
Assistant Secretary
HOWARD H. HACKLEY,
General Counsel
DAVID B. HEXTER,
Assistant General Counsel
J. CHARLES PARTEE,
Economist
STEPHEN H. AXILROD,
Associate Economist
J. HOWARD CRAVEN,
Associate Economist

GEORGE GARVY,
Associate Economist
LYLE E. GRAMLEY,
Associate Economist
A. B. HERSEY,
Associate Economist
WILLIAM J. HOCTER,
Associate Economist
HOMER JONES,
Associate Economist
JAMES PARTHEMOS,
Associate Economist
JOHN E. REYNOLDS,
Associate Economist
ROBERT SOLOMON,
Associate Economist

ALAN R. HOLMES, *Manager, System Open Market Account*

CHARLES A. COOMBS, *Special Manager, System Open Market Account*

During 1970 the Federal Open Market Committee met on the dates shown in the Record of Policy Actions taken by the Committee (see pp. 83-177 of this Report).

FEDERAL RESERVE BANKS AND BRANCHES

(December 31, 1970)

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston.....	James S. Duesenberry	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.....	Emerson G. Higdon	William H. Franklin
St. Louis.....	Frederic M. Peirce	Smith D. Broadbent, Jr.
Minneapolis.....	(Vacancy)	David M. Lilly
Kansas City.....	Dolph Simons	Willard D. Hosford, Jr.
Dallas.....	Carl J. Thomsen	Chas. F. Jones
San Francisco.....	O. Meredith Wilson	S. Alfred Halgren

CONFERENCE OF CHAIRMEN

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. Such a meeting, attended also by Deputy Chairmen of the Reserve Banks, was held in Washington on December 3-4, 1970.

Mr. Winn, Chairman of the Federal Reserve Bank of Philadelphia, who was elected Chairman of the Conference and of its Executive Committee in December 1969, served in that capacity until the close of the 1970 meeting. Mr. Clay, Chairman of the Federal Reserve Bank of Cleveland, and Mr. Nickerson, Chairman of the Federal Reserve Bank of New York, served with Mr. Winn as members of the Executive Committee; Mr. Clay also served as Vice Chairman of the Conference.

On December 4, 1970, Mr. Clay was elected Chairman of the Conference and of its Executive Committee to serve for the succeeding year; Mr. Nickerson was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. Wilson, Chairman of the Federal Reserve Bank of San Francisco, was elected as the other member of the Executive Committee.

DIRECTORS

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Federal Reserve Bank branches have either five or seven directors, of whom a majority are appointed by the Board of Directors of the parent Federal Reserve Bank and the others are appointed by the Board of Governors of the Federal Reserve System.

DIRECTORS	District 1—BOSTON	<i>Term expires Dec. 31</i>
<i>Class A:</i>		
William R. Kennedy....	President, Merrimack Valley National Bank, Andover, Mass.....	1970
John Simmen.....	Chairman of the Board and Chief Executive Officer, Industrial National Bank of Rhode Island, Providence, R.I.	1971
Tucker H. David.....	Executive Vice President, The Deep River Na- tional Bank, Deep River, Conn.....	1972
<i>Class B:</i>		
James R. Carter.....	Chairman of the Board, Nashua Corporation, Nashua, N.H.....	1970
W. Gordon Robertson..	General Trustee, Bangor Punta Corporation, Bangor, Maine.....	1971
F. Ray Keyser, Jr.....	Vice President, Vermont Marble Company, Proctor, Vt.....	1972
<i>Class C:</i>		
John M. Fox.....	President, United Fruit Company, Boston, Mass.....	1970
James S. Duesenberry...	Professor of Economics, Harvard University, Cambridge, Mass.....	1971
Louis W. Cabot.....	Chairman of the Board, Cabot Corporation, Boston, Mass.....	1972

F.R. BANKS AND BRANCHES—Cont.

DIRECTORS—Cont. **District 2—NEW YORK** *Term expires Dec. 31*

Class A:

R. E. McNeill, Jr. Chairman of the Board, Manufacturers Hanover Trust Company, New York, N.Y. 1970
C. E. Treman, Jr. President, Tompkins County Trust Company, Ithaca, N.Y. 1971
Arthur S. Hamlin President, The Canandaigua National Bank and Trust Company, Canandaigua, N.Y. 1972

Class B:

William D. Eberle President and Chief Executive Officer, American Standard Inc., New York, N.Y. 1970
Milton C. Mumford Chairman of the Board, Lever Brothers Company, New York, N.Y. 1971
Maurice R. Forman Chairman of the Board, B. Forman Co., Rochester, N.Y. 1972

Class C:

James M. Hester President, New York University, New York, N.Y. 1970
Roswell L. Gilpatric Partner, Cravath, Swaine and Moore, Attorneys, New York, N.Y. 1971
Albert L. Nickerson Former Chairman of the Board, Mobil Oil Corporation, New York, N.Y. 1972

BUFFALO BRANCH**Appointed by Federal Reserve Bank:**

Wilmot R. Craig Chairman of the Board, 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
David J. Laub President, Marine Midland Trust Company of Western New York, Buffalo, N.Y. 1972

Appointed by Board of Governors:

Robert S. Bennett Former General Manager, Lackawanna Plant, Bethlehem Steel Corporation, Buffalo, N.Y. 1970
Norman F. Beach Vice President, Eastman Kodak Company, Rochester, N.Y. 1971
Morton Adams General Manager, Pro-Fac Cooperative Inc., Rochester, N.Y. 1972

F.R. BANKS AND BRANCHES—Cont.

*Term
expires
Dec. 31*

DIRECTORS—Cont. District 3—PHILADELPHIA

Class A:

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
William R. Cosby.....	Chairman of the Board, Princeton Bank and Trust Company, Princeton, N.J.....	1972

Class B:

Philip H. Glatfelter, III..	Chairman of the Board and President, P.H. Glatfelter Co., Spring Grove, Pa.....	1970
Henry A. Thouron.....	Chairman of the Board, Hercules Incorporated, Wilmington, Del.....	1971
Edward J. Dwyer.....	President, ESB Incorporated, Philadelphia, Pa.	1972

Class C:

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
Bayard L. England.....	Chairman of the Board, Atlantic City Electric Company, Atlantic City, N.J.....	1972

District 4—CLEVELAND

Class A:

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
David L. Brumback, Jr..	President, Van Wert National Bank, Van Wert, Ohio.....	1972

Class B:

John L. Gushman.....	President and Chief Executive Officer, Anchor Hocking Corporation, Lancaster, Ohio....	1970
J. William Henderson, Jr.	Henderson & Associates, Columbus, Ohio....	1971
R. Stanley Laing.....	President, The National Cash Register Company, Dayton, Ohio.....	1972

F.R. BANKS AND BRANCHES—Cont.

*Term
expires
Dec. 31*

DIRECTORS—Cont. District 4—CLEVELAND—Cont.

Class C:

J. Ward Keener.....	Chairman of the Board and Chief Executive Officer, The B.F. Goodrich Company, Akron, Ohio.....	1970
Horace A. Shepard.....	Chairman of the Board and Chief Executive Officer, TRW, Inc., Cleveland, Ohio.....	1971
Albert G. Clay.....	President, Clay Tobacco Company, Mt. Sterling, Ky.....	1972

CINCINNATI BRANCH

Appointed by Federal Reserve Bank:

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
Edward W. Barker.....	President, First National Bank of Middletown, Ohio.....	1972
(Vacancy).....		1972

Appointed by Board of Governors:

Orin E. Atkins.....	President, Ashland Oil, Inc., Ashland, Ky.....	1970
Graham E. Marx.....	President and General Manager, The G.A. Gray Company, Cincinnati, Ohio.....	1971
Phillip R. Shriver.....	President, Miami University, Oxford, Ohio...	1972

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank:

George S. Cook.....	President, Somerset Trust Company, Somerset, Pa.....	1970
Charles H. Bracken.....	President, Marine National Bank, Erie, Pa....	1971
Robinson F. Barker....	Chairman of the Board and Chief Executive Officer, PPG Industries, Pittsburgh, Pa.....	1972
J. W. Bingham.....	President, The Merchants & Manufacturers National Bank, Sharon, Pa.....	1972

F.R. BANKS AND BRANCHES—Cont.

*Term
expires
Dec. 31*

DIRECTORS—Cont. District 4—CLEVELAND—Cont.

PITTSBURGH BRANCH—Cont.

Appointed by Board of Governors:

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
Lawrence E. Walkley	President and Chief Executive Officer, Westinghouse Air Brake Company, Pittsburgh, Pa.	1972

District 5—RICHMOND

Class A:

Giles H. Miller, Jr.	President, The Culpeper National Bank, Culpeper, Va.	1970
Douglas D. Monroe, Jr.	President, Chesapeake National Bank, Kilmarnock, Va.	1971
Hugh A. Curry	President, The Kanawha Valley Bank, Charleston, W. Va.	1972

Class B:

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
Robert S. Small	President, Dan River Mills Incorporated, Greenville, S.C.	1972

Class C:

Stuart Shumate	President, Richmond, Fredericksburg, and Potomac Railroad Company, Richmond, Va.	1970
Wilson H. Elkins	President, University of Maryland, College Park, Md.	1971
Robert W. Lawson, Jr.	Managing Partner of Charleston Office, Steptoe & Johnson, Attorneys at Law, Charleston, W. Va.	1972

DIRECTORS—Cont. District 5—RICHMOND—Cont.

BALTIMORE BRANCH

Appointed by Federal Reserve Bank:

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
J. R. Chaffinch, Jr.	Executive Vice President, The Denton National Bank, Denton, Md.	1972

Appointed by Board of Governors:

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
Arnold J. Kleff, Jr.	Manager, Baltimore Refinery, American Smelting and Refining Company, Baltimore, Md.	1972

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank:

C. C. Cameron	Chairman of the Board and President, First Union National Bank of North Carolina, Charlotte, N.C.	1970
H. Phelps Brooks, Jr.	President, The Peoples National Bank, Chester, S.C.	1970
L. D. Coltrane, III.	President, The Concord National Bank, Concord, N.C.	1971
J. Willis Cantey	President, The Citizens and Southern National Bank of South Carolina, Columbia, S.C.	1972

Appointed by Board of Governors:

William B. McGuire	President, Duke Power Company, Charlotte, N.C.	1970
John L. Fraley	President, Carolina Freight Carriers Corporation, Cherryville, N.C.	1971
E. Craig Wall, Sr.	Chairman of the Board, Canal Industries, Inc., Conway, S.C.	1972

F.R. BANKS AND BRANCHES—Cont.

DIRECTORS—Cont.	District 6—ATLANTA	<i>Term expires Dec. 31</i>
<i>Class A:</i>		
A. L. Ellis.....	Chairman of the Board, First National Bank, Tarpon Springs, Fla.....	1970
John W. Gay.....	President, The First National Bank of Scotts- boro, Ala.....	1971
William B. Mills.....	President, The Florida National Bank, Jackson- ville, Fla.....	1972
<i>Class B:</i>		
Hoskins A. Shadow....	President, Tennessee Valley Nursery, Inc., Win- chester, Tenn.....	1970
Owen Cooper.....	President, Mississippi Chemical Corporation and Coastal Chemical Corporation, Yazoo City, Miss.....	1971
Philip J. Lee.....	Vice President, Tropicana Products, Inc., Tampa, Fla.....	1972
<i>Class C:</i>		
John C. Wilson.....	President, Horne-Wilson, Inc., Atlanta, Ga....	1970
Edwin I. Hatch.....	President, Georgia Power Company, Atlanta, Ga.....	1971
F. Evans Farwell.....	President, Milliken and Farwell, Inc., New Orleans, La.....	1972
BIRMINGHAM BRANCH		
<i>Appointed by Federal Reserve Bank:</i>		
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 of Auburn, Ala.....	1971
Harvey Terrell.....	Chairman of the Board, The First National Bank of Birmingham, Ala.....	1972
<i>Appointed by Board of Governors:</i>		
Caldwell Marks.....	Chairman of the Board, Motion Industries, Inc., Birmingham, Ala.....	1970
W. Cecil Bauer.....	President, South Central Bell Telephone Com- pany, Birmingham, Ala.....	1971
E. Stanley Robbins....	President, National Floor Products Company, Inc., Florence, Ala.....	1972

F.R. BANKS AND BRANCHES—Cont.

DIRECTORS—Cont. District 6—ATLANTA—Cont.

Term
expires
Dec. 31

JACKSONVILLE BRANCH

Appointed by Federal Reserve Bank:

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, Jacksonville, Fla.	1971
James G. Richardson	Chairman of the Board and President, The Commercial Bank and Trust Company of Ocala, Fla.	1972

Appointed by Board of Governors:

Henry Cragg	Vice President, Coca-Cola Company Foods Division, Orlando, Fla.	1970
Castle W. Jordan	President, AO Industries, Inc., Coral Gables, Fla.	1971
Henry K. Stanford	President, University of Miami, Coral Gables, Fla.	1972

NASHVILLE BRANCH

Appointed by Federal Reserve Bank:

Hubert A. Crouch, Jr.	Executive Vice President, Third National Bank in Nashville, Tenn.	1970
W. H. Swain	President, First National Bank, Oneida, Tenn.	1970
Hugh M. Willson	President, Citizens National Bank, Athens, Tenn.	1971
Edward C. Huffman	Chairman of the Board and President, First National Bank, Shelbyville, Tenn.	1972

Appointed by Board of Governors:

Robert M. Williams	President, ARO Inc., Tullahoma, Tenn.	1970
Edward J. Boling	President, The University of Tennessee, Knoxville, Tenn.	1971
Roy J. Fisher	Manager, Tennessee Operations, Aluminum Company of America, Alcoa, Tenn.	1972

F.R. BANKS AND BRANCHES—Cont.*Term
expires
Dec. 31***DIRECTORS—Cont. District 6—ATLANTA—Cont.****NEW ORLEANS BRANCH***Appointed by Federal Reserve Bank:*

Lucien J. Hebert, Jr....	Executive Vice President, Lafourche National Bank of Thibodaux, La.....	1970
Morgan Whitney.....	Senior Vice President, Whitney National Bank of New Orleans, La.....	1970
E. W. Haining.....	President, The First National Bank of Vicksburg, Miss.....	1971
H. P. Heidelberg, Jr....	President, Pascagoula-Moss Point Bank, Pascagoula, Miss.....	1972

Appointed by Board of Governors:

Robert H. Radcliff, Jr....	President, Southern Industries Corporation, Mobile, Ala.....	1970
Frank G. Smith.....	Vice President, Mississippi Power & Light Company, Jackson, Miss.....	1971
D. Ben Kleinpeter.....	Wholesale Manager, Kleinpeter Farms Dairy, Inc., Baton Rouge, La.....	1972

District 7—CHICAGO*Class A:*

Melvin C. Lockard....	President, First National Bank, Mattoon, Ill...	1970
Floyd F. Whitmore....	President, The Okey-Vernon National Bank, Corning, Iowa.....	1971
Edward Byron Smith...	Chairman of the Board, The Northern Trust Company, Chicago, Ill.....	1972

Class B:

Howard M. Packard....	Vice Chairman, S. C. Johnson & Son, Inc., Racine, Wis.....	1970
Joseph O. Waymire....	Former Vice President for Finance and Treasurer, Eli Lilly Company, Indianapolis, Ind...	1971
William H. Davidson...	President, Harley-Davidson Motor Co., Inc., Milwaukee, Wis.....	1972

Class C:

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
Emerson G. Higdon...	President, The Maytag Company, Newton, Iowa.....	1972

F.R. BANKS AND BRANCHES—Cont.

DIRECTORS—Cont. District 7—CHICAGO—Cont.

*Term
expires
Dec. 31*

DETROIT BRANCH

Appointed by Federal Reserve Bank:

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 Company, Grand Haven, Mich.....	1971
George L. Whyel.....	President, Genesee Merchants Bank & Trust Company, Flint, Mich.....	1972
Roland A. Mewhort....	Chairman of the Board, Manufacturers National Bank of Detroit, Mich.....	1972

Appointed by Board of Governors:

L. Wm. Seidman.....	Resident Partner, Seidman & Seidman, Grand Rapids, Mich.....	1970
Peter B. Clark.....	Chairman of the Board and President, The Evening News Association, Detroit, Mich...	1971
W. M. Defoe.....	Chairman of the Board, Defoe Shipbuilding Company, Bay City, Mich.....	1972

District 8—ST. LOUIS

Class A:

Bradford Brett.....	President, The First National Bank of Mexico, Mo.....	1970
James P. Hickok.....	Chairman of the Executive Committee, First National Bank in St. Louis, Mo.....	1971
Cecil W. Cupp, Jr.....	President, Arkansas Bank & Trust Company, Hot Springs, Ark.....	1972

Class B:

Mark Townsend.....	Chairman of the Board, Townsend Lumber Company, Inc., Stuttgart, Ark.....	1970
Sherwood J. Smith....	Chairman and President, D/P Computer Services, Inc., Evansville, Ind.....	1971
Edward J. Schnuck....	Chairman of the Board, Schnuck Markets, Inc., St. Louis, Mo.....	1972

Class C:

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
Sam Cooper.....	President, HumKo Products, Division of Kraftco Corporation, Memphis, Tenn.....	1972

DIRECTORS—Cont. District 8—ST. LOUIS—Cont.

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank:

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
Ellis E. Shelton	President, The First National Bank of Fayetteville, Ark.	1972
Wayne A. Stone	Chairman of the Board and Chief Executive Officer, Simmons First National Bank of Pine Bluff, Ark.	1972

Appointed by Board of Governors:

Fred I. Brown, Jr.	President, Arkansas Foundry Company, Little Rock, Ark.	1970
Al Pollard	President, Brooks-Pollard Company, Little Rock, Ark.	1971
Jake Hartz, Jr.	President, Jacob Hartz Seed Co., Inc., Stuttgart, Ark.	1972

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank:

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
Paul Chase	President, The Bedford National Bank, Bedford, Ind.	1972
James C. Zimmerman	Executive Vice President, The Owensboro National Bank, Owensboro, Ky.	1972

Appointed by Board of Governors:

Harry M. Young, Jr.	Melrose Farms, Herndon, Ky.	1970
Ronald E. Reitmeier	President, Catalysts and Chemicals Inc., Louisville, Ky.	1971
John G. Beam	President, Thomas Industries Inc., Louisville, Ky.	1972

F.R. BANKS AND BRANCHES—Cont.

*Term
expires
Dec. 31*

DIRECTORS—Cont. District 8—ST. LOUIS—Cont.

MEMPHIS BRANCH

Appointed by Federal Reserve Bank:

J. J. White	President, Helena National Bank, Helena, Ark.	1970
Wade W. Hollowell	President, The First National Bank of Greenville, Miss.	1971
James R. Fitzhugh	Executive Vice President, Bank of Ripley, Tenn.	1972
Wayne W. Pyeatt	President, National Bank of Commerce, Memphis, Tenn.	1972

Appointed by Board of Governors:

Alvin Huffman, Jr.	President, Huffman Brothers Incorporated, Blytheville, Ark.	1970
C. Whitney Brown	President, S. C. Toof & Company, Memphis, Tenn.	1971
William L. Giles	President, Mississippi State University, State College, Miss.	1972

District 9—MINNEAPOLIS

Class A:

Warren F. Vaughan	President, Security Trust & Savings Bank, Billings, Mont.	1970
G. A. Dahlen	President, First National Bank of Ironwood, Mich.	1971
John Bosshard	Executive Vice President, First National Bank of Bangor, Wis.	1972

Class B:

Dale V. Andersen	President, Mitchell Packing Company, Inc., Mitchell, S.D.	1970
John H. Bailey	President, The Cretex Companies, Inc., Elk River, Minn.	1971
David M. Heskett	President, Montana-Dakota Utilities Company, Bismarck, N.D.	1972

Class C:

Byron W. Reeve	President, Lake Shore, Inc., Iron Mountain, Mich.	1970
(Vacancy)		1971
David M. Lilly	Chairman of the Board, Toro Manufacturing Corporation, Minneapolis, Minn.	1972

DIRECTORS—Cont. District 9—MINNEAPOLIS—Cont.

HELENA BRANCH

Appointed by Federal Reserve Bank:

Charles H. Brocksmith..	President, First Security Bank of Glasgow, N. A., Glasgow, Mont.....	1970
Glenn H. Larson.....	President, First State Bank of Thompson Falls, Mont.....	1970
Richard D. Rubie.....	President, Missoula Bank of Montana, Mis- soula, Mont.....	1971

Appointed by Board of Governors:

Warren B. Jones.....	Secretary-Treasurer, Two-Dot Land and Live- stock Company, Harlowton, Mont.....	1970
William A. Cordingley..	Publisher, Great Falls Tribune, Great Falls, Mont.....	1971

District 10—KANSAS CITY

Class A:

C. M. Miller.....	President, The Farmers and Merchants State Bank, Colby, Kan.....	1970
John A. O'Leary.....	Chairman of the Board, The Peoples State Bank, Luray, Kan.....	1971
Roger D. Knight, Jr....	Chairman of the Board, United Banks of Colo- rado, Inc., Denver, Colo.....	1972

Class B:

Alfred E. Jordan.....	Vice President, Trans World Airlines, Kansas City, Mo.....	1970
Stanley Learned.....	Phillips Petroleum Company, Bartlesville, Okla.	1971
Cecil O. Emrich.....	Manager, Norfolk Livestock Market, Inc., Nor- folk, Nebr.....	1972

Class C.

Dolph Simons.....	Editor, Journal-World, Lawrence, Kan.....	1970
Robert W. Wagstaff....	President, Kansas City Coca-Cola Bottling Company, Kansas City, Mo.....	1971
Willard D. Hosford, Jr..	Vice President and General Manager, John Deere Company, Omaha, Nebr.....	1972

F.R. BANKS AND BRANCHES—Cont.**DIRECTORS—Cont. District 10—KANSAS CITY—Cont.***Term
expires
Dec. 31***DENVER BRANCH***Appointed by Federal Reserve Bank:*

Theodore D. Brown	Executive Vice President, The First National Bank of Denver, Colo.	1970
Robert L. Tripp	President, Albuquerque National Bank, Albuquerque, N. Mex.	1970
Armin B. Barney	Chairman of the Board, The Colorado Springs National Bank, Colorado Springs, Colo.	1971

Appointed by Board of Governors:

David R. C. Brown	President, The Aspen Skiing Corporation, Aspen, Colo.	1970
Cris Dobbins	Chairman of the Board and President, Ideal Basic Industries, Inc., Denver, Colo.	1971

OKLAHOMA CITY BRANCH*Appointed by Federal Reserve Bank:*

Charley M. Crawford	President, First National Bank in Frederick, Okla.	1970
Marvin Millard	Chairman of the Board, National Bank of Tulsa, Okla.	1970
W. H. McDonald	Chairman of the Executive Committee, The First National Bank and Trust Company of Oklahoma City, Okla.	1971

Appointed by Board of Governors:

F. W. Zaloudek	Manager, J. I. Case Implements, Kremlin, Okla.	1970
C. W. Flint, Jr.	Chairman of the Board, Flint Steel Corporation, Tulsa, Okla.	1971

OMAHA BRANCH*Appointed by Federal Reserve Bank:*

Edward W. Lyman	President, The United States National Bank of Omaha, Nebr.	1970
John W. Hay, Jr.	President, Rock Springs National Bank, Rock Springs, Wyo.	1971
S. N. Wolbach	President, The First National Bank of Grand Island, Nebr.	1971

F.R. BANKS AND BRANCHES—Cont.

*Term
expires
Dec. 31*

DIRECTORS—Cont. District 10—KANSAS CITY—Cont.

OMAHA BRANCH—Cont.

Appointed by Board of Governors:

Henry Y. Kleinkauf	President, Natkin & Company, Omaha, Nebr..	1970
A. James Ebel	Vice President and General Manager, Corn- husker Television Corporation, Lincoln, Nebr.	1971

District 11—DALLAS

Class A:

J. V. Kelly	President, The Peoples National Bank of Bel- ton, Tex.	1970
A. W. Riter, Jr.	President, The Peoples National Bank of Tyler, Tex.	1971
Murray Kyger	Chairman of the Board, The First National Bank of Fort Worth, Tex.	1972

Class B:

Carl D. Newton	Chairman of the Board, Fox-Stanley Photo Products, Inc., San Antonio, Tex.	1970
Hugh F. Steen	President, El Paso Natural Gas Company, El Paso, Tex.	1971
C. A. Tatum, Jr.	President and Chief Executive Officer, Texas Utilities Company, Dallas, Tex.	1972

Class C:

Carl J. Thomsen	Senior Vice President, Texas Instruments In- corporated, Dallas, Tex.	1970
Chas. F. Jones	Vice Chairman of the Board, Humble Oil & Refining Company, Houston, Tex.	1971
Philip G. Hoffman	President, University of Houston, Tex.	1972

EL PASO BRANCH

Appointed by Federal Reserve Bank:

Cullen J. Kelly	President, The First National Bank of Mid- land, Tex.	1970
Joe B. Sisler	President, The Clovis National Bank, Clovis, N. Mex.	1971
Archie B. Scott	President, The Security State Bank of Pecos, Tex.	1972
Sam D. Young, Jr.	President, El Paso National Bank, El Paso, Tex.	1972

F.R. BANKS AND BRANCHES—Cont.

*Term
expires
Dec. 31*

DIRECTORS—Cont. District 11—DALLAS—Cont.

EL PASO BRANCH—Cont.

Appointed by Board of Governors:

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
Allan B. Bowman	President and General Manager, Banner Mining Company, Tucson, Ariz.	1972

HOUSTON BRANCH

Appointed by Federal Reserve Bank:

A. G. McNeese, Jr.	Chairman of the Board and Chief Executive Officer, Bank of the Southwest National Association, Houston, Tex.	1970
Henry B. Clay	President, First Bank & Trust, Bryan, Tex.	1971
W. G. Thornell	President, The First National Bank of Port Arthur, Tex.	1972
John E. Whitmore	Chairman of the Board, Texas Commerce Bank National Association, Houston, Tex.	1972

Appointed by Board of Governors:

M. Steele Wright, Jr.	Chairman of the Board, Texas Farm Products Company, Nacogdoches, Tex.	1970
R. M. Buckley	President, Eastex Incorporated, Silsbee, Tex.	1971
Geo. T. Morse, Jr.	Vice Chairman of the Board and Chief Operating Officer, Peden Industries, Inc., Houston, Tex.	1972

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank:

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
T. C. Frost, Jr.	President, The Frost National Bank of San Antonio, Tex.	1972
W. O. Roberson	President, First National Bank at Brownsville, Tex.	1972

F.R. BANKS AND BRANCHES—Cont.

*Term
expires
Dec. 31*

DIRECTORS—Cont. District 11—DALLAS—Cont.

SAN ANTONIO BRANCH—Cont.

Appointed by Board of Governors:

Lloyd M. Knowlton	General Manager, Knowlton's Creamery, San Antonio, Tex.	1970
Francis B. May	Professor of Business Statistics, The University of Texas, Austin, Tex.	1971
W. A. Belcher	Veterinarian and Rancher, Brackettville, Tex.	1972

District 12—SAN FRANCISCO

Class A:

Charles F. Frankland	Chairman of the Board, The Pacific National Bank of Washington, Seattle, Wash.	1970
Ralph V. Arnold	Chairman of the Board and Chief Executive Officer, First National Bank and Trust Company, Ontario, Calif.	1971
Carroll F. Byrd	President, The First National Bank of Willows, Calif.	1972

Class B:

Marron Kendrick	Chairman of the Board and President, Schlage Lock Company, San Francisco, Calif.	1970
Herbert D. Armstrong	Treasurer, Standard Oil Company of California, San Francisco, Calif.	1971
Joseph Rosenblatt	Honorary Chairman of the Board, The Eimco Corporation, Salt Lake City, Utah.	1972

Class C:

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
S. Alfred Halgren	Senior Vice President, Carnation Company, Los Angeles, Calif.	1972

*Term
expires
Dec. 31*

DIRECTORS—Cont. District 12—SAN FRANCISCO—Cont.

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank:

Harry J. Volk.....	Chairman of the Board and Chief Executive Officer, Union Bank, Los Angeles, Calif.....	1970
Carl E. Schroeder.....	President, The First National Bank of Orange County, Orange, Calif.....	1970
Linus E. Southwick.....	President, Valley National Bank, Glendale, Calif.....	1970
Sherman Hazeltine.....	Chairman of the Board and Chief Executive Officer, First National Bank of Arizona, Phoenix, Ariz.....	1971

Appointed by Board of Governors:

Norman B. Houston....	Director and Consultant, Golden State Mutual Life Insurance Company, Los Angeles, Calif.	1970
J. Leland Atwood.....	Senior Consultant, North American Rockwell Corporation, Los Angeles, Calif.....	1971
Leland D. Pratt.....	President, Kelco Company, San Diego, Calif...	1972

PORTLAND BRANCH

Appointed by Federal Reserve Bank:

E. W. Firstenburg.....	Chairman of the Board and President, First Independent Bank, Vancouver, Wash.....	1970
James H. Stanard.....	Vice President, First National Bank of McMinnville, Oreg.....	1970
Ralph J. Voss.....	President, First National Bank of Oregon, Portland, Oreg.....	1971

Appointed by Board of Governors:

Robert F. Dwyer.....	Dwyer Forest Products Company, Portland, Oreg.....	1970
Frank Anderson.....	Farmer, Heppner, Oreg.....	1971

SALT LAKE CITY BRANCH

Appointed by Federal Reserve Bank:

Roy W. Simmons.....	President and Chairman of the Executive Committee, Zions First National Bank, Salt Lake City, Utah.....	1970
Roderick H. Browning..	President, Bank of Utah, Ogden, Utah.....	1970
William E. Irvin.....	Chairman of the Board, The Idaho First National Bank, Boise, Idaho.....	1971

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:

Peter E. Marble.....	Rancher, Deeth, Nev.....	1970
Royden G. Derrick.....	President and General Manager, Western Steel Company, Salt Lake City, Utah.....	1971

SEATTLE BRANCH

Appointed by Federal Reserve Bank:

A. E. Saunders.....	President, Puget Sound National Bank, Ta- coma, Wash.....	1970
Philip H. Stanton.....	President, Washington Trust Bank, Spokane, Wash.....	1970
Joseph C. Baillargeon...	Chairman of the Board, Seattle Trust & Sav- ings Bank, Seattle, Wash.....	1971

Appointed by Board of Governors:

C. Henry Bacon, Jr.....	Vice Chairman of the Board, Simpson Timber Company, Seattle, Wash.....	1970
Francis G. Crane.....	Manager, Crane and Crane Orchards and Cold Storage, Brewster, Wash.....	1971

PRESIDENTS AND VICE PRESIDENTS

(December 31, 1970)

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 Donald A. Pelletier Laurence H. Stone James T. Timberlake Parker B. Willis	Daniel Aquilino Ansgar R. Berge Luther M. Hoyle, Jr. Maurice P. Shea, III Jarvis M. Thayer, Jr. Richard A. Walker
New York . . .	Alfred Hayes William F. Treiber	David E. Bodner John J. Clarke Richard A. Debs Edward G. Guy Alan R. Holmes Robert G. Link Everett B. Post T. M. Timlen, Jr.	W. H. Braun, Jr. Charles A. Coombs Peter Fousek Marcus A. Harris John T. Keane Fred W. Piderit, Jr. Peter D. Sternlight Thomas O. Waage Angus A. MacInnes, Jr.
Buffalo			
Philadelphia .	David P. Eastburn David C. Melnicoff	Edward A. Aff Joseph R. Campbell Norman G. Dash William A. James L. C. Murdoch	Hugh Barrie Joseph M. Case Ralph E. Haas G. William Metz James V. Vergari
Cleveland . . .	(Temporarily vacant) W. H. MacDonald	George E. Booth, Jr. Roger R. Clouse R. Joseph Ginnane William J. Hocter Harry W. Huning Clifford G. Miller	Paul Breidenbach Elmer F. Fricke W. H. Hendricks John J. Hoy Frederick S. Kelly
Cincinnati Pittsburgh		Fred O. Kiel Clyde E. Harrell	
Richmond . . .	Aubrey N. Heflin Robert P. Black	John G. Deitrick Welford S. Farmer Upton S. Martin John L. Nosker John F. Rand Aubrey N. Snellings	J. G. Dickerson, Jr. William C. Glover Arthur V. Myers, Jr. James Parthemos R. E. Sanders, Jr. William F. Upshaw
Baltimore		H. Lee Boatwright, III	
Charlotte		A. A. Stewart, Jr.	Stuart P. Fishburne Jimmie R. Monhollon

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 W. M. Davis ¹ George H. Gaffney Robert E. Moody, Jr. Richard A. Sanders Charles T. Taylor	J. E. McCorvey Robert P. Forrestal Billy H. Hargett Brown R. Rawlings R. M. Stephenson Dan L. Hendley E. C. Rainey Jeffrey J. Wells Arthur H. Kantner
Chicago Detroit	Robert P. Mayo Ernest T. Baughman	Carl E. Bierbauer LeRoy A. Davis A. M. Gustavson Ward J. Larson Richard A. Moffatt Karl A. Scheld Bruce L. Smyth Lynn A. Stiles Allen G. Wolkey	George W. Cloos Elbert O. Fults Edward A. Heath James R. Morrison R. M. Scheider Harry S. Schultz Joseph J. Srp Jack P. Thompson Daniel M. Doyle Gordon W. Lamphere
St. Louis Little Rock Louisville Memphis	Darryl R. Francis Dale M. Lewis	Leonall C. Andersen Gerald T. Dunne Homer Jones Stephen Koptis F. G. Russell, Jr. Howard H. Weigel	Marvin L. Bennett W. W. Gilmore Jerry L. Jordan John W. Menges Harold E. Uthoff Joseph C. Wotawa John F. Breen Donald L. Henry Laurence T. Britt Eugene A. Leonard
Minneapolis . Helena	Hugh D. Galusha, Jr. M. H. Strothman, Jr.	Frederick J. Cramer L. W. Fernelius Ronald D. Graham John A. MacDonald Clarence W. Nelson C. A. Van Nice	Ralph J. Dreitzler Lester G. Gable Douglas R. Hellweg David R. McDonald John P. Olin R. W. Worcester Howard L. Knous

¹ Located in Miami.

F.R. BANKS AND BRANCHES—Cont.

PRESIDENTS AND VICE PRESIDENTS—Cont.

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Kansas City. Denver Oklahoma City Omaha	George H. Clay John T. Boysen	W. T. Billington Joseph R. Euans Wayne W. Martin Robert E. Thomas John W. Snider	Raymond J. Doll Carl F. Griswold M. L. Mothersead Clarence W. Tow Howard W. Pritz George C. Rankin
Dallas El Paso Houston San Antonio	Philip E. Coldwell T. W. Plant	Robert H. Boykin Leon W. Cowan James A. Parker Tony J. Salvaggio E. W. Vorlop Fredric W. Reed J. L. Cook	James L. Cauthen Ralph T. Green W. M. Pritchett Thomas R. Sullivan Carl H. Moore
San Francisco.. Los Angeles Portland Salt Lake City Seattle	Eliot J. Swan A. B. Merritt	J. Howard Craven Irwin L. Jennings E. J. Martens Rix Maurer, Jr.	D. M. Davenport G. R. Kelly D. V. Masten J. B. Williams P. W. Cavan W. G. DeVries W. M. Brown A. L. Price W. R. Sandstrom

CONFERENCE OF PRESIDENTS

The Presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. Mr. Hickman, President of the Federal Reserve Bank of Cleveland, and Mr. Galusha, President of the Federal Reserve Bank of Minneapolis, were elected Chairman of the Conference and Vice Chairman, respectively, in March 1970. Mr. Hickman served as Chairman until his death on November 28, 1970. At the December 14, 1970, meeting, Mr. Galusha and Mr. Francis, President of the Federal Reserve Bank of St. Louis, were elected Chairman and Vice Chairman, respectively, for the remainder of the current Conference year and the forthcoming Conference year, ending with the March 1972 meeting.

Mr. Lester M. Selby of the Federal Reserve Bank of Cleveland and Mr. Melvin L. Burstein of the Federal Reserve Bank of Minneapolis were appointed Secretary of the Conference and Assistant Secretary, respectively, in March 1970. Mr. Selby served through the December 14, 1970, meeting. Mr. Burstein and Mr. Joseph P. Garbarini of the Federal Reserve Bank of St. Louis were appointed Secretary and Assistant Secretary, respectively, at the December 14, 1970, meeting.

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. Mr. Arthur G. Stone and Mr. Lester M. Selby were appointed Secretary of the Conference and Assistant Secretary, respectively.

Effective March 11, 1970, Mr. MacDonald and Mr. Strothman, First Vice President of the Federal Reserve Bank of Minneapolis, were elected Chairman and First Vice Chairman of the Conference. Mr. Selby and Mr. Melvin L. Burstein were appointed Secretary and Assistant Secretary, respectively.

Index

	<i>Page</i>
Acceptance powers of member banks	199
Acceptances, bankers':	
Authority to purchase and enter into repurchase agreements.....	84-85
Federal Reserve Bank holdings.....	205, 206, 214, 216, 218
Federal Reserve earnings on.....	206, 224
Open market transactions during 1970.....	222
Arbitrage transactions, margin requirements for, amendment of Regulations T and U.....	70
Assets and liabilities:	
Banks, by classes.....	233
Board of Governors.....	210
Federal Reserve Banks.....	214-19
Balance of payments (<i>See</i> U.S. balance of payments)	
Bank Examination Schools.....	202
Bank examiners, home mortgage loans to, legislative recommendation....	188
Bank holding companies:	
Board actions with respect to.....	199
Litigation.....	192
Bank Holding Company Act Amendments of 1970.....	185
Bank mergers and consolidations.....	198, 242-85
Bank premises, Federal Reserve Banks and branches....	208, 214, 216, 218, 223
Bank Protection Act of 1968, joint report submitted to Congress pursuant to	203
Bank supervision and regulation by the Federal Reserve System.....	195-203
Banking offices:	
Number, changes.....	238
Par and nonpar, number.....	240
Board of Governors:	
Audit of accounts.....	209
Building annex.....	209
Delegation of authority, actions under.....	201
Foreign credit restraint program.....	66, 180-83
Income and expenses.....	209-12
Legislative recommendations.....	187-91
Litigation.....	192-94
Members and officers.....	288
Policy actions.....	61-82
Regulations (<i>See</i> Regulations)	
Reports to Congress.....	203

	<i>Page</i>
Board of Governors—Continued	
Salaries	211
Truth in Lending (<i>See</i> Truth in Lending)	
Branch banks:	
Banks, by classes, changes in number	238
Federal Reserve:	
Bank premises	208, 223
Branch buildings, legislative recommendation	190
Directors	293-311
Vice Presidents in charge	312-14
Foreign branches of member banks, number and location	199, 200
Business sector adjustments	47-52
Capital accounts:	
Banks, by classes	233
Federal Reserve Banks	215, 217, 219
Chairmen and Deputy Chairmen of Federal Reserve Banks	292
Clearing and collection:	
Par clearance, legislative recommendation	187
Volume of operations	228
Commercial banks:	
Assets and liabilities	233
Banking offices, changes in number	238
Foreign credit restraint program	66, 180-83
Number, by class of bank	233
Par clearance, legislative recommendation	187
Commercial paper of member banks, interest rate limitations and reserve requirements, amendment of Regulations D and Q	73, 75
Condition statement of Federal Reserve Banks	214-19
Consumer attitudes and behavior	34-37
Credit:	
Availability at banks, easing	42-46
Cards, issuance and liabilities for their unauthorized use, legislation	185
Emergency:	
Facilities for nonmember depository institutions, extensions	67
Loan guarantees to business, legislative recommendation	189
Insurance companies, certain credit by, subject to Regulation G rather than T	68
Reporting and retention of records, legislation	185
Stock market credit (<i>See</i> Stock market credit)	
Truth in Lending (<i>See</i> Truth in Lending)	
Currency, foreign and domestic transactions, legislation	185

INDEX

	<i>Page</i>
Defense Production Act, amendment and extensions	184
Defense production loans	72, 206, 229
Deposits:	
Banks, by classes	233
Federal funds transactions as, amendment of Regulations D and Q	61
Federal Reserve Banks	215, 217, 219, 235, 237
Obligations (so-called commercial paper) issued by affiliate or member bank as, amendment of Regulations D and Q	73, 75
Reserve requirements (See Reserve requirements)	
Time and savings deposits:	
Computation of interest on, amendment of Regulation Q	82
Foreign (See Foreign time deposits)	
Maximum interest rates on:	
Increases	62, 64
Table	232
Suspension of short-term ceilings on certain single-maturity time deposits, amendment of Regulation Q	74
Deputy Chairmen of Federal Reserve Banks	292
Directors, Federal Reserve Banks and branches	293-311
Discount rates at Federal Reserve Banks:	
Approvals of reductions	77, 80
Table of rates	231
Discounts and advances by Federal Reserve Banks:	
Holdings and earnings on	205, 206, 224
Volume	205, 214, 216, 218, 228, 234, 236
Dividends, Federal Reserve Banks	204, 225, 226
Earnings, Federal Reserve Banks	204, 224, 226
Euro-dollar borrowings	55, 81
Examinations:	
Federal Reserve Banks	204
Foreign banking and financing corporations	201
Member banks	195
State member banks	195
Executive officers of member banks, loans to, reporting requirements	196
Expenses:	
Board of Governors	209-12
Federal Reserve Banks	204, 224, 226
Federal Advisory Council	291
Federal agency obligations:	
Federal Reserve Bank holdings and earnings	205, 206, 214, 216, 218
Open market transactions of Federal Reserve System during 1970	222

	<i>Page</i>
Federal funds transactions as deposits, amendment of Regulations D and Q.....	61
Federal Open Market Committee:	
Audit of System Account.....	204
Continuing authorizations.....	113
Foreign currency operations, review.....	178
Meetings.....	83
Members and officers.....	290
Policy actions.....	83-177
Federal Reserve Agents.....	204
Federal Reserve Banks:	
Advances by:	
Amendment of Regulation A regarding negotiability of paper offered by member banks and procedural and technical changes.....	68, 79
Assessment for expenses of Board of Governors.....	211, 224
Authority to purchase Govt. obligations directly from U.S., extension of law.....	184
Bank premises.....	208, 214, 216, 218, 223
Branches (<i>See</i> Branch banks, Federal Reserve)	
Capital accounts.....	215, 217, 219
Chairmen and Deputy Chairmen.....	292
Condition statement.....	214-19
Directors.....	293-311
Discount rates, reductions.....	77, 80
Dividends.....	204, 225, 226
Earnings and expenses.....	204, 224, 226
Emergency credit facilities for nonmember depository institutions, extensions.....	67
Examination.....	204
Federal agency obligations (<i>See</i> Federal agency obligations)	
Foreign and international accounts.....	207
Lending authority, legislative recommendation.....	187
Officers and employees, number and salaries.....	228
Presidents and Vice Presidents.....	312-14
Profit and loss.....	225
Purchase of obligations of foreign govts., legislative recommendation... ..	189
U.S. Govt. securities (<i>See</i> U.S. Govt. securities)	
Volume of operations.....	205, 228
Federal Reserve notes:	
Condition statement data.....	214-19
Cost of printing, issue, and redemption.....	211
Interest paid to Treasury.....	204, 225, 226

INDEX

	<i>Page</i>
Federal Reserve System:	
Bank supervision and regulation by	195-203
Foreign credit restraint program	66, 180-83
Foreign currency operations (<i>See</i> Foreign currency operations)	
Map of Federal Reserve districts	286
Membership	197
Training activities	202
Financial Institutions Supervisory Act	186
Foreign and international accounts of Federal Reserve Banks	207
Foreign banking and financing corporations:	
Amendment of Regulation K	64
Examination and operation	201
Foreign branches of member banks, number and location	199, 200
Foreign credit restraint program	66, 180-83
Foreign currency operations:	
Authorization and directive	84, 86-91, 112, 113, 119
Federal Reserve earnings on foreign currencies	224
Investment of Reserve Banks' foreign currencies in obligations of foreign govts., legislative recommendation	189
Review	178
Foreign time deposits, exemption of certain deposits from interest rate limitations	62
Foreign transactions, legislation	185
Gold:	
Tables showing gold certificate accounts of Reserve Banks and gold stock	214, 216, 217, 218, 219, 234, 236
Housing , responsiveness to monetary policy	38-40
Insurance companies, certain credit by, subject to Regulation G rather than T	68
Insured commercial banks:	
Assets and liabilities	233
Banking offices, changes in number	238
Graduated reserve requirements on deposits of, legislative recommendation	188
Par clearance, legislative recommendation	187
Interest on deposits:	
Computation, on time and savings deposits, amendment, Regulation Q	82
Federal funds transactions as deposits, amendment of Regulations D and Q	61
Foreign time deposits, exemption of certain deposits from interest rate limitations	62

	<i>Page</i>
Interest on deposits—Continued	
Maximum permissible rates:	
Suspension of short-term ceilings on certain single-maturity time deposits, amendment of Regulation Q	74
Time and savings deposits, increases	62, 64
Subordinated notes of member banks, changes in exemption from rate limitations, amendment of Regulations D and Q	73
Interest rates (<i>See also</i> Interest on deposits):	
Defense production loans	72, 206, 229
Discount rates at Federal Reserve Banks, reductions	77, 80
Maximum permissible rates on time and savings deposits, table	232
Interlocking bank relationships, legislative recommendation	189
Investments:	
Bank investments for community development, legislative recommendation	190
Banks, by classes	233
Federal Reserve Banks	214, 216, 218
Legislation:	
Bank Holding Company Act Amendments of 1970	185
Bank investments for community development, legislative recommendation	190
Credit cards, issuance and liabilities for their unauthorized use	185
Credit reporting, fair	185
Currency and foreign transactions, reports	185
Defense Production Act, amendment and extensions	184
Federal Reserve Banks:	
Authority to buy Govt. obligations directly from U.S., extension	184
Branch buildings, legislative recommendation	190
Lending authority of, legislative recommendation	187
Purchase of obligations of foreign govts., legislative recommendation	189
Financial Institutions Supervisory Act	186
Interlocking bank relationships, legislative recommendation	189
Loan guarantees to business, legislative recommendation	189
Margin requirements, application to certain foreign transactions	185
Par clearance, legislative recommendation	187
Real estate:	
Bank examiners, home mortgage loans to, legislative recommendation	188
Loans for, and commercial building construction, by national banks	184
Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970	186
Recordkeeping, financial	185
Reserve requirements, graduated, on deposits, legislative recommendation	188
Securities Investor Protection Corporation	186
Tender offers with respect to securities of member State banks	185

INDEX

	<i>Page</i>
Litigation:	
Bank holding companies	192
Margin requirements on securities credit transactions	193
Truth in Lending	193
Loans:	
Advances by Reserve Banks (<i>See</i> Federal Reserve Banks)	
Banks, by classes	233
Defense production loans	72, 184, 206, 229
Emergency loan guarantees to business, legislative recommendation	189
Euro-dollar borrowings	55
Executive officers of member banks, loans to, reporting requirements ..	196
Home mortgage loans to bank examiners, legislative recommendation	188
Real estate and commercial building construction, legislation	184
Stock market credit (<i>See</i> Stock market credit)	
Margin requirements:	
Application to certain foreign transactions, legislation	185
Arbitrage transactions, amendment of Regulations T and U	70
Litigation concerning securities credit transactions	193
Stocks and convertible bonds, reduction in requirements, amendment of Regulations G, T, and U	71
Table	229
Member banks:	
Acceptance powers	199
Advances by Reserve Banks, legislative recommendation	187
Assets, liabilities, and capital accounts	233
Banking offices, changes in number	238
Commercial paper (<i>See</i> Commercial paper)	
Examination	195
Executive officers of, loans to, reporting requirements	196
Foreign branches, number	199, 200
Interlocking relationships, legislative recommendation	189
Number	197, 233
Par clearance, legislative recommendation	187
Reserve requirements (<i>See</i> Reserve requirements)	
Reserves and related items	234-37
Tender offers with respect to securities of member State banks, legislation	185
Membership in Federal Reserve System	197
Mergers and consolidations	198, 242-85
Monetary policy:	
Digest of principal policy actions	I-VII (facing page 8)
Review of 1970	7-58
Mutual savings banks	233, 238

	<i>Page</i>
National banks:	
Assets and liabilities	233
Banking offices, changes in number	238
Euro-dollar borrowings, amendment of Regulation M	81
Foreign branches, number	199, 200
Investments for community development, legislative recommendation	190
Number	197, 233
Real estate and commercial building construction loans, legislation	184
Nonmember banks:	
Assets and liabilities	233
Banking offices, changes in number	238
Emergency credit facilities for, extensions	67
Par and nonpar banking offices, number	240
Par clearance, legislative recommendation	187
Policy actions, Board of Governors:	
Discount rates at Federal Reserve Banks, reductions	77, 80
Emergency credit facilities for nonmember depository institutions, extensions	67
Foreign credit restraint program guidelines, amendment	66
Regulations (for details of Board actions, <i>see</i> Regulations, Board of Governors)	
Policy actions, digest of principal	
Federal Reserve actions	I-VII (facing page 8)
Policy actions, Federal Open Market Committee:	
Authority to effect transactions in System Account, including current economic policy directive	83-177
Continuing authority directive on domestic operations	84, 110, 127, 144
Continuing authorizations	113
Foreign currency operations, authorization and directive	84, 86-91, 112, 113, 119
Presidents and Vice Presidents of Federal Reserve Banks:	
Conference of Presidents and Conference of First Vice Presidents	315
List	312-14
Salaries of Presidents	228
Prices—wages, productivity and	28-33
Profit and loss, Federal Reserve Banks	225
Real estate:	
Bank examiners, home mortgage loans to, legislative recommendation	188
Commercial building construction and real estate loans by national banks, legislation	184
Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970	186
Record of policy actions (<i>See</i> Policy actions)	

INDEX

	<i>Page</i>
Regulations, Board of Governors:	
A, Advances and Discounts by Federal Reserve Banks:	
Amendments regarding negotiability of paper offered by member banks and procedural and technical changes	68, 79
D. Reserves of Member Banks:	
Euro-dollar borrowings, amendment	81
Federal funds transactions as deposits, amendment	61
Obligations (so-called commercial paper) issued by affiliate or member bank, amendments	73, 75
Savings deposit, definition, amendment	76
Time deposits in excess of \$5 million, decrease in requirements	75
G, Securities Credit by Persons Other Than Banks, Brokers, or Dealers:	
Insurance companies, certain credit by, subject to Regulation G rather than T, amendment	68
Stocks and convertible bonds, reduction in margin requirements, amendment	71
K, Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act:	
Amendment regarding exemptions from loan limits	64
M, Foreign Activities of National Banks:	
Euro-dollar borrowings, amendment	81
Q, Interest on Deposits:	
Computation of interest on time and savings deposits, amendment	82
Federal funds transactions as deposits, amendment	61
Foreign time deposits, exemption of certain deposits from interest rate limitations, amendment	62
Maximum permissible rates on time and savings deposits, increases	62, 64
Obligations (so-called commercial paper) issued by member bank, amendment	73
Suspension of short-term ceilings on certain single-maturity time deposits, amendment	74
T, Credit by Brokers and Dealers:	
Arbitrage transactions, amendment	70
Insurance companies, certain credit by, amendment	68
Stocks and convertible bonds, reduction in margin requirements, amendment	71
U, Credit by Banks for the Purpose of Purchasing or Carrying	
Margin Stocks:	
Arbitrage transactions, amendment	70
Stocks and convertible bonds, reduction in margin require- ments, amendment	71

	<i>Page</i>
Regulations, Board of Governors—Continued	
V, Loan Guarantees for Defense Production:	
Amendment regarding interest rate	72
Z, Truth in Lending:	
Amendment of regulation and Truth in Lending Act	65, 77, 185
Litigation	193
Repurchase agreements:	
Bankers' acceptances	85, 214, 216, 218, 222
Federal agency obligations	214, 216, 218, 222
U.S. Govt. securities	85, 214, 216, 218, 221, 222, 234, 236
Reserve requirements:	
Graduated, on demand deposits, legislative recommendation	188
Member banks:	
Euro-dollar borrowings, amendment of Regulations D and M	81
Federal funds transactions as deposits, amendment of Regulations D and Q	61
Obligations (so-called commercial paper) issued by, or affiliate, amendment of Regulations D and Q	73, 75
Savings deposit, definition, amendment of Regulation D	76
Table	230
Time deposits in excess of \$5 million, decrease in reserves against, amendment of Regulation D	75
Reserves:	
Member banks:	
Reserve requirements (<i>See</i> Reserve requirements)	
Reserves and related items	234-37
Salaries:	
Board of Governors	211
Federal Reserve Banks	228
Savings bond meetings	205
Securities (<i>See also</i> U.S. Govt. securities):	
Application of margin requirements to certain foreign transactions	185
Eligible for advances by Reserve Banks (<i>See</i> Federal Reserve Banks)	
Federal agency obligations (<i>See</i> Federal agency obligations)	
State and local govts., responsiveness to monetary policy	40-41
Stocks and bonds (<i>See</i> Stock market credit)	
Tender offers with respect to securities of member State banks, legislation	185
Securities Investor Protection Corporation, legislation	186
Special Drawing Rights	16, 17, 57, 58, 214, 216, 218, 234, 236
State and local govt. securities, responsiveness to monetary policy	40-41

INDEX

	<i>Page</i>
State member banks:	
Assets and liabilities	233
Banking offices, changes in number	238
Changes in control, reporting requirements	196
Examination	195
Foreign branches, number	199, 200
Mergers and consolidations	198, 242-85
Number	197, 233
Tender offers with respect to securities of, legislation	185
Stock market credit:	
Arbitrage transactions, margin requirements for	70
Stocks and convertible bonds, margin requirements	71
System Open Market Account:	
Audit	204
Authority to effect transactions in	83-177
Foreign currencies, review of operations	178
Training activities	202
Truth in Lending:	
Amendment of regulation and Act	65, 77, 185
Litigation	193
Report to Congress	203
U.S. balance of payments:	
Euro-dollar borrowings, amendment of Regulations D and M	55, 81
Foreign credit restraint program	66, 180-83
Review	16, 53-58
U.S. Govt. securities:	
Authority of Reserve Banks to purchase directly from	
U.S., extension of law	184
Bank holdings, by class of bank	233
Federal Reserve Bank earnings on	205, 206, 224
Federal Reserve Bank holdings	206, 214, 216, 218, 220, 234, 236
Open market operations	83-177, 222
Repurchase agreements	85, 214, 216, 221, 222, 234, 236
Special certificates purchased directly from the United States	221
U.S. Govt. agency obligations (<i>See</i> Federal agency obligations)	
V loans	206, 229
Wages, productivity, and prices	28-33